



中国传媒大学
COMMUNICATION UNIVERSITY OF CHINA



Institute for a Community
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人类命运共同体研究院



Internationalization of Chinese Renminbi



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2024

Published on 5th December 2024

Renminbi (RMB) in the literal sense means “people’s currency”, was introduced in 1948 as the official currency of China, by the people’s bank of China. It was done soon after the People’s Republic of China came into being. In 1955, a major revaluation took place, introducing a new version of



the yuan at an exchange rate of 1 new yuan for 10,000 old yuan. The renminbi has since evolved, with China emerging as one of the world's largest economies. As a result, there is growing anticipation that the renminbi will play a significant role in the global reserve currency system. Shifting to a multicurrency system could reduce the burden on a single reserve currency like the U.S. dollar and allow countries to diversify their foreign exchange holdings.

In the start, the role of renminbi was restricted to domestic use only within a controlled economy. It wasn’t highly recognized at international level then. In the second half of the 20th century, under Deng Xiaoping, when China moved towards market reforms, renminbi went through substantial changes. In 1980s, the government of China introduced dual-track system which allowed only limited foreign exchange under firm control. China centralized its exchange rate system by 1994, leading to globalization.

The renminbi gained worldwide recognition in the 2000s, with the economic development of China. By 2005, China shifted from its fixed exchange rate with the United States dollar, by implementing a managed float system. In the following decade, China took appropriate measures for the globalization of renminbi, so that it could be used in investments, trading,

etc. Renminbi acquired the status as a global currency in 2016, when the International Monetary Fund (IMF) made it a part of its Special Drawing Rights (SDR) basket. Lately, renminbi is



continuously evolving due to measures like Belt and Road, enhancing the renminbi's role at international level, expanding its global impact. The strengthening of the renminbi on the global stage is tied to China's economic growth, but it will depend on the country's willingness to embrace a more convertible capital account and develop a robust financial system. This internationalization of the renminbi is expected to be gradual, with projections suggesting that by 2035, the currency could make up 3 to 12 percent of international reserves.

Considering the rapid economic growth of China and the initiatives taken recently by the authorities of China to open the door for the use of renminbi (RMB) internationally, some observers have argued that renminbi could become a prominent international currency, alongside the US dollar and the



euro, over the medium term. The role of renminbi at international level has also gained ground across several dimensions, i.e. it is used in trading, international investment and as a financing currency. These measures highlight the tactical aim of China to improve the renminbi's role in the financial system worldwide, reinforcing its impact and to cut the reliance on conventional reserve currencies. This change could provide a route to the worldwide acceptance of renminbi in international transactions, which will ultimately lead to more stable emerging markets and strengthening monetary variousness at global level. In addition, the growth of the financial infrastructure giving support to renminbi, points out to the collaborative action to incorporate renminbi into the world economy to a greater extent. The continuation of these efforts would make renminbi a crucial aspect in realigning the international financial market.

In terms of the relationship between the Chinese renminbi and the Pakistani rupee, China's currency is significantly stronger. This strength is largely due to China's large and



diversified economy, industrial output, and strong global trade relations. In comparison, Pakistan's economy is smaller, with higher inflation rates and external debt burdens, which weakens the rupee in contrast to the renminbi. The difference in economic stability and growth prospects between the two countries further cements the renminbi's stronger position. China and Pakistan have a robust economic relationship, with the (CPEC) “China Pakistan Economic Corridor” serving as an important pillar. Both of the countries have recently encouraged the use of renminbi in investment and bilateral trade, minimizing the dependency on United States dollar. In 2018, the State Bank of Pakistan permitted renminbi as a settlement currency, leading towards easier financial transactions. This initiative corresponds to China’s strategic goal to make its currency recognized at international level. Adopting renminbi (RMB) reinforces economic relation between Pakistan and China and leads towards regional financial incorporation.

Looking to the future, the Pakistani rupee faces challenges related to economic instability, external debt, and high inflation. However, with improved fiscal policies, economic reforms, and potential foreign investments, there could be opportunities for recovery. On the other hand, the Chinese renminbi is poised for further growth as China continues to expand its global influence. If China continues to develop its financial systems and allows greater currency convertibility, the renminbi could increasingly become a dominant player in global markets, further solidifying its status as an international currency.