Financial Times : Prepare for a Multipolar Currency World — The Rise of Yuan

Description

This month, Russia and China are sparking new jitters in Washington. That is primarily because of their stage-managed displays of diplomatic unity, around Ukraine and much else.

But it is also down to money: during a visit by Xi Jinping to Moscow last week, Vladimir Putin pledged to adopt the renminbi for "payments between Russia and countries of Asia, Africa, and Latin America", in a bid to displace the dollar.

And this comes as Moscow is already increasingly using the renminbi for its swelling trade with China and embracing it in its central bank reserves, to reduce its exposure to "toxic" — American — assets.

Does this matter? Until recently, most western economists would have said "heck, no". After all, it has long been assumed that the closed nature of China's capital account is an impediment to wider use of its currency.

But right now Putin's announcement is packing an unusually emotional punch. One reason is that concerns are afoot that this month's US banking turmoil, inflation and looming debt ceiling battle is making dollar-based assets less attractive. "The dollar is being debased in order to fund the bank bailouts," an economist said.

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But the other factor sparking unease is that even before Xi's visit to Moscow, the Saudi government announced that it will start invoicing some oil exports to China in renminbi. Separately, France just did its first liquid natural gas sale in RMB and Brazil has embraced the currency for some of its trade with China.

There is absolutely no sign that these token gestures are hurting the greenback right now. Yes, the dollar's proportion of global reserves has sunk from 72 per cent in 1999 to 59 per cent, as central banks increasingly diversify their investment funds and discard currency pegs. And it is also true that the advent of wholesale (bank-to-bank) central bank digital currencies could theoretically accelerate this diversification by making it easier for non-American central banks to deal directly with each other in their own currencies.

A decade ago, it was widely assumed that another factor underpinning the dollar was the "stickiness" of trade invoicing patterns, as Gita Gopinath, deputy head of the IMF, has noted. But the CEPR paper suggests this might now be slowly shifting — as Chinese trade has expanded in recent years, RMB use has risen too.

So much so, in fact, that it now exceeds euro-usage for trade invoicing, which is "striking, given China's low degree of capital account openness", the CEPR says. And it argues that "contrary to conventional wisdom, lack of capital account openness may not fully prevent the RMB from playing a stronger role as an international and reserve currency”.

After all, it notes, a $200bn offshore RMB market has already emerged — and the currency is being “use[d] in invoicing and settling China’s foreign trade and payments” and “a global network of clearing and payments”.