

Abstract

## **The Anomaly of Internationalization of RMB**

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As China became global superpower, its regional impact is increasing. However, when it comes to exchange rate, many Asian currencies are still closely tied to the dollar. However, it does not mean that no countries are tying its currency to RMB. We find that countries in various areas, especially resource-rich ones – deepened its economies ties with China. Against this backdrop, this study examines how their exchange rate started to co-move with Chinese Renminbi.

Using the model of Frankel and Wei (1996) *was* difficult until recently as the RMB was closely tied with the US, causing multicollinearity problem. However, since around 2015, RMB started to move async with the US dollar (Figure 1) and the correlation became less than 0.5, and even negative. This study found that, unlike the recent literature, RMB “bloc” is not emerging in East Asia. Instead, RMB “bloc” is driven by the country’s economic ties – especially trade and FDI derived by the commodity trade and debt.