

# Exploring the Development Trend of RMB Internationalization in ASEAN from the Perspective of Cooperation Mechanism

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**Abstract:** Over the past few years, the internationalization of the RMB has deeply developed within ASEAN countries. The economic and trade collaboration between China and ASEAN nations is inextricably linked. With the increasing demand for RMB usage in ASEAN, the infrastructure is gradually improving, and the influence of the RMB is strengthening. This is attributed to the formulation and implementation of regional cooperation mechanisms, building a pattern of political mutual trust, and promoting comprehensive connectivity, which brings opportunities and certain obstacles to the internationalization of the RMB in the ASEAN region. With the implementation of RCEP, this trend will become more apparent.

**Keywords:** ASEAN; RMB Internationalization; Regional Cooperation

## 1. Deepening Cooperation between China and ASEAN

With the steady growth of China's comprehensive strength and foreign trade, the process of RMB internationalization is also advancing, and the economic development between China and ASEAN are growing progressively closer. Since the official dialogue process began in 1991, economic and trade cooperation between China and ASEAN has maintained rapid growth. In 1996, when China became ASEAN's comprehensive dialogue partner, for the first time, the volume of bilateral trade surpassed \$20 billion. And it surpassed \$40 billion until 2001.[1] With bilateral trade reaching \$878.207 billion in 2021, China and ASEAN are now each other's top two trading partners currently.[2]

Both sides have established a comprehensive dialogue and cooperation mechanism, carrying out pragmatic cooperation in multiple fields and achieving fruitful results: the confidence and belief between two sides has been continuously

enhanced, upgrading from dialogue partners to strategic partners, and embarking on a path of mutually beneficial cooperation; the collaboration in economics and trade has produced substantial outcomes, with the establishment of a free trade area and rapid growth in mutual trade and investment. From establishing China-ASEAN dialogue relations, building the China-ASEAN Free Trade Area, promoting the "Belt and Road" initiative, constructing the Asia Cooperation Dialogue, to the signing and implementation of the Regional Comprehensive Economic Partnership (RCEP), the ties between China and ASEAN will only deepen further. The adoption of the RMB in ASEAN nations has significantly contributed to advancing the internationalization of it, the strengthening of regional cooperation mechanisms will further boost the demand for RMB in ASEAN.

## 2. Current Status and Influence of RMB Usage in ASEAN Nations

Based on the comprehensive index for currency internationalization developed by the People's Bank of China, the degree of RMB internationalization can be summarized as whether the RMB gradually plays the functions of a payment currency, investment currency, financing currency, and reserve currency in the international market.

By the end of 2023, participants in the RMB Cross-border Interbank Payment System (CIPS) were spread across 111 nations and regions, with business covering 182 nations and regions.[3] A total of 74 financial institutions from the ten ASEAN countries have become participants in CIPS.[4] Countries such as Thailand, Singapore, and Indonesia, given their relatively mature financial systems and well-developed infrastructure, have successfully established safe and efficient RMB cross-border clearing systems. This system not only greatly facilitates the convenience of cross-border trade settlement but

also offers robust technical support and guarantees for RMB especially in bond investment.

ASEAN member countries have established multi-faceted currency cooperation relationships with China, forming various forms of local currency cooperation such as offshore financial markets, clearing banks, and local currency settlements. According to data from the Monetary Authority of Singapore, the Singapore Exchange became the world's largest offshore RMB foreign exchange futures market in 2022, with a relatively stable RMB exchange rate and an average daily trading volume of RMB contracts reaching \$14.9 billion, enhancing the importance of RMB in the foreign exchange market.

In 2020, the cross-border RMB capital flow in ASEAN countries totaled 4.15 trillion yuan, a year-on-year increase of 72.2%, exceeding the national growth rate by 27.9 percentage points.[5] China's overall economic situation recovered well after the emergence of the COVID-19, significantly enhancing the value of RMB assets. By the end of 2022, six of the ten ASEAN countries had included RMB in their foreign exchange reserves, including Singapore, Thailand, Indonesia, Malaysia, Philippines and Cambodia, indicating an increased willingness of ASEAN central banks and monetary institutions to hold RMB as a reserve currency. Additionally, China has achieved direct trading of the Malaysian ringgit, Singapore dollar, and Thai baht on the China Foreign Exchange Trade System.[6]

Due to the significant development disparities within ASEAN countries, there are relatively advanced nations with well-developed financial systems and less developed ones. Based on per capita GDP, Singapore, Malaysia, Thailand, Indonesia, and Brunei are classified as middle-to high-income countries, while the remaining five countries lag behind. The notable differences are reflected in their respective complex financial systems, such as banking, securities, and insurance industries.

The financial industry system in ASEAN is mainly dominated by banks, with traditional revenue sources primarily from deposit and loan services. The development of the securities industry varies, with well-developed securities sectors in Singapore, Thailand, Malaysia, the Philippines, and Vietnam, while other countries are at a preliminary or preparatory stage. Most

countries' insurance industries also show characteristics of small scale and a single structure.

There are large differences in the scale and development depth of the financial market systems. The first type of financial market is relatively developed with a well-structured system and a wide variety of instruments, presenting a multi-layered feature, such as in Singapore, Malaysia, Indonesia, Thailand, and the Philippines. The second type of financial market develops slowly, with an incomplete structure and an inactive market, such as in Vietnam, Myanmar, Laos, Cambodia, and Brunei. Overall, most ASEAN countries lack a flexible liquidity-adjusting money market, with only Singapore's money market being highly developed.

The financial regulatory systems in ASEAN countries fall into three main models. The first model is regulation by a single institution, the central bank, including in Singapore and Brunei. The second model involves dual regulation by two institutions, including in Laos, Cambodia, Malaysia, and Indonesia, where the central bank supervises banks and other financial institutions, the securities commission oversees the securities industry, or the financial services authority regulates banks and capital markets, and the finance ministry supervises the insurance industry. The third model involves three separate regulatory institutions overseeing the banking, securities, and insurance industries, including in Myanmar, the Philippines, Thailand, and Vietnam.

From the perspective of financial openness, many ASEAN countries have a history of colonization in recent times, starting their financial systems under the influence of Western values. Therefore, they are open to absorbing external investments, allowing foreign financial institutions to operate and actively attracting overseas direct investments. However, outward investments and cooperation led by ASEAN countries are still in a relatively weak stage. After the impact of the Southeast Asian financial crisis, many ASEAN countries remain cautious about capital account liberalization, appearing prudent in terms of capital account openness and regulatory relaxation in recent years. Most countries have low capital account openness indices, even negative.

### 3. Policies and Measures to Promote RMB in

## ASEAN

The gradual increase in the recognition of RMB in ASEAN countries is attributed to various situations of dialogue and cooperation between China and ASEAN nations, promoting RMB in ASEAN on a “point-to-point” basis.

The extent and magnitude of RMB currency swaps with ASEAN nations are consistently expanding. After the aftershocks of the subprime mortgage crisis, ASEAN countries no longer urgently needed to sign bilateral currency swap agreements with the Federal Reserve to cope with international balance of payments crises. Instead, they increased currency swaps with China, with multiple renewals completed. Currently, China has signed bilateral local currency swap agreements with five of the ASEAN countries, with total swaps amounted to RMB 800 billion yuan. The largest swap scales being with Singapore, Indonesia, and Malaysia, respectively amounting to 300 billion yuan, 200 billion yuan, and 180 billion yuan.

In exploring new models of bilateral settlement, ASEAN countries have made progress. Since the official launch of the cross-border trade RMB settlement pilot in 2009, Chinese banks have carried out RMB settlement business in multiple ASEAN countries. In 2022, the People’s Bank of China had signed bilateral settlement cooperation agreements with banks in Vietnam, Laos, Indonesia, and Cambodia, gradually exploring local currency settlement under regional trading models. At present, economic and trade entities in the China-Vietnam border region and the China-Myanmar border region can directly use RMB for trade settlement; Laos permits the direct use of local currencies for all current and capital account transactions that have been liberalized between the two countries; China and Indonesia have signed a memorandum of understanding to promote the use of local currency settlement. The successful participation of non-Chinese-funded overseas banks and financial institutions in local currency settlement will have a driving effect, promoting more non-Chinese-funded institutions to join, which will greatly promote cross-border RMB payments.

These measures start from improving the infrastructure for cross-border use of RMB, enhancing the convenience of using RMB for transactions, increasing the attractiveness of RMB to market participants, and reflecting the willingness of both sides to strengthen

cooperation, thereby enhancing market confidence and promoting regional financial stability.

Exchange rate risk and capital liquidity have a significant impact on the cooperation between RMB and ASEAN currencies, mainly in aspects such as cross-border trade settlement, investment facilitation, and financial market openness.

The financial systems of ASEAN countries are heavily influenced by the US dollar, and exchange rate fluctuations may increase transaction costs and uncertainties. Regarding exchange rate regimes, apart from Indonesia and Malaysia, which have floating exchange rate systems, the other eight countries peg their currencies to the US dollar.

The level of capital liquidity directly affects the acceptance and usage of RMB in the ASEAN region. The significant differences in trade and investment scales between China and ASEAN countries create varied foundations for financial cooperation. However, with the formal implementation of RCEP, the successful implementation of China-ASEAN Free Trade Area 2.0, and the initiation of discussions for version 3.0, economic cooperation between the two has been further promoted, providing a broader space for the use of RMB in the region. The bilateral economic and trade relations between China and ASEAN countries have been gradually deepening, and the capital liquidity of RMB in the ASEAN region has shown a positive development trend.

## 4. Impact of Regional Cooperation Mechanisms on the Regionalization of RMB in ASEAN

### 4.1 Significant Achievements of the China-ASEAN Free Trade Area

With the signing of the “China-ASEAN Comprehensive Economic Cooperation Framework Agreement,” the principles of the agreements on goods trade and dispute settlement mechanisms were reached successively. In January 2004, China and Thailand, and Singapore respectively implemented the “Early Harvest Plan,” marking the comprehensive launch of the construction of the China-ASEAN Free Trade Area (CAFTA). CAFTA was officially launched in January 2010. With ASEAN and China accounting for 13% of world trade, it has become a the most biggest

free trade area among developing countries, covering over 1.9 billion people and 11 nations and generating nearly \$6 trillion in GDP.

At the 30th anniversary commemorative summit of China-ASEAN dialogue relations in November 2021, it was proposed to encourage Asian financial institutions to provide relevant support in the connectivity planning between the two sides to carry out high-quality cooperation. On November 22 of the same month, the China-ASEAN Comprehensive Strategic Partnership was officially established, aiming to build a closer China-ASEAN community with a shared future. The achievements of the China-ASEAN Free Trade Area are not only reflected in the growth of bilateral trade and investment but also in the deep integration of infrastructure construction, regional economic integration, and cultural exchanges, providing an important platform for the cross-border use and internationalization of RMB, and becoming the most dynamic model of cooperation in the Asia-Pacific region.

Based on the exchange rate data of five ASEAN countries from 2000 to 2020, scholars measured the weight and dynamic influence of the RMB exchange rate within the exchange rate compositions of these ASEAN countries. It was found that the stability of the ASEAN five currencies relative to the RMB increased in terms of volatility, and the RMB's share in the ASEAN currency basket was relatively high in terms of weight. After the establishment of the China-ASEAN Free Trade Area, the monetary influence of the US dollar declined to varying degrees, while the RMB's influence on the major economies of ASEAN significantly increased. The RMB now acts as a "hidden anchor" in the exchange rate fluctuations of some ASEAN countries.[8]

#### **4.2 Win-Win Cooperation under the Belt and Road Initiative**

The "Belt and Road" denotes the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road."

ASEAN countries are important partners in the "Belt and Road" initiative. In 2012, the trade volume between China and ASEAN countries along the routes reached \$400.146 billion, accounting for 10.34% of China's total foreign trade at that time. [1] According to the Maritime Silk Road Trade Index (STI) released by the Ningbo Shipping Exchange, in 2022, the trade

volume between China and countries along the "Belt and Road" reached \$2.07428 trillion, a year-on-year increase of 15.71%, with Vietnam and Malaysia ranking first and second. The connectivity advocated by the "Belt and Road" initiative opens up windows for dialogue in various aspects such as transportation and information exchange, promoting framework cooperation, and establishing and improving economic cooperation systems, thereby further expanding economic exchanges between China and countries along the routes, achieving steady and rapid growth in bilateral trade volume and RMB trade settlement volume.

The construction of the "Belt and Road" has yielded fruitful results, opening up new paths for bilateral cooperation between China and ASEAN. The China-Laos Kunming-Vientiane Railway has transformed Laos from a "landlocked country" to a "land-linked country," connecting international and domestic economic cycles, breaking through the last barrier of the international supply chain, and greatly promoting economic, trade, tourism, and logistics exchanges along the route. Direct trade between China and Laos, as well as transit trade through Laos, has rapidly increased, with goods transported by the railway covering all ten ASEAN countries. The Jakarta-Bandung High-Speed Railway will drive the creation of the "Jakarta-Bandung High-Speed Railway Economic Belt," setting a new benchmark for cooperation in infrastructure and capacity between the two countries.

Additionally, both sides have launched multiple cooperation projects in digital infrastructure, e-commerce, artificial intelligence, and other fields, with financial technology empowering the new development of RMB in ASEAN. Since 2016, Thailand's Kasikornbank and Tencent have cooperated to promote over 200,000 local points in Thailand, allowing Chinese tourists to use WeChat for overseas payments. The central banks of China and Thailand have signed a financial technology cooperation agreement to create a more comprehensive and convenient cross-border payment system, further promoting trade and investment facilitation. On February 22, 2023, Cambodia's Bakong payment system and China UnionPay International achieved cross-border QR code payment interoperability, allowing China UnionPay users to make payments at 1.8 million merchants in Cambodia. This cooperation will help Cambodia's trade and

tourism development, achieve the goal of inclusive finance, and enhance the security of cross-border payments.

Some scholars have applied the system GMM model and concluded that the RMB can significantly enhance its internationalization level by leveraging the "Belt and Road" initiative, expanding foreign investment, and activating Eurasian trade. [10] Empirical studies using global cross-border transaction data of the RMB have shown that the "Belt and Road" initiative can significantly boost the transaction volume and value of RMB cross-border transactions in countries along the route, especially in Maritime Silk Road countries, neighboring Belt and Road countries, and countries with highly open capital accounts, thereby promoting RMB internationalization. [11]

#### **4.3 Asia Cooperation Dialogue Opens New Windows**

The Asia Cooperation Dialogue (ACD) integrates existing sub-regional cooperation in Asia, promoting communication and coordination among member countries in six key areas of cooperation. ACD adheres to multilateralism and regional cooperation, opposing "small circles" and "decoupling and breaking chains," providing a favorable geopolitical environment for the stable use of RMB in the ASEAN region. In 2020, China and ASEAN member countries established green channels to actively promote economic recovery. Based on the positive alignment of the "Belt and Road" initiative and the Asia Cooperation Dialogue, Asia, and China and ASEAN bilaterally, have established a consensus on "building, sharing, and winning together."

#### **4.4 New Opportunities with the Regional Comprehensive Economic Partnership (RCEP)**

The Regional Comprehensive Economic Partnership (RCEP), initiated by ASEAN in 2012 and officially effective from January 1, 2022, is a multilateral agreement that covers the largest population and holds the most potential among global free trade agreements. RCEP has expanded the practical demand for using RMB for trade and cross-border e-commerce settlement among member countries, injecting new momentum into RMB internationalization. In the long term, with the rapid development of

regional economies, reforms in border trade services and bilateral investment facilitation between China and ASEAN member countries will continue to deepen, and bilateral and multilateral cooperation will be pragmatically promoted.

According to the detailed terms of the agreement, China has formulated the following strategic policy arrangements: First, promote the growth of border trade, enhance the transportation capacity of border ports, foster the development of foreign trade enterprises in border areas, and build a trade hub for both domestic and international markets in border regions. Second, leverage various platforms such as exhibitions to enhance their role in promoting trade and investment development, achieving foreign trade and bilateral investment with RCEP member countries. Third, enhance the currency settlement function of RMB in trade and investment, encouraging more trade and investment activities within the region to use RMB for settlement, thereby providing a more solid demonstration effect for serving the ASEAN region's economy.

As the largest economy within RCEP, the formal signing and effective implementation of this agreement will further deepen the trade connectivity among member countries, injecting strong momentum into the development of China's cross-border financial industry. Through the analysis of the correlation between the RMB exchange rate and the exchange rates of 10 target economies within the RCEP region, some scholars have found that the RMB exchange rate not only affects the exchange rate fluctuations of emerging economies within the RCEP region but also influences the exchange rate fluctuations of developed economies such as New Zealand to some extent. This provides a solid foundation for the RMB to become the "monetary anchor" in the region.[12] This move will not only broaden the application scenarios of RMB and significantly boost the demand for RMB but also open up a series of unprecedented new opportunities for the internationalization of RMB, accelerating its acceptance and influence in the global trade and financial system. However, with the increase in trade volume, issues such as exchange rate risks in currency conversion will also emerge. Therefore, China should actively leverage the economic effects brought by RCEP and advance the internationalization of RMB with a steady and

prudent approach.

### **5. Prospects for the Deep Development of RMB Internationalization in ASEAN**

Since the outbreak of the global financial event, the subprime mortgage crisis, the academic community has keenly pointed out that a single dominant international monetary system inherently contains systemic risks. With the profound adjustment and transformation of the global economic landscape, the current monetary system is evolving towards multipolarity, a trend that is becoming increasingly clear. In this context, the internationalization of RMB has become a force driving the stable development of the international monetary system.

Promoting the integration of RMB in ASEAN still requires overcoming a series of practical issues. First, the economic levels of ASEAN countries vary greatly, and the scale of commodity markets differs significantly, resulting in uneven market demand, making it difficult for RMB to achieve stable coverage across ASEAN. From an economic scale perspective, according to data from the General Administration of Customs of the People's Republic of China, in the first quarter of 2022, the import and export volume between China and Vietnam was 0.321 trillion yuan, while it was only 0.004 trillion yuan with Brunei, another ASEAN country. From a development stage perspective, Myanmar and Laos, as relatively underdeveloped ASEAN nations, are currently at a critical section of economic transformation. China is actively assisting these countries in accelerating economic development through a series of project assistance, technology transfer, and support measures, promoting rapid expansion of market demand, and consequently increasing their demand for RMB. However, given the complexity and uncertainty of economic transformation in these countries, it is necessary to continuously monitor and timely adjust the strategy for RMB internationalization development. Second, some ASEAN countries have single industries and limited cooperation fields, resulting in fewer scenarios for cross-border use of RMB. Third, achieving comprehensive connectivity between China and ASEAN requires continuous construction and active promotion by both sides. From the perspective of financial cooperation, some ASEAN countries' financial markets still have

single systems and many foreign exchange restrictions, making it difficult for RMB to flow and settle in these countries; infrastructure is not well-developed, technical capabilities are weak, and there is a lack of platforms to support cross-border RMB clearing services. From the perspective of infrastructure cooperation, the Pan-Asian Railway ASEAN route and the China-Philippines railway construction under the "Belt and Road" initiative have been hindered by political factors and funding issues, to some extent obstructing the process of integrating RMB in ASEAN.

For nearly 30 years, China has always adhered to the Five Principles of Peaceful Coexistence in its interactions with ASEAN countries, supporting various cooperation mechanisms led by ASEAN and maintaining good relations with the concept of common prosperity. Given China's long-term political and economic stability, the RMB has maintained a non-depreciation state, and the exchange rate has shown a generally stable development trend, while the business environment has continuously improved. These factors have gradually weakened the unique irreplaceability of traditional developed countries' currencies. In the continuously growing bilateral economic exchanges, the trust of enterprises and financial institutions in the ASEAN region in RMB has been enhanced.

The potential for the regionalization of RMB in ASEAN is enormous. Under the macro conditions driven by policies, market recognition has increased, and the effectiveness of bilateral monetary and financial cooperation has been enhanced. To further steadily achieve the goal of RMB internationalization, the following aspects can be considered: First, enhance the degree of political mutual trust, relying on the "Belt and Road" initiative and leveraging RCEP to vigorously develop a new pattern of bilateral economic cooperation and actively build a bilateral community of shared destiny. Second, strengthen regional currency cooperation, properly handle the relationship between RMB and other currencies, and explore new paths for RMB internationalization, such as strengthening digital currency cooperation with the central banks of ASEAN countries. Third, continuously promote the use of CIPS in member countries, increase settlement models and access methods, and provide certain assistance to countries with weak technical

capabilities. Fourth, externally strengthen connectivity with ASEAN countries, and internally accelerate the networked manufacturing design and technological updates, promoting the deep integration of manufacturing into the global value chain, advancing the development of overseas e-commerce, and the intelligent transformation of manufacturing.

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