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Effects of the Internationalization of Chinese Yuan on Currencies of Neighboring Countries

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Abstract:*The article uses data on the yuan (RMB) which is an international currency and currencies of China's neighboring countries in the two periods of 2005 - 2009, 2009 - 2014, attempting to quantify the impact of RMB on the exchange rates of neighboring countries and territories. The results show that, since July 1, 2009, RMB has had significant effects on the currencies of 11 neighboring countries and territories. Meanwhile, the strong currency status of RMB has begun to show up, leading to the formation of tripodal position, together with EURO and USD. The paper proposes some methods by the State Bank of Vietnam in response to the RMB internationalization process*

Keywords: *Internationalization of Yuan, currency anchor, international currency*

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I. Introduction

The article uses data on renminbi (RMB), strong currencies (such as USD, EUR, GBP ...) and currencies of 11 neighboring countries and territories of China in the period of 2005 - 2009, 2009 - 2014 to conduct quantitative analysis of the effect of RMB on the currency exchange rates of neighboring countries and territories, including Vietnam. The study also identifies the specific time when the RMB began to have a strong influence on the international arena, gradually taking up the status as an international currency.

Economic history shows that, at different levels, the internationalization of a country's currency affects not only its monetary policy, but also the process of planning, implementing and disseminating the policy itself. The operation of the financial system and the economy of any country which has a close relationship with that country are also subject to this internationalizing process.

"The similarity and connectedness in natural conditions" is an important factor in tightening the relationship between Vietnam and China in many fields. Currently, China is a key trading partner and one of our four export markets amounting to 10 billion USD (along with United States, Japan, Korea). China's position in direct investment in Vietnam is also increasing. Economic relations between the two countries are increasingly expanded, enhanced and promoted by the ASEAN-China free trade agreement and WTO. Therefore, the study of RMB internationalization process and the impact on Vietnam's monetary policy implementation is extremely necessary. On the basis of the findings, the article also proposes a number of measures by the State Bank of Vietnam to respond to the RMB internationalization process.

II. The Development of RMB Flow in International Currency Circulation

According to Jiang Xu Huai (2015), the flow mechanism and pattern of RMB has been gradually formed [1]. The foreign outflow of RMB consists of three main types of international trade: (export), offshore investment and currency exchange. The inflow of RMB is mainly through import, foreign investment and bank credit in which the source of RMB transactions arising from trade plays a key role.

Along with the development of China's open-door reform and the revival of the global economy, China's trade with neighboring countries or regions grew rapidly. It can be seen from the turnover rate and foreign trade growth between China and neighboring countries in the years 2010 – 2013 (except for trading with 3 Mongolian countries, India and Kyrgyzstan which saw negative growth rates),trading with the remaining countries tended to increase. In particular, in 2013, China's import-export turnover with other countries and regions reached 8990.5 million USD, 14.26% higher.

The rapid development of international trade in bordering areas has made the use and circulation of RMB even more motivated. For the first time since 2008 when China carried out a pilot use of RMB for settlingin order to stabilize the value of money,exchange rate risks has been minimized in commercial transactions where RMB was widely used. Fang Guo Zhi (2008) conducted research on China-Vietnam border trade, arguing that more than 95% of trade exchanges between the two countries use RMB for accounting or

paying [2]. Lu Hao (2007) found that in Myanmar's specialized zone, RMB has replaced Kyat to become the mainly circulated currency [3]. Until July 2013, Bank of China issued "Announcement on policy completion and simplification of RMB cross-border business operations" to comprehensively promote RMB use in those bordering areas. The currency has taken a step into a new stage of development when it is used to settle cross-border trade transactions. Statistics from China's Report on monetary policy reveal that cross-border transactions have reached more than 48.000 billion RMB in 2014. RMB has become the second most popular currency of transboundary payment in the international balance of payments of China

At the same time, in order to coordinate with the rising use of RMB as a means of cross-border payment, Bank of China allowed domestic organizations to useYuan to invest overseas and foreign investors to choose RMB to invest in Chinain January and October 2011. In September 2013, Bank of China clearly stated that foreign investors can use Yuan to invest in domestic financial institutions. On December 3, 2013, to promote further foreign direct investment in RMB, the Ministry of Trade of China issued Announcement No. 87 "Announcement of issues related to cross-border direct investment of yuan ". This notice has completed the relevant management measures to simplify the application and approvalprocedure. Since being implemented, the transboundary direct investment and payment services using RMB has had roaring achievements. In 2014, RMB direct cross-border investment reached nearly 10.5 trillion with 1,865.6 billion for foreign direct investment and 8.620.2 billion for payment; This number is 8.5 times higher than in 2011 (Table 1). Along with the increasing absolute number, the proportion of total foreign direct investment of China also advanced throughout each year. In 2011, direct investment using yuan accounted for 4,18 % of China's total direct investment abroad. This number turned into 24,7 % in 2014, nearly 5 times higher (Table 1).

Table 1. The situation of direct payments and investments using RMB

Unit: million RMB

Year	Direct cross-border investment		Direct investment foreign		Pay the deal international	
	Total	Growth	total	Growth	Total	Growth
2011	1,108, 7		201.5		907,2	
2012	2,840,2	156%	304.4	51%	2,535.8	180%
2013	5,337.4	88%	856.1	181%	4,481.3	77%
2014	10.485.8	96%	1,865,6	118%	8,620.2	92%

Source: Bank of China.

Since the Asian financial crisis, many countries or territories have begun to realize that any single strength cannot prevent the spread of the crisis. This entails strengthening close cooperation in the region to maintain the stability of financial markets and curb the recurrence of the crisis. With support from Chiang Mai (Chiang Mai Initiative, CMI) agreement, China actively strengthened cooperation with neighboring countries and territories, and signed a series of currency exchange agreementsto increase the influence of renminbi (Table 2). In addition, to further promote the circulation of RMB in neighboring countries and regions, on June 23, 2011, Bank of China and Russian Central Bank signed a new bilateral compromise in monetary payment which identifies Chinese and Russian currencies from extended non-quota commercial payments to official trade, while expanding the geographical scope. This agreement stipulates that the economic entities of the two countries can freely convert currencies, using RMB and Ruble (RUB) to pay for theexchange of goods and services. In October 2012, Pakistan's central bank invested in the Chinese bond market. In October 2013, the Taiwan Monetary Authority first introduced renminbi into the list of foreign exchange reserves.

Table 2. Agreements on currency swaps signed between China and neighboring countries or territories

Time	Country / territory	Value (Billion RMB)	Duration in effect
Jan 20, 2009	Hong Kong Monetary Administration (HKMA)	200	3 years
May 6, 2011	Central Bank Mongolia	5	3 years
June 13, 2011	Central Bank Kazakhstan	7	3 years
Nov 22, 2011	HKMA	400	sign new agreement
Dec 23, 2011	Central Bank Pakistan	Ten	3 years
Mar 20, 2012	Central Bank Mongolia	Ten	On-going signing, 3 years
Aug 21, 2014	Central Bank Mongolia	15	On-going signing, 3 years
Oct 13, 2014	Central Bank Russia	150	3 years
Nov 27, 2014	HKMA	400	3 years
Dec 14, 2014	Central Bank Kazakhstan	7	3 years

Source: People's Bank of China.

III. Literature review

A currency is considered to be internationalized when it performs three functions: a means of exchange, a unit of measurement and a place of value storage - at two different levels, for public and private transactions outside the country of that currency. As a means of exchange, at the private level, an international currency is used to pay for international economic transactions. Meanwhile, at the public level, it acts as aforeign exchange market intervention currency.As a unit of measurement, it is used in international economic transactions at the private level, or as an anchor for governments to settle their currencies at the public level. When it is considered a place to store value, private sectors use it as an asset for investment and governments use it as reserve currency.

Anchor currency forms the basis for adjusting the currency value fluctuation of a country with independent sovereignty, usually chosen by that country because of its stable value. Anchoring exchange rate according to a reasonable currency will benefit the stability of the monetary value. Bergsten C. F (1997) in his exchange rate theory supposes that if each country issues currency at a certain level of economic development, international trade scale, economic potential, economicindependence, and free capital movement in the capital market ..., the currency will be able to become the anchor currency of other countries in the region [4]. After the collapse of the Bretton Woods system, international monetary relations are represented by the key role of the US dollar (USD). According to Mckinnon RI (1999), in order to match the export-oriented development strategy, most emerging economies in Asia themselves adopt the exchange rate regime of United States Dollar (USD) [5]. USD has therefore become the anchor currency of East Asia. After the Asian financial crisis, the status of USD as the only anchor currency has gradually changed, as foreign economic activities are increasingly diversified. Japanese Yen (JPY), Great British Pound (GBP) and EURO (EUR) have also become strong currencies. At the same time, the rapid development of the Chinese economy along with the long-term surplus of the international balance of payments, led to an increase in foreign exchange reserves and the stability of RMB value. All of thesebecame a potential condition for RMB to become an international currency.

The internationalization process of RMB is inseparable from the region, which means it must follow the "three-step strategy: neighboring, regionalization, and internationalization. Many scholars believe that RMB has been accepted to a certain extent in neighboring countries and territories. Kan Jing Yang (2006) said that RMB has been widely accepted in neighboring countries of China, becoming a strong foreign currency in the region [6]. Zhong Wei (2008) has systematically analyzed the circulation volume and reserve scale of RMB also in this area [7]. Chen Zhi Ang (2009) experimentally studied changes in the exchange rate regime of East Asian economies before and after the 2008 financial crisis, discovering that East Asian economies before the crisis had USD as the anchor currency, but changed toRMB after the crisis [8]. Yang Rong Hai (2011) found that in July 2005, since the value of RMB increased considerably, the position of the USD as anchor currency in Southeast Asia has gradually declined [9]. RMB has gradually established itself a strong currency position at Southeast Asia. Wang Qian (2011) based on the New External Monetary Model to evaluatethe entities of the anchor currency in the exchange rate regime of East Asian economies, detecting that the rate regime of each economy was showing a shift from dollar (USD) to a currency basket in which RMB has a significant influence on the currencies of these countries [10].

The subject of the study is the currency of neighboring countries and territories of China. The studied period is before and after the start of RMB internationalization process. Quantification analysis is conducted to measure the effects of this process on the currency exchange rates of these countries and territories.

IV. Research Methodology

4.1 . Data and sample selection

The article takes the exchange rate data from July 21, 2005 to October 30, 2014. The studied subjects are Russian Ruble (RUB), North Korean Won (KPW), Hong Kong Dollar (HKD), Pataca. of Macao (MOP), Taiwan Dollar (TWD), Vietnam Dong (VND), Laos Jeep (LAK), Kyat Myanmar (MMK), Nepal Rupee (NPR), Indian Rupee (INR), Pakistani Rupee (PKR) , Tenge Kazakhstan (KZT). In particular, independent variables are US Dollar (USD), Euro (EUR), Pound (GBP), Japanese Yen (JPY) and Chinese Yuan (RMB), excluding the currencies of Tajikistan and Kyrgyzstan due to lack of data; The Swiss franc (CHF) is an out-of-pocket terms currency, forming the first-rate difference of each currency and the daily exchange rate of the Swiss Franc. Data extracted from https://www.oanda.com/ .

4.2. Model forming

Frankel and Wei (2008), in the study of the reference standard of the process of regulating exchange rates in East Asian economies whether it changed from the US dollar to Japanese Yen, used the basic regression model of the effect of currency [11]. The model is as follows:

$$e_t^{EASF} = \alpha_1 + \alpha_2 e_t^{DSF} + \alpha_3 e_t^{YSF} + \alpha_4 e_t^{MSF} + \mu_t \qquad (1)$$

In particular, the selected basket of currency includes: US Dollars USD (D), Japanese Yen (Y), German Mark (M), Swiss Franc (SF) are standard terms currencies, EA represents currencies of East Asian countries or regions (excluding Japan).

Similarly, in this article, the author chooses currency basket including: US Dollar (U), EURO (E), Pound (G), Japanese Yen (J) and Chinese Yuan (C), simultaneously taking the Swiss franc as the basic currency to examine the influence of RMB in the exchange rate of countries and territories around China. The new model is set up as follows:

$$CURRENCY_t = \alpha_0 + \alpha_1 USD_t + \alpha_2 EUR_t + \alpha_3 GBP_t + \alpha_4 CNY_t + \alpha_5 JPY_t + \mu_t \quad (2)$$

In particular, *CURRENCY* is the daily exchange rate between local currencies of each country or territory that is adjacent to China and Swiss franc; USD, EUR, GBP, CNY, JPY are the daily exchange rates between US Dollar, EURO, British Pound, Yuan, Japanese Yen and Swiss franc. In addition, in order to prevent counterfeit regression problems caused by non-fixed time chains, and because the research objective of the article is the fluctuation of the exchange rate, the author uses the 1st difference methodof the exchange rate to eliminate the effect of the original unit. The regression equation is set as follows:

$$\Delta CURRENCY_t = \alpha_0 + \alpha_1 \Delta USD_t + \alpha_2 \Delta EUR_t + \alpha_3 \Delta GBP_t + \alpha_4 \Delta CNY_t + \alpha_5 \Delta JPY_t + \mu_t \quad (3)$$

In which, Δ represents the 1st difference, and$\alpha_1 \sim \alpha_5$ are respectively coefficients of 5 currencies mentioned in equation (2). The larger the coefficient is, the greater the influence of that currency in forming the exchange rate of currency of each country or territory is.

4.3. Testing Stationary Nature

The author uses Stata 11.0 software to conduct ADF testing with all variables, aiming to observe the stationary nature of the model. It can be seen from table 3 that from the time chains of all explanatory variables and independent variables, the statistical values in unit root tests are greater than the 10% critical value. Therefore, it is impossible to omit the hypothesis H_0 of the unit root test. The time chains are non-stationary. However, they areproved to be stationary after taking the first difference.Hence, all the variables of the article use the 1st difference value to conduct regression analysis.

Table 3: Unit root Test

Variables	Augmented Dickey Fuller Test (ADF Test)	
	Level Value	First Difference
CNY	- 2 , 5431	- 42 , 2940 ***
EUR	- 0 , 6574	- 39 , 3962 ***
USD	- 1 , 6421	- 41 , 1057 ***
GBP	- 1 , 1377	- 38 , 4411 ***
JPY	- 1 , 1615	- 41 , 1407 ***
RUB	0 , 8313	- 41 , 1989 ***
MNT	- 0 , 5329	- 116 , 2207 ***
KPW	- 1 , 7002	- 45 , 6304 ***
HKD	- 1 , 6360	- 41 , 0964 ***
MOP	- 1 , 6525	- 44 , 0113 ***
TWD	- 2 , 1663	- 47 , 5910 ***
VND	- 1 , 0765	- 56 , 8250 ***
LAK	- 2 , 5771	- 46 , 9905 ***
NPR	- 0 , 5430	- 51 , 1157 ***
INR	- 0 , 6430	- 43 , 1796 ***
PKR	- 0 , 8363	- 50 , 1249 ***
KZT	- 0.5920	- 47,8847 ***

Note: *** , ** and * means that the values are through testing at the critical level of 1%, 5%, and 10%, respectively.

Table 4 . Results of testing ADF sequence of remainder

Variable	Testing model (C, T, K)	ADF value	1% critical value	5% critical value	10% critical value
Resid	(0, t, 0)	-9,067 ***	- 3,960	- 3,410	-3,120

Based on the results of ADF testing, time chain data originally presented co-integration relationship. The two-step EG method is applied to carry out co-integration test. The first step is to use the least square regression method, and the second one is to conduct an ADF test on the sequence of remainders of the regression equation (Table 4). The statistical results came out with the value -9,067, smaller than the 1% critical

value of -3,960.Therefore, it can be estimated that the remainder sequence is a stable sequence, represented by the co-integration relationship existing

in quantity variables. This means the long-term equilibrium relationship exists in exchange rates of the countries and territories in the research sample.

V. Regression Results And Analysis

The author takes July 1, 2009 as a breakpoint, and analyzes the importance of RMB in the basket of currencies of neighboring countries and territories in the period before and after the breakpoint. Regression was carried out in turn with data of two phases: from July 21, 2005 to July 1, 2009, and from July 2, 2009 to October 30, 2014, with the results being shown in Table 5 and Table 6.

It can be seen that from Table 5 that before 2009, US dollar had a significant influence on the currencies of neighboring countries and territories; EURO was the second most influential currency. Except for Korea, Pakistan and Hong Kong (China), EURO had a significant influence on the remaining countries and territories. The influence of Great British pound is not as great as that of the two aforementioned currencies, but much greater than that of RMB. RMB only had a significant influence on MOP, TWD and VND.

Table 5: Proportion of RMB in the currency exchange rate of 11 neighboring economies (period from 21/07/2005 to 01/7/2009)

Dependent variable	Independent variables										
	D.rub	D.kpw	D.hkd	D.mop	D.twd	D.vnd	D.lak	D.npr	D.inr	D.pkr	D.kzt
D.cny	0 , 483 (0 , 455)	0 , 0833 (2 , 521)	- 0 , 00555 (0 , 00785)	- 0 , 363 *** (0 , 114)	1 , 688 *** (0 , 318)	- 904 , 7*** (339 , 0)	- 46 , 75 (140 , 0)	1 , 121 (1,606)	0 , 410 (0 , 832)	- 1 , 159 (1 , 547)	- 4 , 842 (2 , 959)
D.eur	22 , 29 *** (1 , 790)	- 7 , 861 (11 , 81)	- 0 , 0114 (0.0368)	2 , 424 *** (0 , 416)	9 , 742 *** (1 , 223)	4 . 056 *** (1,233)	3 . 235 *** (513, 7)	41.07 *** (5 , 988)	32 , 22 *** (3 , 235)	4 , 339 (5 , 631)	74 , 16 *** (12 ,11)
D.usd	11 , 80 *** (3 , 1 95)	141 , 6 *** (18 , 12)	7 , 691 *** (0 , 056)	8 , 697 *** (0 , 796)	13 , 88 *** (2 , 231)	20 . 004 *** (2. 376)	7 . 171 *** (981, 3)	37 , 22 *** (11 , 26)	32 , 65 *** (5 , 845)	76 , 36 *** (10 ,84)	125 , 0 *** (20 ,85)
D.gbp	0 , 0269 (1 , 216)	2 , 932 (7 , 929)	0 , 0428 * (0.0247)	- 0 , 0144 (0 , 273)	2 , 328 *** (0 , 824)	- 313 , 3 (804 , 9)	- 215 , 4 (338 , 0)	7 , 233 * (3 , 977)	3,663 * (2 , 188)	0 , 275 (3 , 678)	- 22 , 23 *** (8 ,340)
D.jpy	- 0.00100 (0.006)	- 0.00137 (0.043)	0,000727 *** (0.0001)	0.00233 (0.002)	0,000350 (0.004)	3,559 (4,461)	1,758 (1,858)	- 0.000108 (0.022)	- 0.0384 *** (0.012)	- 0.00420 (0.020)	0.0198 (0.044)
Constant	0.00307 (0.003)	- 0.0165 (0.016)	- 6.65e - 06 (4.82e - 05)	- 1.08e - 04 (4.91e - 04)	0.00224 (1.67e - 03)	0.570 (1,414)	- 0.897 (0.612)	0.00673 (0.008)	0.00358 (0.005)	0.0118 * (0.006)	0.0118 (0.019)
F	273.3	311.3	94606	553,6	1134	294.5	442,6	183.9	363,3	318.8	149.5
DW	2,031	1,995	2,021	2,077	1,991	2,105	2,057	2,009	1,989	1,970	1,935
R^2adjustment	0.486	0.519	0.997	0.658	0,797	0.505	0.605	0.389	0.557	0.525	0.340
No. of obs	1440	1441	1441	1440	1440	1440	1440	1440	1440	1440	1440

Table 6. Proportion of RMB in the currency exchange rate of 11 neighboring economies (Period from02/7/2009 to 10/30/2014 period)

Dependent variable	Independent variables										
	D.rub	D.kpw	D.hkd	D.mop	D.twd	D.vnd	D.lak	D.npr	D.inr	D.pkr	D.kzt
D.cny	0 , 860 ** (0 , 361)	0 , 0545 (0 , 367)	0 , 0362 *** (0 , 005)	- 0 , 150 ** (0 , 071)	0 , 923 *** (0 , 303)	- 477 , 7 (304 , 1)	- 223 , 8 *** (74 , 77)	3 , 610 *** (1 , 306)	3 , 433 *** (0 , 620)	- 1 , 744 * (0 , 916)	- 0 , 919 (2,770)
D.eur	21 , 78 *** (1 , 486)	0 , 838 (1 , 309)	0 , 154 *** (0 , 0 19)	2 , 649 *** (0 , 234)	4 , 652 *** (0 , 995)	4 . 604 *** (9 54, 2)	2 . 093 *** (2 37 ,3)	36 , 61 *** (4 ,654)	1872 *** (2 , 55 7)	21 , 75 *** (3 , 117)	63 , 23 *** (9 , 608)
D.usd	7 , 779 *** (2 , 336)	134 , 7 *** (2 , 328)	7 , 448 *** (0 ,0 303)	6 , 982 *** (0 , 444)	17 , 38 *** (1 , 900)	20 . 358 *** (1.89 7)	7 . 811 *** (4 66 ,9)	23 , 70 *** (8, 275)	6 , 803 * (4 , 013)	83 , 61 *** (5 , 771)	120 , 7 *** (1 7 , 49)
D.gbp	9 , 668 *** (1 , 692)	- 1 , 261 (1 , 503)	0 , 0782 *** (0 , 0217)	- 0 , 291 (0 , 269)	4 , 241 *** (1 , 148)	- 239 , 2 (1. 102)	- 210 , 8 (274 , 0)	7 , 982 (5 , 344)	13 , 89 *** (2 , 910)	- 2 , 314 (3 , 591)	- 31 , 80 *** (1 1 , 06)
D.jpy	- 0 , 0443 *** (0 , 008)	0 , 0030 9 (0 , 007)	- 0000228 **(0 , 0 001)	0 , 0032 4** (0 ,001)	0 , 0012 5 (0.006)	7 , 552 (5 , 300)	4582 ** (1 , 31 6)	- 0 , 101 *** (0 , 025)	- 0, 0750 ***(0. 01 4)	0 , 0096 4 (0 , 017)	0 , 0524 (0 , 053)
Constant	0.00609 (0.004)	- 0.00241 (0.003)	5.50e - 06 (4.86e - 05)	- 0.00019 3 (4.19e - 04)	- 0,00097 2 (0.002)	1,402 (1,634)	- 0.434 (0.410)	0.0126 (0.009)	0.00823 (0.007)	0.00994 * (0.006)	0.0137 (0.018)
F	356.4	12889	199057	1124	884.1	505.5	1179	199.3	278.9	803,3	214.9
DW	1,944	2,002	1,934	2,083	2,089	2,201	2,122	2,036	1,891	2,021	2,003
R^2adjustment	0.477	0.971	0.998	0.743	0.694	0.565	0.752	0.337	0.417	0.673	0.355
No. of obs	1946	1947	1946	1946	1946	1946	1946	1947	1946	1946	1946

It can be seen from Table 6 that from 2009 - 2014, EURO regression coefficients of 7 countries and territories did not vary significantly, but more or less there was a decline. This shows the Currency Management Authority of 7 countries and territories were trying to reduce the weight of EURO in the national currency basket. This wasdue to the outbreak of the European debt crisis. When EURO was deeply affected, the belief in EURO of many countries was quickly undermined. From the above results, it can be observed that the impact of dollar also had downwardtrend, although USD still had a significant impact on the currencies of Russia, North Korea, India, Kazakhstan, Hong Kong (China), China, Macao (China). The reason for this was a series of easing policies enacted by the USin order to stimulate economic recovery after the global financial crisis in 2008,directly leading to a devaluation of the USD . In contrast to the changing trend of EURO and USD, the influence of three currencies: RMB, GBP and JPY since 2009 had increased significantly. The effects of GBP to Hong Kong Dollar (HKD), Macau's Pataca (MOP), Indian Rupee (INR) and Tenge Kazakhstan (KZT) were clearly increasing. The number of countries impacted by JPY increased from 2 to 6. RMB significantly affected the exchange rate regulation regime of countries such as Russia, Laos, Nepal, India; territories such as Hong Kong, Macao, Taiwan in this period. This mainly benefits China in the crisis. The rapid development of China's economic power and the official launch of the RMB internationalization process had increased the influence on neighboring countries and territories, remarkably increasing the volume of circulation

Table 7. Weight classification of RMB currency in the basket of currencies of neighboring economies

Currency symbols	From July 21, 2005 ~ July 1, 2009	From July 2, 2009 ~ October 30, 2014
RUB	-	4
KPW	-	-
HKD	-	4
MOP	3	3
TWD	4	4
VND	3	-
LAK	-	3

NPR	-	3
INR	-	4
PKR	-	3
KZT	-	-

Note: "-" denotes that the weight of that currency in the basket of the target currency is negligible.

As shown in Table 7, RMB has had significant influence on the currency of countries and regions nearby, including RUB , HKD , MOP , TWD , LAK , NPR , INR , PKR from 2009 to now , but did not significantly affect VND . This was mainly because the main factor regulating the exchange rate between RMB and VND was small money exchange shops in the Vietnam-China border areas. The banks in charge of listing the exchange rates in the bordering areas also base on the rates as listed in these shops. We can see from Table 8 that the weighting of RMB was all 3 or 4 in the basket of currencies of neighboring economies, so it can be deduced that USD and EURO in this areastill kept the dominant position, despite a decline in their influence. The range ofinfluenceGB pound was only 5 countries and territories, less than that of RMB. Thus, the three currencies: RMB, USD, EUR have started to become the three largest anchor currencies in 11 neighboring countries and territories. In contrast to the declining influence of the USD and EUR in this area, that of RMB had a tendency to increase.

VI. Conclusions And Policy Implications

6.1 . Conclusion

The article adopts a sample of 11 countries and territories, building on and improving effectively the model of anchor currency while taking RMB, USD, EUR, JPY and GBP to form acurrency basket. Based on this, the authorcan observe the change in the meaning and weight of these currencies before and after the internationalization process of RMB was officially launched.

Empirical results show that: (1) From July 21, 2005 to July 1, 2009, the currencies of neighboring countries and regions of China all took EURO and USD as the main anchor currencies, basing on fluctuations in the value of these two currencies to adjust the value of their national currencies. (2) From July 2, 2009 to October 30, 2014, the impact of EUR and USD declined compared to the previous period. In contrast, there was an increase in the influence of RMB, GBP and JPY in this stage. The regression results show that the anchor currency of the countries and territories neiboring China has gradually adjusted to 3 uniform currencies: RMB, EUR and USD. During this period, RMB became the anchor currency of 8 (out of 11) countries and territories. The currencies of these countries and territories all responded significantly to fluctuations in the value of RMB. In particular, RMB had a significant positive impact on RUB, HKD, TWD, NPR, INR.

China's internationalization of RMB and global financial instability has an impact of varying degrees on different transaction channelson current accountand capital balance. In the meantime,the trade balance of Vietnam, China and related countries (also subject to RMB internationalization) is also tended towards this influence. On this basis, the State Bank of Vietnam has made appropriate decisions in its monetary policy.

6.2. Policy implications

Vietnam is deemed for the neighboring strategy co RMB in China. Therefore, it is inexorable that it also be affected by this process. It is possible to consider some of the effects of this process on two areas namely foreign trade and banking-finance.

In the field of foreign trade, Vietnam - China trade relations are still maintaining a very high trade deficit rate of our country, stemming from the need to import machinery, equipment and input materials for production. The process of RMB internationalization may make the economies of the neighboring countries in general and Vietnam in particular more dependent on Chinese economy. However, the payment of commercial contracts using the direct exchange rate between VND and RMB will reduce the gap in the expenses if based on the anchor rate in a third currency. In case RMB contract is adjusted to increase its prices (which leads to Chinese goods and services becoming less competitive in terms of prices), we can take this opportunity to expand and dominate the world market share. However, this is not simple because countries in the region will also aim to take advantage of this opportunity. Therefore, we must take measures to improve the quality and diversify thepatterns to enhance the competitiveness of Vietnamese exports. The RMB internationalization giving rise to its value may increase the opportunity to attract foreign investment into Vietnam, but we also need to strictly regulate this capital inflow so as not to cause negative impactson the economy such as rising inflation and market turmoil.

For banking – finance, the widespead acceptance of RMB in many international markets will motivate the valuation activities and international payments using the RMB . This will be a good opportunity for our banking system to develop banking and financial services using RMB. However, to conquer this opportunity, Vietnamese banking system needs to be oriented and promptly build services exclusively for RMB (such as

option right contract, risk prevention ...) to support increased commercial activities between the two countries and their enterprises.

In fact, Vietnamese banks have not been able to handle this well in recent times. Vietnam - China import and export payment has not beenwidely processed through banks but still uses many other methods such as barter, direct payment in different currencies, payment in foreign currency under the license of State Bank, and private payment ... Although payment figures in RMB and VND through the banking system has increased, these still account for low percentage of the totalimport and export value between the two countries. According to enterprises, Vietnam's banks still fail to meet their payment needs, which is reflected in the outdated payment technology, undiversified forms of payment, and passiveRMB sources. This is also a big problem that the banking system must tackle.

RMB internationalization on the impact channels mentioned in Table 1 has an impact on the ability and capacity to implement monetary policy instruments of the State Bank of Vietnam. Channels that can firstly influence the State Bank's monetary policy and monetary policy transmission mechanism include: credit, deposits with RMB, open market operations, foreign exchange reserves with RMB, RMB bonds, and foreign exchange market.

For financial market participants, that private/business sector can store, borrow or deposit money in RMB can help diversify risks for people, businesses and banks, reducing their excessive dependence on USD. This leads to a slight reduction in the currency difference. A more suitable basket of foreign currency structures, together with the rise of the RMB, isalso capable of helping the State Bank to mitigate foreign exchange risks, and reduce the pressure commonly found in the USD market.

Vietnam may consider adopting the targeting inflation monetary policy in response to the RMB internationalization process. Since 2011, our country has had macro-management moves embedded in intentional inflation. For example, the Government publicly announced to take price stability as a focus (but no targets and specific time limits for implementation was put forward). The State Bank has been more autonomous in the application of monetary policy and has taken important steps in transparency and accountability.

In summary, along with the development of China's economy is the growth of RMB. Chinese government has achieved considerable results in an effort to internationalize RMB and thereby enhance its influence on the international monetary and financial markets. However, the problems that exist in China's economy itself have prevented RMB from becoming a fully convertible currency in the near future. The internationalization of RMB will bring about many impacts on the Vietnamese economy, so we need to consider the specific measures to take advantage of the positives, while limiting the negatives that this process may exert.

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