Maybe you ignored the news that the **International Monetary Fund** added the Chinese currency (renminbi) to its basket of international reserve currencies, to begin in October 2016.




This is the world's hardest fiscal club to join. The Chinese renminbi now joins the once-mighty U.S. dollar, the disappointing Euro, the legacy pound sterling and the humbled Japanese yen.

The renminbi is the official currency of the People's Republic of China, and translates to "people's money." Its international symbol is CNY (or CNH in Hong Kong) but abbreviated RMB, with the symbol ¥.

"Renminbi" and "yuan" are used interchangeably. The yuan is the unit of denomination of renminbi transactions, but the word can also refer to the currency generally. You might pay for your lunch using a 100 yuan banknote (about 14.20 €) , and get some yuan and jiao (a tenth of a yuan) in change. The jiao is further divided into 10 fen. **But it is all renminbi.**

The I.M.F. decision fuels speculation that the renminbi will soon become one of the major trading currencies. One of the largest contributors to global growth, China has already become the world's second-largest economy. And if the PRC continues on its present growth track, it should soon takeover from the United States as the world's largest economy.

**Let's explain the I.M.F. implication clearly: you may one day be buying products from**

**China and now asked to pay in renminbi.**

But not soon. This decision will first help pave **the way for broader use of the renminbi in global trade and finance, highlighting China's standing as a global economic power.**




It also means many central banks may start to add the renminbi to their reserves, so countries could start holding more renminbi to offset any decline in dollars or euros. China will also gain more influence in I.M.F. bailouts, like Greece's debt deal.

Especially as many governments feel other sources of international liquidity will have to be developed to supplement U.S. Treasury obligations and the U.S. dollar which still constitute the single largest and most liquid financial market in the world.

**The reason now you buy many Asian products in US dollars is that the banks (through I.M.F.) love dollars.** Now they are going to try and love the renminbi.

UK has sold renminbi-denominated sovereign bonds for the first time in London, which is recognized as Europe's hub for the Chinese currency. Hungary has plans to issue its own renminbi-denominated bonds as well, while the Ceinex exchange in Frankfurt has begun trading funds this month based on renminbi bonds. Shanghai will trade in renminbi-denominated oil

contracts and other natural resource contracts, not US dollars or Euro.

This proves the move gives China the voice in international monetary decisions that Beijing has been fishing for. Catching the I.M.F. ruling also lets China create a money transfer system to compete with the global **Swift** system.

China will set up a competing system called **ChIPS (China International Payment System)**. With the efficiency of the Swift system, the U.S. Treasury also holds a force to impose sanctions and restrictions on countries they don't like. RMB's elevation to an official I.M.F. reserve currency levels the playing field so China can do likewise (and perhaps blunt the geopolitical authority of the dollar).

China's investment in Africa, Asia and Latin America through the bundling of aid, trade and investment is well-known. China has also been willing to invest in countries with a poor rule of law (many Western investors shy away from these countries) such as Angola, Burundi, the Central African Republic, the Democratic Republic of the Congo, Eritrea, Guinea and Zimbabwe.

Trading in renminbi will become more common after China leverages all the goodwill and assets it has been planning for years.

It is possible-- if you look at the track record of China's post-WTO technology policy, called by Western economists "neotechno-nationalism"-- that one day the world will wake up to a new Chinese law that says all exports from China must be done in national currency. After all, a country that is the world's biggest manufacturing nation (as well as soon its largest market) doesn't have to play by Western rules; it can make rules of its own.

**Sounds incredible?** This once happened to wireless technology in 2004: the Chinese government didn't want its manufacturers to have to pay for Western standards. To keep the money in China, they created its WLAN standard (WAPI) and banned the import of non-WAPI wireless products. Their new standard for wireless authentication and privacy infrastructure (WAPI) required all wireless imports to carry encryption technology produced only in China.

Beijing said its WAPI protocol eliminated security problems associated with the popular Wi-Fi standard and insisted all manufacturers in China (not only local builders of PC notebooks but international brands and even any foreign companies building in China only for export) adopt WAPI in one year. Intel baulked that wi fi technology was below par and refused to comply, leading Chinese officials for the standard to retort the state would have little option but to ban Intel's Centrino-based system.

Intel threatened to withdraw from China and meant it-- but in the end, according to some reports, a solution was reached in a behind-closed-door trade deal with the US government that also included other industries-- as well as some weapons.

**In the case of its currency, as opposed to its technology, China is now getting invited to the party,**

The I.M.F. decision on renminbi is one of inclusion-- making someone part of the club usually stops that someone from working against the club. But if WTO is any example, inclusion might only be the first side-step on a winding road to a government policy that accepts exclusion as a means to an end.

Whether the decision to add the renminbi to your bank accounts as an importer will be forced eventually by free-market development or randomly by arbitrary government decree, it probably won't happen soon. Yet this journey of 1000 steps will lead back to this one first step, the day you read about the I.M.F. decision in the news.

Go What the IMF Decision Means