



right of settlement currency. Only in this way can we improve the acceptance and influence of Renminbi in global stage.

3.2 Start experiment units of cross-border Renminbi capital flow

In December 1996, Renminbi current account can be fully transferred. According to a study by IMF, the process from current account convertible to capital account convertible spends seven to ten years on average. In China, the situation is that capital account is still at partly convertible stage after current account can be fully transferred for fifteen years.

The so-called exchange in capital account can be understood as fully free exchange of capital and finance account in balance of payments and also means that there is no limit to currency exchange caused by multinational capital inflow and outflow in one country. After several years of development, the control of capital account is less in China and the degree of openness is improved, but is not totally opened. In fact, the partly convertible and unconvertible content is the focus of the outside and unavoidable topic of discussion on the way to Renminbi internationalization.

What's worthy of note is that from 2010, in the background of capital account not fully convertible, the Chinese government has started to open up diversified Renminbi circulation channel inside and outside. The issue of policy of Renminbi FDI and QFII indicates the administration of capital account is changing and Renminbi internationalization is speeding up.

3.2.1 Security trade in capital market

1. Main content.

(1) Experimental units of three kinds of foreign institutions using Renminbi to invest in inland interbank bond market.

On August 16, 2010, the People's Bank of China issued the Notice of Experimental Units of Three Kinds of Institutions Including Foreign Renminbi Clearing Bank using Renminbi to Invest in Interbank Bond Market, in which there are specific rules about dealing subject, capital source and trade mode in experimental units.

Dealing subject: three kinds of foreign institutions including foreign central bank, Hong Kong and Macao Renminbi clearing bank and foreign participant bank of Renminbi settlement of cross-border trade.



Capital source: including cash from inter-central bank currency cooperation and foreign participant banks through Renminbi cross-border trade as well as Renminbi revenue from investment.

Trade mode: the three kinds of institutions can entrust interbank bond market settlement agent with international settlement capability to make bond trade and settlement. Foreign central banks and Hong Kong and Macao clearing banks can also directly apply for bond account to China Government Securities Depository Trust & Clearing Co. Ltd and apply for bond trade network to National Interbank Securities Market.

The current situation is that foreign institutions taking part in interbank bond market must trade through transaction terminal of the agency banks. Agency banks can receive foreign banks' transaction instruction to quote and directly receive instructions to trade, but the clearing and account administration should be operated by foreign institutions themselves through trust account. These foreign institutions have entered the trust quantity of CDC.

What's more, foreign banks mainly participate in spot bond transaction in interbank bond market. Only a few foreign banks can lend and borrow money and their aim is to provide money for cross-border Renminbi settlement in short period.

The policy is still at experimental unit stage. Though in short period the bond market will expand, the entire market has not been impacted. It is because three kinds of institutions receive much limit in Renminbi investment.

First, bond investment should get approval from the People's Bank of China. News from the central bank indicates that dated to the end of April 2011, there were 20 foreign institutions operating spot bond transaction in interbank bond market, including some central banks. According to rough estimation, the actual capital scale buying interbank bond may be over 10 billion yuan.

Second, there are quota restrictions. Hong Kong Monetary Authority disclosed that the amount it can put into interbank bond market was 15 billion yuan. Compared with average daily trading amount 800 billion yuan in interbank market, the scale of the experimental units is really small.

(2) Inland security investment experimental units of Renminbi QFII.

On December 16, 2011, China's securities Regulatory Commission and State Administration of Exchange Control unitedly issued the Rules about Implementing Measures of Fund Management Company, Security Company



Renminbi Qualified Foreign Institution Investor Inland Security Investment Experimental Units.

This is the so-called RQFII system, also called Little QFII. Different from QFII system implemented from 2002 and aimed at foreign currency capital, RQFII allows foreign qualified institution investor to collect Renminbi in off-shore market and then invest in inland security market. Here QFII is mainly Chinese security company and fund company in Hong Kong.

At present, RQFII experimental projects allow approved foreign institution investor to buy at most 20 billion yuan of bonds and stock. According to the rules, the capital amount that RQFII products collected in Hong Kong invest in bonds and stock-like fund can be no more than 20% of the collecting scale, and amount that the products invest in fixed income security can be no more than 80% of the collecting scale. Experimental units can open three kinds of specified savings accounts in trust and settlement banks, which can be respectively used for settlement in interbank bond market transaction, exchange bond transaction and stock market transaction.

To December 30, 2011, State Administration of Exchange Control had already approved 10 RQFII institutions that have submitted complete materials and been reported by their trust banks. The investment amount was up to 10.7 billion yuan.

We should see that the policy that the People's Bank of China takes towards Renminbi circumfluence is mild in general. The quota amount of 20 billion yuan is a small scale compared with about 554 billion yuan savings in Hong Kong market, and will not put obvious pressure on inland market either.

With continuous construction of inland bond market, it is promising to get a new development stage in 2012. There will be a variety of fixed income finance products with more improved pricing mechanism, providing more investment opportunity for RQFII products.

2. Analysis of the influence.

Building foreign Renminbi circumfluence mechanism can help impulse Renminbi settlement of cross-border trade. Nowadays Renminbi settlement experimental units of cross-border trade has expanded to nationwide. Foreign institutions holding Renminbi are increasing, and there exists demand for Renminbi finance asset. The two policies can help foreign Renminbi circumfluence and mark the formation of Renminbi circumfluence investment mechanism inland. Both satisfy the demand for inland investment of offshore Renminbi



capital circumfluence. It can increase the willingness of foreign institutions and individuals holding Renminbi asset and help promote Renminbi settlement of cross-border trade.

Introducing new market power changes the configuration of demand homogenization in inland market. In recent years, as the main body of bond market in China, the depth and extent of interbank market extends further. The data indicates that to the end of December 2011, the trust residual amount of interbank market bond first exceeded 21.36 trillion yuan. The number of market participants is over 9 000. But because of late start, short development time, market development is not balanced and the kinds and levels of trading products are not rich enough, falling behind foreign mature bond market. Pricing methods of different market investment subjects and diversity of investment methods help improve the pricing accuracy and market efficiency, and push the development of interbank bond market. Introducing new market power not only is useful for capital supply of bond market, but also pushes the bond market to create more investment products, promoting its pricing mechanism and improving market microstructure. It is the same with introducing RQFII into exchange bond market and A share market.

Improve Renminbi circulation between inland and foreign markets. Partly connecting foreign and inland bond markets will have an influence on foreign Renminbi interest rate curve, increasing the domination of the domestic market to Renminbi asset pricing.

What we should pay attention to is that the openness of Renminbi security market will attract foreign speculation capital, which will bring difficulty for domestic macro-control. In the future, making currency policy should consider domestic factors as well as international factors.

3.2.2 Renminbi direct investment

1. Main content.

(1) Renminbi settlement experimental units of foreign direct investment.

On January 13, 2011, the People's Bank of China issued a proclamation of the Administration Measure of FDI Renminbi Settlement Experimental Units. From August 23, 2011, all banks and companies in the country can operate Renminbi overseas direct investment.

From the effect of the policy, the amount of ODI was 20.15 billion yuan all year in 2011. The capital scale was not large and investment centers were



mainly Hong Kong and Singapore where many Chinese live.

(2) Issue of Renminbi settlement measures of foreign direct investment.

On June 21, 2011, the People's Bank of China published the Notice about Making Clear Related Questions of Cross-border Renminbi Operations, making QFDI experimental measures clear publicly for the first time.

On October 14, 2011, the Ministry of Commerce issued the Notice about Cross-border Renminbi Direct Investment. The notice says that foreign investors can use legal foreign Renminbi to invest directly. Afterwards, the People's Bank of China made the Renminbi Settlement Administration Measure of Foreign Direct Investment, making clear that foreign companies, economic institutions and individuals that come to China to invest can apply for Renminbi settlement to the bank as long as they obey related rules. Banks can also operate Renminbi settlement for foreign investment corporations according to related regulations, which makes finance service procedures more convenient.

As for investment direction, cross-border Renminbi direct investment cannot be invested in securities and financial derivatives directly or indirectly in China, and cannot be used for trust loans and paying back loans. Cross-border Renminbi direct investment in real estate business should be operated according to examination and approval rules of foreign investment in real estate business.

2. Analysis of the influence.

Renminbi ODI can impulse Chinese foreign investment and improve internationalization of domestic corporations. China's ODI has been increasing rapidly in recent years, almost 90% of which flows into emerging market. In the background of Renminbi appreciation while other main international currency fluctuation, most emerging economies in fact are willing to receive Renminbi direct investment by Chinese corporations. Choosing Renminbi settlement can help overseas Chinese corporations decrease exchange loss, cost, and improve cash administration ability as well as the ability of dealing with international economic changes.

Renminbi ODI can boost Renminbi circulation abroad and free exchange inland. Renminbi ODI not only rapidly expands Renminbi circulation scale and scope abroad, but also creates conditions for Renminbi free exchange overseas, letting foreign companies and residents share the achievement of Chinese economy development and pushing Renminbi towards international reserve currency.

Objectively, the issue of Renminbi ODI benefits Hong Kong most because