
Steady Progress with the Strategic Opening of China's Financial Markets: Current Situation and Implications for the Currency Hegemony Struggle

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Summary

1. Inward investment into China from around the world continues to increase, with particularly notable growth in portfolio investment. This development stems from two factors: the strategic capital market opening that the Chinese government has pursued and the recent easing of U.S.-China tensions. The latter is a short-term factor, whereas the former is a more medium- to long-term structural factor. Specifically, it includes the inclusion of mainland Chinese stocks and bonds in international investment benchmark indices. This should be viewed less as an endorsement of China's capital market reforms and more as the outcome of "strategic" policies actively pursued by the Chinese government, including efforts to strengthen Hong Kong's role as a financial intermediary.
2. As capital mobility liberalization progresses, it is only natural that the volume of international transactions using the renminbi will increase. The Chinese government has long been extremely wary of financial instability caused by excessive fluctuations in the renminbi exchange rate. However, in recent years, it has also demonstrated a proactive stance toward advancing renminbi internationalization and appears to be moving toward accepting to some degree the exchange rate fluctuation risk that accompanies increases in foreign exchange transaction volumes. In international monetary analysis, there exists a proposition known as the "trilemma," which states that the three objectives of "capital mobility liberalization," "exchange rate stability," and "independent monetary policy" cannot be achieved simultaneously. Amid these constraints, Chinese authorities have also signaled a policy shift toward greater monetary policy independence. They are prioritizing capital mobility liberalization and monetary policy autonomy, and in exchange gradually reorienting their policy focus to sacrifice some degree of exchange rate stability. This approach is moving China closer to the combination of international monetary policies adopted by countries such as Japan and the U.S., which indicates that China is also beginning to aim for such a system.
3. However, China's current capital liberalization remains a fundamentally "strategic" opening. In that sense, it is only a limited liberalization. Even though renminbi internationalization did progress within this framework, the currency would not have in principle been expected to reach a level where it could genuinely challenge the U.S. dollar for hegemony. However, the instability in U.S. politics brought about by the establishment of the second Trump administration may be providing a tailwind for expanding the international use of the renminbi despite the limited degree of liberalization.
4. As of 2025, the dollar still accounts for about half of global foreign exchange transactions, and its dominant position cannot be easily shaken. However, this will cease to be the case if the policies of the current U.S. government erode confidence in the dollar, fostering a greater desire among other countries to move away from it. China is steadily expanding the economic sphere in which the renminbi is used and is also moving to secure leadership in the digital currency field. As countries increasingly consider alternatives to the dollar, China sees an opportunity to further accelerate the renminbi internationalization.

Introduction

Capital flows from overseas into China's financial markets, particularly its securities market, are accelerating. This suggests that capital mobility liberalization is progressing. Moreover, this development will inevitably increase the international trading volume of the renminbi. However, the Chinese government is actively promoting the "internationalization" of the renminbi, adopting a willingness to tolerate the risk of exchange rate instability that comes with increased trading volume. The launch of the second Trump administration has disrupted U.S. politics, and as the appeal of the U.S. dollar diminishes, an opportunity could be presented for the Chinese renminbi to enhance its presence in international financial markets. China's capital market opening and renminbi internationalization could have a significant impact on the global economy, depending on how they unfold.

In this paper, I will begin by examining inward investment into China from overseas, particularly trends in portfolio investment, while also assessing the strategic market opening initiatives behind these developments, as well as their effects (1.). Next, I will explore how the Chinese government intends to adjust its foreign exchange market and monetary policy in line with such capital mobility liberalization (2.). Finally, I will investigate how China might proceed with a series of moves to open its capital markets and internationalize the renminbi in response to shifts in U.S. politics (3.).

1. Increased Inward Foreign Portfolio Investment into China and Ongoing Strategic Market Opening

Headwinds such as China's economic slowdown and prolonged U.S.-China rivalry caused overseas investors' inward investment into China to stagnate until around 2023. However, it has since been returning to an upward trajectory, with

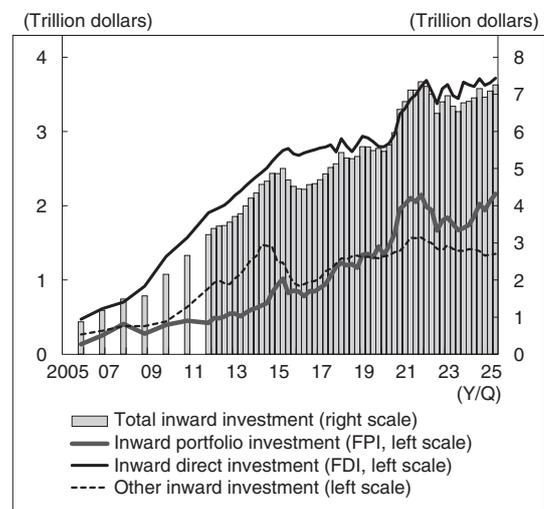
portfolio investment by overseas investors gaining notable momentum.

(1) Steady Growth in Direct Investment, Inward Portfolio Investment Gaining Renewed Momentum

Inward investment into China (the total of direct investment, portfolio investment, other financing, etc.) expanded to \$7.3 trillion in the second quarter of 2025, up from the previous quarter's \$7.1 trillion (Fig. 1). Foreign direct investment (FDI), centered on capital investment such as factory construction, has lacked momentum since the stringent lockdown in Shanghai during the first half of 2022 amid the COVID-19 pandemic, and has seen only a modest increase (see Appendix 1). On the other hand, foreign portfolio investment (FPI), i.e., investment in stocks and bonds, has regained momentum since 2023, recovering to \$2.2 trillion by Q2 2025 and offsetting the slump in direct investment.

As the turmoil accompanying the spread of COVID subsided, heightened geopolitical risks, particularly U.S.-China tensions, came sharply into focus, creating a strong headwind for overall inward investment into China. The Biden adminis-

Fig. 1 China Total Inward Investment



Source: JRI based on CEIC

tration maintained the tariffs on China introduced by the first Trump administration, and further expanded curbs on investment by signing an executive order in 2023 restricting investments in China in sectors such as semiconductors and artificial intelligence (AI).

In addition, the growing possibility that Western nations would impose secondary sanctions on foreign individuals and companies conducting economic transactions with Russia, as a means of preventing the exploitation of loopholes in sanctions against Russia, also served as an indirect factor. Some investors reportedly sold their holdings of bonds issued by the China Development Bank and the Export-Import Bank of China (policy banks), citing their involvement in financing Russian energy development projects⁽¹⁾.

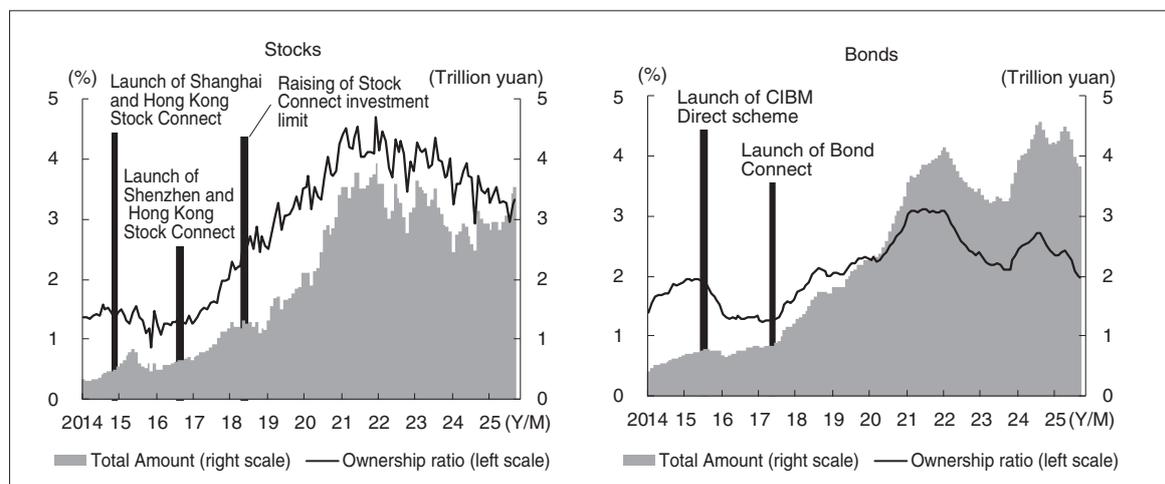
Until around 2023, overseas investors remained cautious about portfolio investment in China, and were thus considerably reluctant to take the plunge and expand their Chinese holdings. Since then, however, their enthusiasm has returned. As domestic investment is also growing increasingly rapidly, the proportion of Chinese bonds held by foreign investors is trending downward, but even so, it is clear that overseas investors are rapidly increasing their bond investments (Fig. 2). As for stocks, it has been reported that overseas inves-

tors have been returning in lockstep with the high-tech boom since the second half of 2025⁽²⁾. This positive trend is being driven by both 1) medium-to-long-term factors, such as progress in strategic market opening by the Chinese government, and 2) short-term factors, such as the easing of tensions with the U.S. I will discuss these below.

(2) Medium-to-long-term Factors: Moves Toward “Strategic” Market Opening and the Strengthening of Hong Kong’s Financial Intermediation Function to Support it

The Chinese government’s capital market opening does not constitute full liberalization like that seen in developed countries. It is essential to note that this is a “strategic” opening focused primarily on securing stable investors. In particular, the Chinese government’s aggressive lobbying of index compiling companies to include securities such as bonds and stocks issued in mainland China (below, “mainland Chinese securities”), and its resultant success in getting them included in benchmark indices can be considered the core of this strategy

Fig. 2 Mainland Chinese Securities Owned by Overseas Investors (January 2014 – September 2025)



Source: JRI based on CEIC

(Nogimori [2022]).

MSCI (Morgan Stanley Capital International) began including mainland Chinese stocks (A-shares) in its Emerging Market Index in June 2018. To mitigate sharp fluctuations in assets benchmarked against the MSCI index, a phased inclusion process was implemented, with the weighting gradually increased over multiple stages. By November 2019, 20% of the market capitalization of China A-shares had been included. Following that, the inclusion of A-shares in indices from FTSE (Financial Times and Stock Exchange) and S&P Dow Jones index occurred in June 2019 and September 2019, respectively.

In the bond market, Bloomberg gradually added Chinese government bonds and policy bank bonds to its Global Aggregate Index over a 20-month period starting in April 2019. Meanwhile, JPMorgan integrated Chinese government bonds into its major indices in phases over a 10-month period beginning in February 2020. And FTSE Russell phased Chinese government bonds into its flagship bond index, the FTSE World Government Bond Index (WGBI), over three years from October 2021. Chen et al. [2019] estimated that \$450 billion (approximately 3% of GDP) flowed into China as capital poured into securities included in these indices.

Decisions by index providers have become a key factor influencing the movement of global capital, such as pension funds in many countries. This is because there are two types of asset management: passive management, which aims for investment performance linked to a target benchmark, and active management, which aims for investment performance over and above the target benchmark. In recent years, indices like those discussed above have been adopted for passive management, and there is a tendency for significant capital inflows into the assets that comprise the indices. According to LSEG Lipper, at the end of December 2023, the net assets of global passive equity funds had reached \$15.1 trillion, surpassing active funds for the first time⁽³⁾. By securing the inclusion of mainland Chinese securities in benchmark indices, China has succeeded in attracting steady supplies of overseas funds⁽⁴⁾.

In this way, the exogenous trend of increased passive investment globally has been supporting the Chinese government's policy of "strategic" market opening. Moreover, as I will illustrate next, the strengthening of Hong Kong's financial intermediation function is enhancing the effectiveness of the policy.

Following China's accession to the World Trade Organization (WTO) in 2001, which required market liberalization, Chinese authorities began taking steps to enable overseas investors to obtain licenses to trade mainland Chinese securities in 2002. One of these was the launch of the QFII (Qualified Foreign Institutional Investor) program⁽⁵⁾. However, these measures were insufficient, and a more convenient mechanism was introduced: trading mainland Chinese securities via Hong Kong. Specifically, the mechanism comprises the Stock Connect program for the stock market and the Bond Connect program for the bond market, and trading via these programs began in November 2014 and July 2017, respectively (Table 1). Both allow the purchase and sale of mainland Chinese securities on the Hong Kong Stock Exchange, require no notification or account opening in mainland China, and can be used by any investors, including individuals, who have an account in Hong Kong. The burden of complying with the laws and regulations of mainland China is also reduced, so the mechanism offers numerous benefits for overseas investors. As a result, improved access through Stock/Bond Connect became a major driver for a dramatic increase in overseas investors' investments in both stocks and bonds. This upward trend has continued, with investment in high-tech stocks surging, for example (Fig. 3).

In September 2021, the Cross-boundary Wealth Management Connect Scheme⁽⁶⁾ was launched. This allows individual investors in nine cities in Guangdong Province to purchase investment products from Hong Kong and Macao, and individual investors in Hong Kong and Macao to purchase investment products from mainland China. Later, in February 2024, such investments were given further encouragement with the announcement of "Wealth Management 2.0," which

Table 1 Moves to Open China’s Securities Market

	Transactions via Hong Kong		Transactions in the mainland	
	Stocks	Bonds	Stocks	Bonds
1992			Start of issuance of B-shares (stocks issued to foreign investors by Chinese companies on the mainland)	
1993	Start of issuance of H-shares (stocks issued to foreign investors by Chinese companies in Hong Kong or overseas markets) (in July 1993, simultaneously listed in Hong Kong and New York as ADRs)			
2002			Introduction of QFII (Qualified Foreign Institutional Investor) program	
2007		Start of issuance of offshore RMB-denominated bonds (dim sum bonds) in Hong Kong		
2011			Introduction of RQFII (RMB Qualified Foreign Institutional Investor) program	
2014	Start of Shanghai-Hong Kong Stock Connect transactions			
2015				Start of CIBM (China Interbank Market) Direct scheme transactions (expanded to foreign investors in February 2016)
2016	Start of Shenzhen-Hong Kong Stock Connect transactions			
2017		Start of Bond Connect transactions		
2018	Fourfold increase in daily investment limit for Stock Connect			
2020			Integration of RQFII and QFII and expansion of scope of available transactions	
2021		Launch of Wealth Management Connect		
2023		Launch of Northbound channel of Stock Connect		

Source: JRI based on various materials

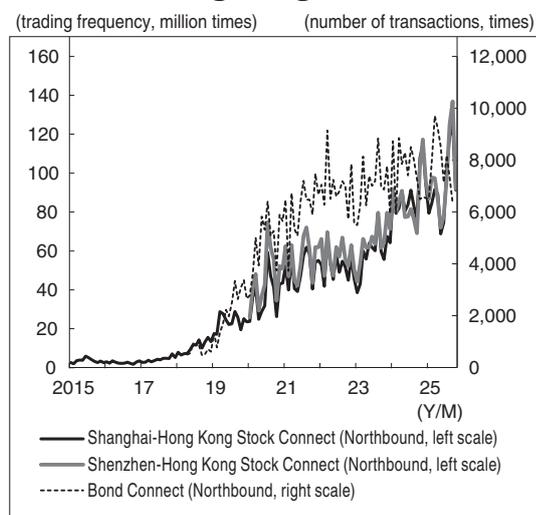
represented a strengthening of the entire scheme through expanded investment options, increased investment limits, and relaxed participation requirements.

China’s financial authorities have succeeded in having mainland Chinese securities included in global investment benchmark indices, yet continue to face demands for further market opening. Notably, there have been numerous calls for moves toward opening the futures and derivatives markets, which serve as hedging tools (MSCI [2019], etc.). In response, new functions have been introduced

by the Hong Kong Stock Exchange (HKEX), further underscoring Hong Kong’s growing importance.

For example, in a nod to MSCI, which is considering further expansion of the inclusion of mainland Chinese securities, HKEX launched futures for the “MSCI China A 50 Connect Index,” which is composed of stocks eligible for Connect trading, with trading in these futures commencing on October 18, 2021. And on May 15, 2023, HKEX launched “Swap Connect,” enabling mutual trading of interest rate swaps between Hong

Fig. 3 Frequency of Investment in Mainland Chinese Securities via Hong Kong



Source: JRI based on CEIC

Kong and mainland China⁽⁷⁾. These developments have made it easier for overseas investors to access mainland derivatives and other financial instruments, making their exposure to mainland Chinese securities more manageable.

(3) Short-term Factors: Easing of U.S.-China Tensions and Growing Optimism Towards Chinese Companies, Particularly in the Tech Sector

The Chinese government can be credited with strategically advancing market opening and succeeding in steadily attracting investment from overseas. The receding of the geopolitical risks mentioned earlier has been an additional bonus recently. Particularly since the start of 2025, the mainland Chinese stock market's strong performance has stood out, supported by rapid growth in the tech sector, as typified by the rise of DeepSeek. This rally has accelerated through the second half of 2025.

The second Trump administration will maintain its hardline policy stance toward China while also

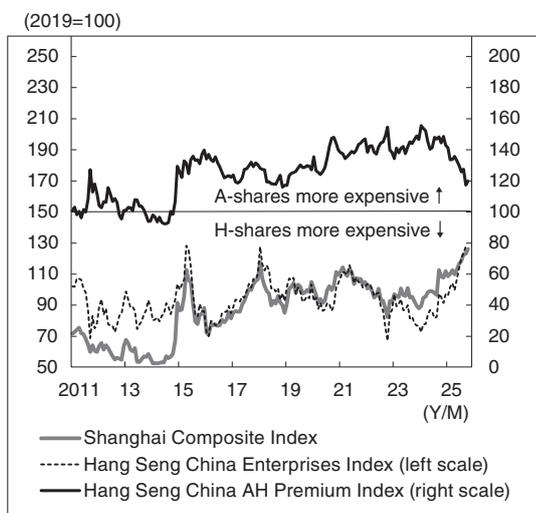
continuing to prioritize bilateral deals (Fukuda [2025b]). Until mid-2025, the U.S. and China had engaged in a tit-for-tat escalation of tariff hikes, at times imposing tariffs exceeding 100% on each other's goods. However, during negotiations in Geneva in May, both sides agreed on partial suspensions or removals of the additional tariffs they had imposed on each other. During talks in June in London, they discussed export controls on critical minerals and advanced technologies and eased the restrictions that they had placed on each other. Furthermore, President Trump's statement on October 11, 2025 that he would re-impose 100% additional tariffs from November 1 shook the world. However, following a meeting between the leaders of the two countries in Busan on October 30, the situation reversed, with both sides ultimately agreeing to reduce their respective tariffs. Despite all the dramatic ups and downs, it can be said that tensions between the U.S. and China are easing overall.

In addition, amid these developments, the U.S. has also eased its curbs on semiconductor- and AI-related exports to China. Chinese tech companies like DeepSeek had been establishing unique positions in the global competitive landscape by leveraging data utilization capabilities developed in China's massive domestic market, and the U.S. decision further raised expectations for them. This has attracted increased investment in them from overseas, and the momentum is being maintained.

Approximately 150 Chinese companies are dual-listed in mainland China and Hong Kong. And over the past decade, "A-shares" listed on the Shanghai and Shenzhen markets have traded at a premium over the "H-shares" issued in the Hong Kong market⁽⁸⁾. However, coming into 2025, overseas investors stepped up their investments, focusing on the tech sector, and also targeted Chinese companies listed in Hong Kong, which offers a more investment-friendly environment. As a result, the Hang Seng China AH Premium Index⁽⁹⁾ has fallen sharply, rapidly eliminating the distortion of A-shares being pricier than H-shares (Fig. 4). This has further encouraged overseas investors to invest in mainland Chinese stocks.

Thus, de-escalating tensions between China and

Fig. 4 AH Premium and Mainland/Hong Kong Stock Indices



Notes: The Hang Seng China AH Premium Index measures whether mainland Chinese stocks are trading at a premium or discount relative to their Hong Kong-listed counterparts, based on price differences among dual-listed shares. It is calculated by dividing the market-cap-weighted average price of A-shares by that of H-shares. A figure above 100 indicates that A-shares are more expensive, while a figure below 100 indicates that H-shares are more expensive.

Source: JRI based on Bloomberg L.P.

the U.S. has increased optimism around Chinese companies, particularly in the tech sector, and this has been a factor causing inward FPI to accelerate. That said, there is a good chance of another flare-up of U.S.-China tensions in the future. President Trump’s negotiation tactics, which prioritize deals above all else, are highly unpredictable, and caution is required as the ultimate implications of these recent short-term developments remain uncertain.

2. Changes in Chinese Finance From “Strategic” Capital Market Opening

As seen above, capital mobility liberalization has progressed to a certain extent in China, and the internationalization of the country’s financial markets is also advancing. However, as illustrated

by the “trilemma” (Appendix 2), these developments will significantly impact China’s foreign exchange market and necessitate changes in China’s monetary policy.

(1) China’s Monetary Authorities’ Tolerance of Exchange Rate Fluctuations and Pursuit of Monetary Policy Independence

As previously stated, capital mobility liberalization and capital market opening in China are “strategic” in nature, as they are focused on securing stable investors, and do not constitute full liberalization. The inclusion of Chinese securities in benchmark indices has played a central role in lowering barriers to entry into the Chinese market, mainly for stable institutional investors such as pension funds, but that is all. For example, market entry remains difficult in the case of the high-risk investments undertaken by hedge funds, as China fears that they could increase market volatility, so the level of opening cannot be said to be high.

Therefore, opinions are divided regarding China’s moves toward capital mobility liberalization and capital market opening. Many argue that without the complete liberalization of China’s capital account, the renminbi cannot become the world’s reserve currency. Toritani [2023] contends that while steady progress has been made with capital transaction “liberalization” measures, in reality, foreign capital is being heavily relied on to finance stagnant domestic sectors, and that current policies are inadequate. On the other hand, in October 2016, the IMF added the renminbi to its Special Drawing Right (SDR) currency basket, acknowledging that China’s economy is sufficiently large, as seen in the level of its exports, as well as its progress in liberalizing its capital markets. Eichengreen et al. [2022], while admitting that China’s capital market opening has not seen substantial progress, argue that even with incomplete liberalization, the renminbi has begun to play an international role.

Regarding China’s capital markets, while opin-

ions vary on whether the level of opening or liberalization is sufficient or insufficient, the fact that a certain degree of progress has been made is widely acknowledged. Moreover, following on from its “strategic” capital market opening, the Chinese government has indicated its intent to reform its monetary system to bring it closer to those of developed countries like Japan and the U.S. As we will see next, the Chinese government is focusing on policies that promote the internationalization of the renminbi while tolerating exchange rate fluctuations and pursuing monetary policy independence, so there are clear moves toward capital mobility liberalization and capital market opening.

(2) Continuing Renminbi Internationalization While Allowing Exchange Rate Fluctuations

At the central financial work conference in October 2023, the Chinese government used the slogan “financial powerhouse” to describe its vision for the country’s financial sector (Table 2). Alongside financial assistance for the tech sector,

it called for market reforms to support its growth, while simultaneously emphasizing the importance of “renminbi internationalization” to make China a “financial powerhouse.” Furthermore, the decision in November 2015 to include the renminbi in the SDR currency basket⁽¹⁰⁾, which took effect in October 2016, strongly underscored the renminbi’s current status as an international currency. The renminbi’s share of the basket was set at 10.92% at the time of the 2015 decision, but was raised to 12.28% following a review in 2022 (Fig. 5).

When it was added to the SDR, the renminbi could hardly be said to have met the criteria for inclusion (Shimizu [2015], etc.). Therefore, the decision can be viewed as reflecting expectations that China would proceed with deregulation and other forms of liberalization in the future in order to further advance renminbi internationalization. The IMF continues to call for deregulation and other measures.

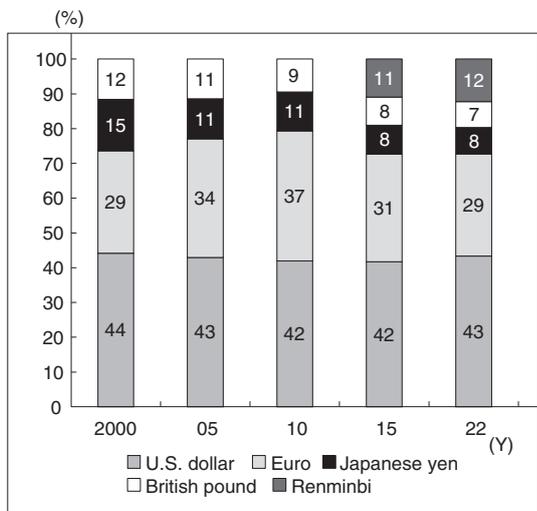
In January 2023, Chinese authorities responded with a demonstration of willingness to improve convenience for overseas investors dealing with time differences by extending trading hours on the Shanghai foreign exchange market from 11:30 p.m. to 3:00 a.m. the following day (local time).

Table 2 Accelerating the Building of a Nation with a Strong Financial Sector (October 30–31, 2023, Central Financial Work Conference)

Item	Details
Basic position	Finance is the “lifeblood” of the national economy and a component of the nation’s core competitiveness. At this conference, the national strategic objective of “accelerating the building of a nation with a strong financial sector” was clearly articulated for the first time.
Basic policy	1) Centralized and unified leadership of the Party Central Committee, 2) people-centered approach, 3) serving the real economy, 4) preventing and eliminating risks, 5) promoting market-orientation and the rule of law, 6) deepening supply-side structural reform, 7) integrating openness with security, and 8) maintaining the overarching principle of “seeking progress while maintaining stability”
Priority areas	Five priority areas for development were identified: technology, green/environmental finance, inclusive finance, support for the elderly, and digital finance.
Building of modern financial structure	Establishing a sound monetary and financial environment and a comprehensive set of policy tools, deepening the share registration system, expanding diverse financing channels, improving the quality of stock and bond markets, and reforming financial-institution governance.
Financial stability and risk management	All financial activities will be brought under regulatory oversight to eliminate institutional blind spots. Efforts will be made to strengthen risk management for local-government debt, enhance macro-prudential management of real-estate finance, and ensure stability in the foreign-exchange market.
Financial opening and strengthening of international competitiveness	Simultaneous attraction of foreign capital and overseas expansion of domestic institutions. Institutional opening-up, enhancement of convenience of cross-border investment and financing, and strengthening of the international financial-center functions of Shanghai and Hong Kong.

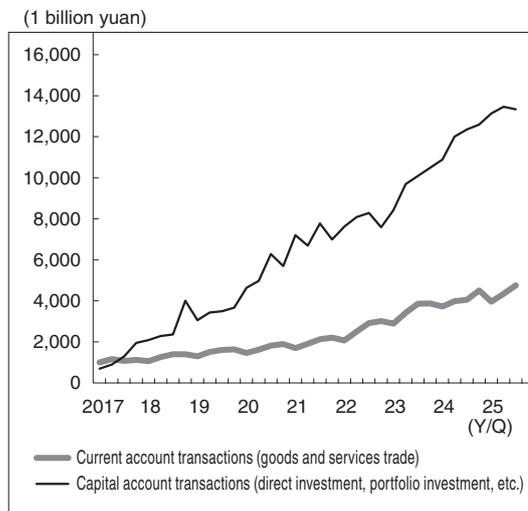
Source: JRI based on various media reports

Fig. 5 Shares of SDR Currency Basket



Source: JRI based on IMF

Fig. 6 Amount of China's International Trade Transactions Settled in Renminbi



Notes: Total of receipts and payments.
Source: JRI based on CEIC

In addition, People's Bank of China (PBOC) Governor Pan Gongsheng declared at the Lujiazui Forum (a financial industry conference) held in Shanghai in June 2025 that an international operation center for the digital yuan would be established in Shanghai.

Amid these steps toward renminbi internationalization, capital mobility liberalization has led to a steady increase in renminbi transactions in international markets (Fig. 6).

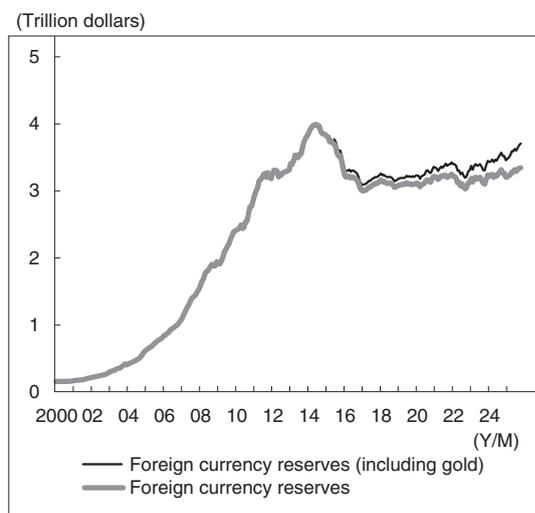
However, at the same time, heightened exchange rate volatility has become unavoidable, increasing risks both financially (such as investors eschewing investments due to fears of falling asset prices and accelerated capital outflows) and economically (such as causing import prices to fluctuate wildly and thus significantly increasing inflation volatility). Historically, these risks have plagued China, with the 2015 renminbi shock⁽¹¹⁾ being a prime example. To avert such exchange rate fluctuations, the government has frequently intervened to establish safeguards, and this practice continues to this day.

For example, in September 2021, media reports indicated that Chinese authorities had, in an effort to reduce financial risks, forced securities firms to withdraw their foreign exchange forecasts. The reports also stated that officials from China's State

Administration of Foreign Exchange (SAFE) had been stationed on foreign exchange trading floors to strengthen oversight of currency dealers⁽¹²⁾. In September 2022, the risk reserve ratio for forward transactions was raised from 0% to 20%⁽¹³⁾. Furthermore, Chinese authorities also instructed major state-owned banks to buy renminbi and sell U.S. dollars in offshore markets. This is a form of foreign exchange intervention unique to China, where the central bank (PBOC) does not act as the direct executor. It is employed frequently, with similar action also being taken in 2024.

That said, while efforts to avoid such exchange rate instability can be observed, the policy intent to completely suppress it seems to have disappeared in recent years. Rather, China can be said to be gradually abandoning the "exchange rate stability" dimension of the trilemma in favor of tolerating a certain degree of exchange rate risk. Indeed, while various measures have been deployed to stabilize exchange rates, they have all been relatively minor. Meanwhile, direct intervention using foreign exchange reserves, which could have a significant impact, has rarely occurred in recent years. China's foreign exchange reserves have therefore continued to increase (Fig. 7). Fur-

Fig. 7 China's Foreign Currency Reserves



Source: JRI based on CEIC

thermore, in the “trilemma indexes” estimated by Aizenman et al.⁽¹⁴⁾, the “exchange rate stability index” has been declining in recent years, pointing to increased volatility of the renminbi.

(3) Following Capital Mobility Liberalization, Independent Monetary Policy Also Being Pursued

Incidentally, if the Chinese government has chosen “capital mobility liberalization” and “exchange rate stability,” it will, according to the “trilemma” (Appendix 2), have to abandon “independent monetary policy.” However, judging by the PBOC’s recent actions, it has not made such a choice. Fukumoto [2022] concludes that in recent years, the PBOC has sought to ensure the independence of monetary policy from external factors by enhancing the flexibility of the renminbi exchange rate.

Notably, in 2024, the PBOC made significant changes to its monetary policy framework. Until recently, there were two main tools of monetary policy in China: seven-day reverse repos (open

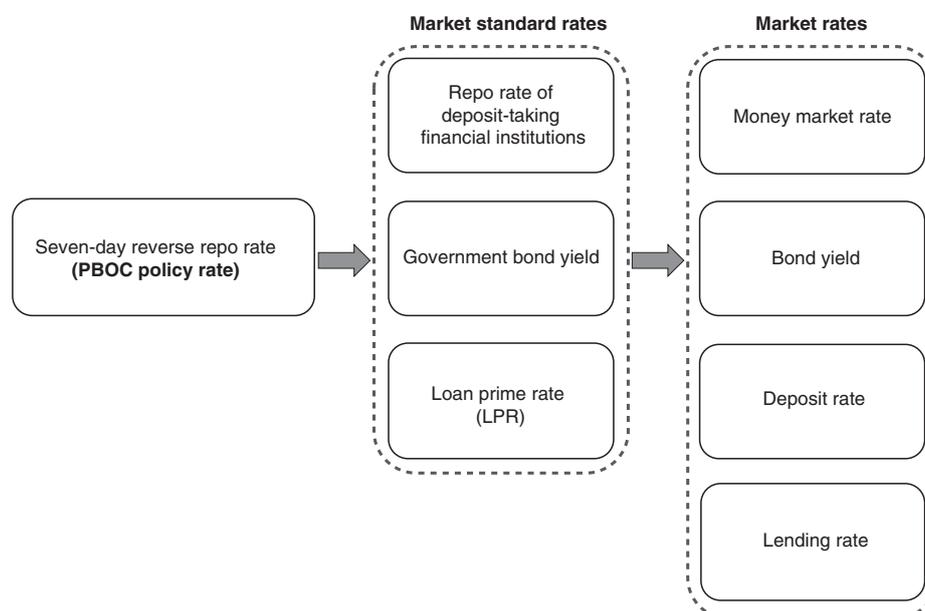
market operations, OMO) and a one-year medium-term lending facility (MLF). And while the interest rate for the former is linked to short-term interest rates, the rate for the latter is determined via a complex mechanism. Specifically, the actual lending rate is altered by adjusting the loan prime rate (LPR), which is positioned as a “de facto policy rate,” and this impacts long-term rates indirectly⁽¹⁵⁾.

However, in July 2024, the PBOC announced that it would introduce overnight repos and reverse repos as temporary OMO tools for adjusting liquidity. The interest rates on overnight repos and overnight reverse repos (-0.2% and +0.5%, respectively, compared to the seven-day reverse repo rate) would be used to establish an interest-rate corridor (Fig. 8 and Table 3). The move was an indication of the PBOC’s intention to stabilize money market interest rates and a shift in its policy orientation away from the MLF interest rate and LPR in favor of the seven-day repo rate⁽¹⁶⁾.

In most other countries, and especially developed ones, central banks use short-term interest rates as their policy rates and adjustments to these automatically spill over to long-term interest rates. The PBOC seems to be aiming for the same framework, placing greater emphasis on interest rate control as a mechanism of transmission to the term structure of interest rates⁽¹⁷⁾ (Wang et al. [2025]). Moreover, with monetary policy that emphasizes this market mechanism, an appropriate yield curve cannot be formed unless the policy is highly transparent. In order for policy rates to work, uncertain factors such as the substantial impact of government intervention need to be eliminated. In other words, the promotion of “independent monetary policy” becomes essential.

At present, however, there are areas where monetary policy does not appear to be functioning well, with the instability of China’s long-term interest rates being one such example (Nogimori and Wu [2024]). A big reason for this is that the policy of emphasizing the market mechanism has not diffused among market participants. Furthermore, a situation remains where the reserve requirement ratio and other policy tools (window guidance and MPA (Macro Prudential Assess-

Fig. 8 China’s New Monetary Policy and Channels for Policy Ripple Effects
<Explanatory diagram from PBOC, July 2024 onwards>



Source: JRI based on People’s Bank of China, “China Monetary Policy Report Q3 2024”

Table 3 Ripple Effects of Seven-day Reverse Repos, MLF, and LPR

	Seven-day reverse repo rate	Medium-term lending facility (MLF) rate	One-year LPR	Five-year LPR
February 3, 2020	2.40	3.25	4.15	4.80
February 15	2.40	3.15	4.15	4.80
February 20	2.40	3.15	4.05	4.75
March 30	2.20	3.15	4.05	4.75
April 15	2.20	2.95	4.05	4.75
April 20	2.20	2.95	3.85	4.65
December 20	2.20	2.95	3.80	4.65
January 17, 2022	2.10	2.85	3.80	4.65
January 20	2.10	2.85	3.70	4.60
May 20	2.00	2.85	3.70	4.45
August 15	2.00	2.75	3.70	4.45
August 22	2.00	2.75	3.65	4.30
June 13, 2023	1.90	2.75	3.65	4.30
June 15	1.90	2.65	3.65	4.30
June 20	1.90	2.65	3.55	4.20
August 15	1.80	2.50	3.55	4.20
August 21	1.80	2.50	3.45	4.20
February 20, 2024	1.80	2.50	3.45	3.95
June 19 Lujiazui Forum	PBOC Governor Pan states that the “seven-day reverse repo rate serves as the main policy rate.”			
July 22	1.70	2.50	3.35	3.85
July 25	1.70	2.30	3.35	3.85
September 25	1.70	2.00	3.35	3.85
September 27	1.50	2.00	3.35	3.85
October 20	1.50	2.00	3.10	3.60

Source: JRI based on various media reports

ment)) continue to influence interest rates. As a result, it is possible that policy operations employing the policy interest rate may not function effectively for some time.

Like capital mobility liberalization, a “strategic” nuance remains regarding monetary policy, as it preserves elements that are not fully market-driven. However, the ultimate objective of the Chinese government and central bank is to strengthen “independent monetary policy,” so for the time being, it is unlikely that monetary policy will be used as a tool to stabilize exchange rates at the expense of prioritizing economic and price stability.

3. Second Trump Administration and the U.S. Dollar’s Shaky Position as the World’s Reserve Currency

At present, the Chinese government’s objectives in international finance are to increase “capital mobility liberalization” and “monetary policy independence.” The pursuit of these goals can be seen as advancing renminbi internationalization through the acceptance of “currency instability.” However, it is purely “strategic,” and cannot be said to constitute a complete opening, nor will it directly lead to the renminbi challenging the U.S. dollar’s hegemony. However, amid the ongoing major shifts in U.S. politics, countries around the world are gradually beginning to explore the use

of currencies other than the dollar. China may view this as an opportunity and seek to accelerate renminbi internationalization.

(1) Trump Administration’s “America First” Policy Breeding Distrust in the U.S. Dollar

Even in 2025, the dollar still accounts for almost half of global foreign exchange transactions (Table 4). Eichengreen et al. [2022] state that even with insufficient capital market opening, a country’s currency could become a major currency in global economic transactions, but it would not usurp the dollar’s dominant position. Von Beschwitz [2024] examined the progress and outlook for renminbi internationalization and concluded that “absent any large-scale political or economic changes which damage the trust in the dollar, the Chinese renminbi will likely not rival the dollar for the role of the dominant global currency in the foreseeable future.” As these studies indicate, while the renminbi has achieved a certain level of recognition, it does not yet command a presence comparable with the dollar.

Recently, however, the possibility has emerged that the dollar will lose significant value and that its status will decline irrespective of developments with other currencies. This reflects the fact that the second Trump administration has adopted a very different stance from that of previous administrations, championing “America First” and rapidly

Table 4 Currencies’ Shares of Foreign Exchange Transactions

Year	2001	2004	2007	2010	2013	2016	2019	2022	2025
U.S. dollar	45.2	44.0	42.8	42.4	43.5	43.8	44.2	44.2	44.6
Euro	18.8	18.7	18.5	19.5	16.7	15.7	16.1	15.3	14.5
Japanese yen	11.4	10.4	8.6	9.5	11.5	10.8	8.4	8.3	8.4
British pound	6.6	8.2	7.4	6.4	5.9	6.4	6.4	6.4	5.1
Renminbi	0.0	0.0	0.2	0.4	1.1	2.0	2.2	3.5	4.3
Other	18.1	18.6	22.4	21.7	21.2	21.3	22.7	22.2	23.2

Notes: The data is based on the “Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Markets” conducted by the BIS (Bank for International Settlements). Conducted every three years, it is a comprehensive survey of the world’s foreign exchange markets, and gathers data from more than 1,100 banks and dealers in 52 countries. The data in the figure is as of April. Source: JRI based on BIS

embracing protectionism, for example. Specific factors affecting the U.S. dollar include 1) actions that undermine confidence in the currency, such as aggressive devaluation policies, and 2) uncooperative behavior towards other countries driven by protectionism.

First, regarding 1), the decline in confidence in the dollar, impacts can be observed through several channels. Of greatest concern is aggressive policies to devalue the dollar to support exports. Since the start of the second Trump administration, the vision presented by Federal Reserve Board member Stephen Miran (who also served as chair of the Council of Economic Advisers (CEA)) has drawn attention. He has expressed a critical view of conventional trade theory, on the grounds that it downplays national security concerns, and advocates for reducing the trade deficit through high tariffs and for strengthening the defense industry. He also points to deep demand for the dollar as a foreign reserve asset as a cause of its overvaluation and mentions the need to reconsider burden-sharing with other countries.

Furthermore, to rein in the strong dollar, he believes that offers to withdraw high tariffs and provide continued security support could be used as leverage for exchange rate coordination with other countries. He has also proposed a dollar-weakening plan reminiscent of the Plaza Accord, dubbed the “Mar-a-Lago Accord”. Although termed an “accord,” it would involve adjustments that forcibly lower the value of the dollar to benefit the U.S., with a disregard for economic rationality. If implemented, the shift away from the dollar is likely to accelerate. As this shift progresses, a multipolar currency system could emerge as capital seeks refuge in currencies such as the euro, yen, and even the renminbi (Fukuda [2025a]).

In addition, declining confidence in the dollar is being fueled by monetary policy concerns and fiscal uncertainty. President Trump has repeatedly hinted at dismissing Fed Chairman Jerome Powell as a means of pressuring him into cutting interest rates, showing a disregard for central bank independence in monetary policy. Further deterioration could lead to significant currency depreciation. Furthermore, while President Trump has

argued that tariffs will increase tax revenues, his prioritizing of tax cut extensions and other measures has stymied progress in reducing the fiscal deficit, and a rapid rise in fiscal uncertainty is also contributing to USD depreciation.

2), uncooperative behavior towards other countries driven by protectionism, is another factor reducing the appeal of holding dollars in countries outside the U.S. President Trump, who describes tariffs as “great,” has raised tariffs for various trading partners, including allies and friendly nations. Originally, it was said that the Trump administration was focused on cracking down on China, a growing political and economic threat, but in the realm of trade, countries other than China have also been hit hard by the imposition of high tariffs. Countries/territories reeling from these tariffs may begin working with non-U.S. partners to revitalize each other’s economies. If such moves intensify, trade transactions in currencies other than the dollar are bound to expand.

In June 2025, the Trump administration proposed adding a new section, Section 899, to the Internal Revenue Code⁽¹⁸⁾, which would introduce a so-called “revenge tax” (Ishikawa [2025b]). It would target countries that impose a “digital services tax,” such as Canada and the U.K., by applying high tax rates on income earned in the U.S. by investors from those nations. Although the measure was ultimately shelved, had it been implemented and taxes had been imposed on investments in U.S. assets, investors in the affected countries would likely have opted to withdraw their funds. Furthermore, investors from other countries, fearing similar taxation, would have begun to consider withdrawing from the U.S. market, potentially leading to significant capital outflows and a global shift away from the dollar. In this way, under the second Trump administration, there have been numerous moves that reinforce distrust of the dollar.

(2) Moves to Expand Renminbi-denominated Transactions 1): Expansion of the Renminbi Economic Zone

As we have seen, the dollar may be rapidly losing its appeal, while the renminbi could be increasing its presence as a vehicle for the shift away from the dollar. As we will see next, the Chinese government has already expanded use of the renminbi within its trading zone through efforts such as the Belt and Road Initiative, and such moves are expected to further accelerate in the future. In March 2023, Brazil and China agreed to establish a mechanism allowing the direct use of each country's currency in trade and financial transactions between the two nations. In April, Argentina announced that it would switch the currency it uses to pay for imports from China from the dollar to the renminbi. And in February, Iraq began allowing payments for imports to be made in renminbi, while Thailand has announced plans to relax regulations on renminbi-denominated trade settlement within the year.

In the energy sector, China, now the world's largest crude oil importer, signaled its intent to challenge the dollar's monopoly in oil trading, i.e., the "petrodollar" system, by promoting the use of the renminbi through the launch of yuan-denominated crude oil futures in 2018. In March 2022, it was reported that Saudi Arabia was considering denominating some of its crude oil sales to China in renminbi⁽¹⁹⁾. In December 2022, President Xi Jinping called for the promotion of renminbi-denominated settlement in the oil and gas trade during his speech at the China-Gulf Cooperation Council (GCC) Summit. Furthermore, in March 2023, France conducted its first LNG transaction with China denominated in renminbi.

In addition, the Chinese government will likely step up efforts to raise the profile of the Cross-Border Interbank Payment System (CIPS), its platform for renminbi-denominated settlement, as an alternative to SWIFT (Society for Worldwide Interbank Financial Telecommunication, an organization that provides information and com-

munications services to connect financial institutions such as banks), which is currently used by over 10,000 financial institutions in more than 200 countries/territories. Western nations expelled Russian banks from SWIFT in March 2022 as part of their sanctions on Russia for its invasion of Ukraine. As a result, Russian companies have found it difficult to make trade payments in U.S. dollars. Since September 2022, Russian state-owned firm Gazprom has switched the currency for payments for gas supplies from the dollar to either the renminbi or the ruble. Furthermore, in April 2023, Bangladesh, which could no longer pay Russia in dollars for the cost of construction of a nuclear power plant, switched to paying in renminbi.

In September 2025, Chinese President Xi Jinping pledged to "establish a Shanghai Cooperation Organization (SCO) Development Bank at an early date." The SCO comprises 26 emerging countries, including 10 member states as well as observers (as of September 2025). The Chinese government is believed to be aiming to expand renminbi transactions by meeting the foreign capital needs of member states that are seeking more stable funding for infrastructure and other projects. In January 2025, President Trump, in a move designed to deter the "BRICS" group of emerging countries, which includes China and Russia, from moving forward with their shift away from the dollar, warned that he would impose "100% tariffs" on them if they tried to replace the dollar with an alternative currency. However, despite such warnings, emerging countries are increasingly seeking to reduce their dependence on the dollar, and could become more active in promoting the use of their own currencies and the renminbi.

(3) Moves to Expand Renminbi-denominated Transactions 2): Strengthening of the Use of Digital Currency

It needs to be noted that even with the opportunities to expand the influence of the renminbi, the

Chinese government is simultaneously stepping up moves to popularize digital currency. Notably, China has stolen a march on other countries in the area of Central Bank Digital Currency (CBDC). It began issuing a digital renminbi in 2020, and the amount in circulation had reached approximately 16.5 billion yuan as of June 2023 (Bai et al. [2025]).

Efforts to promote use of the digital renminbi in cross-border transactions are also progressing, with pilot testing being conducted. By June 2024, the central banks of Hong Kong, Thailand, the UAE, and Saudi Arabia were participating in the trial, with another 31 countries involved as observers. On May 17, 2024, the Hong Kong Monetary Authority (HKMA) announced that the digital renminbi would become usable in Hong Kong stores, and in August, a major Hong Kong drug-store chain began accepting digital renminbi payments. Later, in October 2025, some convenience stores and vending machines also started accepting it.

However, it is also essential to note that China is facing a difficult situation regarding the adoption of this digital currency. The “mBridge” project, a settlement infrastructure initiative to interconnect the CBDC systems of different countries, was launched in 2021. It is operated by the central banks of China, Thailand, the UAE, and Hong Kong, and also had support from the BIS Innovation Hub. China played a significant role in the technical aspects, handling the aforementioned pilot testing of the platform. However, in November 2024, BIS announced its withdrawal. The official reason given was that it has become possible to entrust operation to the participating central banks, but it is likely that growing criticism of China’s leadership in its development was also a factor behind the decision.

Furthermore, the U.S. is pushing ahead with moves to support stablecoins, while rejecting CBDCs (Appendix 3). Stablecoins are already a large market, with issuance exceeding \$200 billion, of which over 99% is denominated in U.S. dollars (BIS [2025]). Going forward, issuance in other currencies is also expected to increase. However, if stablecoin adoption accelerates in the U.S., the

influence of the dollar will be huge across the entire digital currency market. The Chinese government has therefore also begun taking action. While stablecoins remain prohibited within mainland China, Hong Kong enacted its Stablecoins Ordinance in May 2025, and it came into effect on August 1. It requires operators issuing stablecoins in Hong Kong to obtain a license from the HKMA. This reflects a stance of establishing a system and competing with the U.S. for digital currency supremacy, rather than focusing solely on CBDCs.

Conclusion

“Strategic” capital mobility liberalization has progressed in China, the internationalization of the country’s financial markets is advancing, and the country has succeeded in attracting foreign investment. Furthermore, these developments also raise questions about foreign exchange market impacts and the nature of monetary policy, but the Chinese government has signaled that it will act to increase “capital mobility liberalization” and “monetary policy independence.” It can be concluded that its acceptance of currency instability in this context is facilitating renminbi internationalization.

The moves are purely “strategic,” and will probably not develop into full-fledged liberalization/openness for the time being. That said, while there was no room for debate in the past as to whether the renminbi would challenge U.S. dollar hegemony, that is no longer the case today. Because countries around the world are gradually beginning to explore the use of currencies other than the U.S. dollar amid major shifts in U.S. politics, China may view this as an opportunity and seek to accelerate renminbi internationalization.

In the past, the U.S. served as the leader of free financial markets, advancing high-level liberalization/openness in currency internationalization, and solidifying its position as the currency hegemon. The requirements for a reserve currency include a large economy, settlement infrastructure, and above all, confidence in the currency itself (Ishikawa [2025a], Yamamoto [2005], etc.). It can

be said that in this regard, the dollar was overwhelmingly dominant.

Ironically, protectionism is now on the rise in the U.S., introducing the possibility that currency internationalization will be scaled back to a limited level in terms of liberalization/openness. This has also further undermined confidence in the dollar. Should the U.S. dollar's status come under threat, other currencies can be expected to step up to fill the role. Naturally, alongside the euro and Japanese yen, the renminbi will also be seen as a potential alternative.

It should also be noted that the turbulence in U.S. politics is partly attributable to the burdens associated with the dollar's role as the world's reserve currency. This suggests that even if the renminbi were to gain influence as an international currency in the future, it is not the case that China would only reap benefits. Given the world's acceptance of the dollar as its key currency, the U.S. was able to conduct trade with other countries and borrow money internationally in its own currency. This allowed it to raise funds at low cost despite running massive fiscal and current account deficits.

It has also been pointed out that the U.S. possesses "exorbitant privilege"⁽²⁰⁾ in its ability to sustain a long-term surplus in its income balance. This stems from the persistence of a structure where, in overseas investments, the U.S. holds a large amount of high-yield assets, which serve its own interests, while foreign countries hold low-yield assets denominated in U.S. dollars, such as U.S. Treasuries (Eichengreen [2011]). However, it has also been argued that the issuers of reserve currencies not only enjoy "privilege," but also incur the "duty" to sustain it (Gourinchas, Rey, and Govillot [2010]). In short, the country that issues the reserve currency must assume the risk of providing insurance to the world during global financial crises, for example, through valuation losses on foreign assets.

Moreover, the situation whereby the U.S. must continue supplying safe assets to the world due to its privileged position can be said to recreate, in a different form, the "Triffin dilemma," a phenomenon identified in the 1960s. In other words,

the more the world demands a reserve currency, the more the country that issues it must expand its deficit to supply international liquidity. But as the deficit swells, confidence in the currency is shaken. During the gold standard era, the convertibility of the dollar was called into question when the supply of dollars exceeded gold reserves. Today, however, such instability is thought to manifest as capital flight from dollar assets or a sharp depreciation of the dollar, meaning that structural instability remains (Gourinchas and Rey [2007]).

In recent years, based on discussion of the Triffin dilemma, it has been argued that reserve currency countries are constantly subject to capital inflows and currency appreciation pressures, resulting in the weakening of their domestic manufacturing sectors (Miran [2024]). If China were to be subject to constant upward pressure on its currency, as this theory suggests, could its economy, which is currently undergoing structural adjustments, withstand it? Should China face a weakening of its manufacturing sector similar to that experienced by the U.S., the Chinese economy could be dealt a heavy blow.

Even if the status of the renminbi as an international currency is elevated to put it on par with the dollar, China will be unable to escape the heavy responsibilities and disadvantages that come with that. And even if China seizes the opportunity and the renminbi gains that position, it will not only enjoy "privilege," but also have assumed a "duty". The path that this will entail following is unlikely to be an easy one.

[Appendix 1] Sluggish Inward Direct Investment Spurring Investment Deregulation

Breaking direct investment down, construction of production facilities accounts for the bulk of it. This has been the driving force in elevating China to the status of the "world's factory," but has been slowing, with this downward trend becoming more pronounced from the second half of 2022. Inward direct investment (flow) stayed positive, at \$8.7 billion, in Q2 2025, but remains at a low

level (Fig. 9).

Companies in many countries/territories, particularly the U.S., have become cautious about investing in China. The U.S. had initially hoped that bringing China into the international community would lead to more democracy there, but it now views that “policy of engagement” as a failure. At present, there is no sign of it softening its confrontational stance toward China. Other Western countries, led by the U.S., are acting similarly, though to varying degrees, and companies from such nations remain wary about investing in China.

However, since 2023, the Chinese government has shifted its focus toward promoting foreign investment, in order to address this situation. For example, it has removed all restrictions on foreign investment access in the manufacturing sector, further liberalized the service sector, and established a fairer competitive environment (Sano and Matsumura [2024]). Emerging countries, like those of the Global South, prioritize the economic benefits from dealing with China over those from dealing with Western nations, and this could provide an impetus for them to step up investment in China. The current decline in inward FDI may spur deregulation, which, alongside capital market opening through securities, could help promote

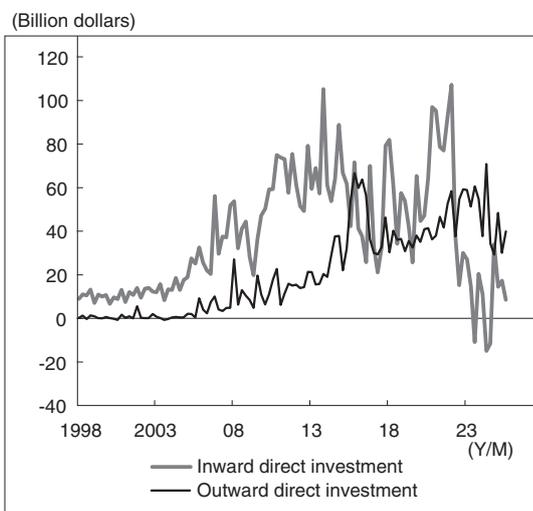
“free capital mobility.”

[Appendix 2] The “Trilemma” and Changes in China’s Financial System

The “trilemma” states that the three objectives of “capital mobility liberalization,” “exchange rate stability,” and “independent monetary policy” cannot be achieved simultaneously (Schmitt-Grohe et al. [2022], Fig. 10). China had long sought to maintain an independent monetary policy while restricting capital mobility and maintaining a fixed exchange rate system, whereby its currency was effectively pegged to the dollar.

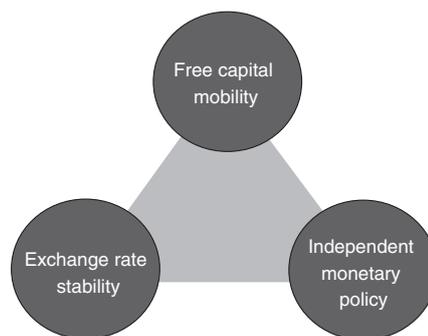
However, China’s international trade increased following its admission to the WTO, and the fixed exchange rate system became difficult to sustain. In July 2005, China adopted a managed floating exchange rate system under the banner of “renminbi reform.” It should be noted that even when faced with the trilemma, it is not necessary to choose only two of “capital mobility liberalization,” “independent monetary policy,” and “exchange rate stability.” An intermediate approach to all three is also possible (Table 5, Kwan [2012]). Therefore, under the “intermediate system,” which China has maintained, where capital mobility is not fully free but is somewhat liberalized, and exchange rates are not fully floating but some fluctuation is allowed, the independence and effectiveness of Chinese monetary policy have been maintained to some degree, albeit not fully so.

Fig. 9 Direct Investment in China (Flow)



Source: JRI based on CEIC

Fig. 10 The Trilemma



Source: JRI

Table 5 Relationship Between Currency Systems and the Trilemma

	Free capital mobility	Independent monetary policy	Exchange rate stability	Examples
Capital controls	×	○	○	China with U.S.-dollar peg
Monetary unions, etc.	○	×	○	Hong Kong, EU
Floating exchange rate	○	○	×	Japan, U.S., Australia
Managed floating exchange rate	△	△	△	China since July 2005

Source: JRI based on Kwan [2012]

Regarding the immediate future, while such intermediate options will remain, as the main text of this paper showed, it appears that the direction being pursued is one of selecting “capital mobility liberalization” and “independent monetary policy” while accepting “exchange rate instability.” In other words, China is moving toward choosing the same system as Japan and the U.S.

[Appendix 3] The Overheating Digital Currency Race: Standoff Over Stablecoins and CBDCs

President Trump, shortly after taking office in January 2025, announced a ban on the issuance of a dollar-denominated CBDC, and in June he signed the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act), a new law on the establishment of a framework for stablecoin regulation. In the U.S., a “CLARITY Bill” on cryptoasset regulation and an “Anti-CBDC Bill” prohibiting the Federal Reserve from issuing a CBDC are currently being debated. Such legislative moves reflect a growing emphasis on promoting the adoption of stablecoins issued by private entities, rather than a CBDC managed by the central bank (Taniguchi [2025]). Unlike cryptoassets (virtual currencies) such as Bitcoin and Ethereum, which are not backed by other assets, stablecoins are issued with asset collateral such as fiat currencies or internationally traded commodities. They are a means of making electronic payments and designed to prevent sharp fluctuations in their value due to speculation. Use of the coins is expected to strengthen cross-border payments

by reducing remittance times and costs.

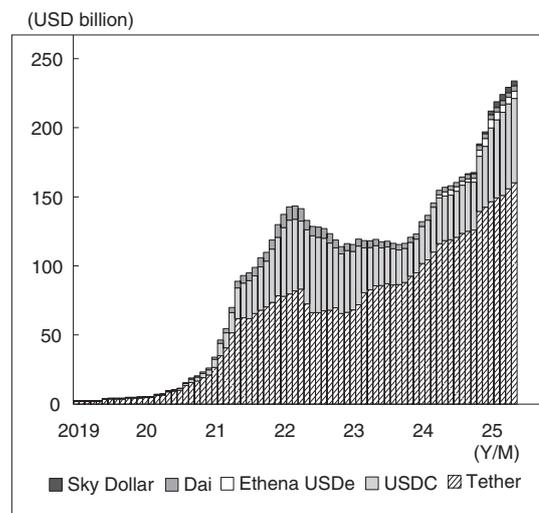
There had long been concerns that a CBDC could become a tool for the government to monitor Americans’ transactions and regulate their activities, and these worries were also a factor in shaping the U.S. policy direction. For instance, in January 2022, some lawmakers expressed misgivings about CBDCs, including Republican Congressman Tom Emmer, who introduced a bill to ban them, citing the potential for abuse in financial oversight. Amid these developments, a White House press release issued in July 2025 stated that the GENIUS Act “strengthens the U.S. dollar’s reserve currency status, and bolsters our national security.” Stablecoins are already a large market, with issuance exceeding \$200 billion, of which over 99% is denominated in dollars (Fig. 11). Going forward, issuance in other currencies is also expected to increase, but CBDCs continue to be emphasized outside the U.S., such as in China and Europe. However, if stablecoin adoption accelerates in the U.S., which has decided to support stablecoins at an early stage, the influence of the dollar will keep growing across the entire digital currency market.

The push to support stablecoins in the U.S. has not gone unnoticed by the Chinese government, which is mindful of the global battle for currency hegemony. In June 2025, at the Lujiazui Forum in Shanghai, former PBOC Governor Zhou Xiaochuan mentioned that stablecoins pegged to the dollar could accelerate the dollarization of international finance. In July, it was reported that a major Chinese tech company had argued in discussions with the PBOC that stablecoins are essential

for promoting renminbi internationalization and proposed the issuance of an offshore renminbi-denominated stablecoin in Hong Kong⁽²¹⁾. The Chinese government is likely seeking to open a stablecoin market in Hong Kong to verify transactions and secure an environment in which it can counter and compete with the U.S. not only in CBDCs but also in stablecoins.

It should be noted that critical views regarding stablecoins also crop up frequently in international discussions. BIS [2025] has argued that stablecoins fall short of functioning as currency on the grounds that they fail to meet three criteria: 1) “singleness,” such as being traded at a 1:1 ratio with the U.S. dollar, 2) “elasticity,” such as providing appropriate money supply and adjustability for economic activity through flexible credit provision and repayment, and 3) “integrity,” such as measures against fraudulent use (Table 6). The IMF [2025] has also expressed similar concerns. Many central banks around the world also support the introduction of CBDCs and appear to have concerns about stablecoin proliferation.

Fig. 11 Outstanding Issuance of Stablecoins



Source: JRI based on BIS [2025]

Table 6 Stablecoin Concerns Raised by BIS

Three criteria for money	
Singleness	→Stablecoins do not meet the criteria
Elasticity	
Integrity	
Other concerns	
Risk that issuers may be unable to balance stability and profitability	
Possibility of losing monetary sovereignty, such as if stablecoins are heavily concentrated in U.S. dollars	
Potential for increased risk to safe assets as the market expands	
Risk of ripple effects on the existing financial system if markets become unstable	

Source: JRI based on BIS [2025]

End Notes

1. The Wall Street Journal, 11 July 2022 “Global Investors Dump Bonds of Chinese Banks That Lent Heavily to Russia.” <https://www.wsj.com/finance/investing/global-investors-dump-bonds-of-chinese-banks-that-lent-heavily-to-russia-11657531800>
2. Reuters, 17 September 2025 “China’s \$19 trillion stock market, once called uninvestable, lures foreigners again.” <https://www.reuters.com/world/china/chinas-19-trillion-stock-market-once-called-uninvestable-lures-foreigners-again-2025-09-16/>
3. Reuters, 1 February 2024 “Global passive equity funds’ assets eclipsed active in 2023 for first time.” <https://www.reuters.com/markets/us/global-markets-funds-passive-2024-02-01/>
4. Financial institutions that manage assets using an index as a benchmark will invest in the assets included in that index. However, in rare cases, they may take measures such as excluding assets they deem unsuitable as investments. In fact, Japan’s Government Pension Investment Fund (GPIF) decided in 2021 not to invest in Chinese government bonds and to exclude them from its passive investment manager benchmarks (*Bloomberg*, September 29, 2021: “GPIF to exclude Chinese government bonds from investment for now, after considering risk,” <https://www.bloomberg.co.jp/news/articles/2021-09-29/R068LEDWX2PT01>).
5. For details on past market opening, see Toritani [2020], Nogimori [2022], and others.
6. The Cross-boundary Wealth Management Connect Scheme is a system that allows individual investors in Guangdong Province and Hong Kong/Macao to invest in products issued in any of the jurisdictions. Note that the term “Wealth Management” here simply refers to “investment in assets,” with investment not limited to what are typically called “wealth management products” in mainland China. The scheme enables investment in various products incorporating stocks and bonds via the Northbound channel (Hong Kong/Macao → mainland China) and Southbound channel (mainland China → Hong Kong/Macao).
7. Reuters, 15 May 2023 “China-Hong Kong Swap Connect kicks off to help offshore bond investors hedge” <https://www.reuters.com/article/markets/china-hong-kong-swap-connect-kicks-off-to-help-offshore-bond-investors-hedge-idUSL1N37C05M/>
8. *Nihon Keizai Shimbun*, May 22, 2025: “Why mainland China outperforms Hong Kong in dual-listed stocks: CATL becomes third firm to achieve a higher valuation in Hong Kong,” <https://www.nikkei.com/article/DGXZQOFL21CVSTR20C25A500000/>

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9. This index covers Chinese companies with dual listings and is calculated by dividing the market capitalization of A-shares by that of H-shares. A figure above 100 indicates that A-shares are more expensive, while a figure below 100 indicates that H-shares are more expensive.
 10. In March 2009, Zhou Xiaochuan, then Governor of the PBOC, declared that the world needs a super-sovereign reserve currency that is not swayed by the economic conditions or national interests of any single country. With an eye to curbing excessive dependence on the dollar, he argued that all major currencies should be included in the SDR basket to enhance its role. Alongside this remark, he asked the IMF to reflect China's growing presence in the global economy by including the renminbi in the SDR basket, and this was realized in October 2016. This decision would not directly affect the composition of foreign exchange reserves of individual countries. However, aided by an aggressive IMF publicity campaign (IMF [2016]), it triggered worldwide moves, particularly among emerging countries, to include the renminbi in their foreign exchange reserves.
 11. In August 2015, the PBOC devalued the renminbi, causing significant turmoil in the global economy. China had been experiencing a protracted economic slowdown, and concerns grew that further currency depreciation would be needed to support its economy, leading to a rapid increase in anxiety about the outlook for the Chinese economy. China's economy deteriorated significantly, partly due to a steep decline in stock prices.
 12. South China Morning Post, 29 Sep 2021 "China currency market crackdown sees regulators restrict trading in US\$30 trillion market, sources say" <https://www.scmp.com/economy/china-economy/article/3150571/china-currency-market-crackdown-sees-regulators-restrict>
 13. South China Morning Post, 26 Sep 2022, "China 'hits back at the yuan bears', but forex market intervention signals disquiet" <https://www.scmp.com/economy/china-economy/article/3193836/china-hits-back-yuan-bears-forex-market-intervention-signals>
 14. The exchange rate stability index is measured on a scale of 0 to 1 (higher values indicate greater stability). It remained at 1 until 2015 but declined thereafter, falling below 0.5 in 2015. Although it exceeded 0.5 in 2016–17, it subsequently fell below 0.5 again, registering 0.47 in 2020. For details, see the following website: Aizenman, Joshua, Menzie Chinn, Hiro Ito "The Trilemma Indexes," Updated on August 31, 2021, https://web.pdx.edu/~ito/trilemma_indexes.htm
 15. See the PBOC website (September 28, 2021, "China's Interest Rate System and Market-based Interest Rate Reform"): <https://www.pbc.gov.cn/goutongjiaoliu/113456/113469/2025092212551825869/index.html>

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16. See the PBOC website (November 8, 2024, “China Monetary Policy Report Q3 2024,” PDF file, p. 21): <https://www.pbc.gov.cn/zhengcehuobisi/125207/125227/125957/5347949/afbfa5df25ee45889d916a2819b60a43/index.html>
 17. This refers to the relationship between the remaining terms of bonds and interest rates. Plotting the former on the horizontal axis and the latter on the vertical axis produces a yield curve.
 18. This section would have permitted the government to tax holders of U.S. assets under specific circumstances.
 19. The Wall Street Journal, 15 March 2022 “Saudi Arabia Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales” <https://www.wsj.com/world/middle-east/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541>
 20. This privilege does not necessarily last indefinitely. Amid a sharp increase in the value of U.S. assets, such as stocks, that are already held by foreigners, some argue that the era of privilege is coming to an end (Atkeson, Heathcote, and Perri [2025]).
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