The Regionalization of the RMB in Southeast Asia:
Coupling or Decoupling of Local Currency/Dollar Exchange Rates with the RMB/Dollar Exchange Rate*

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I. Introduction

Since the early 2000s and especially after the global economic crisis of 2008, China’s neighboring economies have gradually endorsed the Renminbi (RMB) as a medium of exchange for international payments (Cheng & Zhang 2011; Wang & Li 2006). Thus, a sizeable amount of RMB is believed to be circulating in Southeast Asia, especially in the region bordering the Chinese mainland—the so-called Greater Mekong Sub-region (GMS). China’s growing geopolitical strategic interests in ASEAN and accelerating economic integration between the two has paved the way for the RMB’s circulation throughout Southeast Asia.

As a result, residents in these countries would usually have increased

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their holdings of the RMB to shield the real values of their wealth. The RMB is used along with domestic currencies in these countries as a means of payment, a unit of account, and a store of value. Thus, mainly in the context of ASEAN economies, RMB internationalization\(^1\), perhaps better described as \textit{RMB regionalization}, has been prominent and has drawn the attention of many studies in recent years both at home and abroad (Cohen 2012; Cheng & Zhang 2011; He 2007; Gao & Yu 2009; Li 2010; Liu 2011; Liu & Xu 2003; Park & Song 2012; Peng & Shu 2010; Song & Song 2012; Wang & Li 2006; Wu 2009).

Trade between China and ASEAN, the primary driving force of RMB regionalization, has continued to boom. During 2011, ASEAN’s total exports to China grew by 86 percent (US$141.8 billion in total), and ASEAN’s total imports from China grew by 63 percent (US$166.8 billion in total) compared to 2010. If we acknowledge a large increase in the border trade between China and GMS countries like Laos, Myanmar, and Vietnam, then China’s trade with ASEAN has been much larger than the official statistics show. If we assume that regionalization of the RMB in ASEAN and economic integration between China and ASEAN

\(^1\) An international currency is one that is used outside its home country. The classical three functions of money domestically—a medium of exchange, a store of value, and a unit of account—can be transferred to the level of international money. For example, over the last few decades, developing and transitional economies have usually increased their holdings of foreign currencies, i.e., the U.S. dollar, to shield the real values of their wealth. U.S. dollars are used along with domestic currencies in these countries as a means of payment, a unit of account, and a store of value. Thus, mainly in the context of developing and transitional economies, the dollarization phenomenon has been prominent and has drawn the attention of many studies over the last two decades (Ra 2007; Kompas & Suwah 1999; Leung & Ngo 1999; Sahay & Végh 1996; Agénor & Khan 1992; Clements & Gerd 1992; Giovannini & Turtleboon 1992; Guidotti & Rodriguez 1992). Based on the previous research, theoretical and empirical studies on the international use of the RMB can be performed.