

Editorial

# Internationalisation of the yuan complicated further by geopolitics

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**China scored a win with the IMF assigning a higher weight to the yuan in its special drawing rights currency basket. But the currency still has a long way to go before it can challenge the global status of the euro and the US dollar**

China has scored a win as the International Monetary Fund has assigned a higher weight to the yuan in its special drawing rights (SDRs) currency basket. The decision was made after a five-yearly review, which took the currency's share in the basket to 12.28 per cent, an increase of 1.36 percentage points from the last assessment in 2016. That makes it the third largest, after the greenback and the euro, and is an acknowledgement of the currency's rising international use and China's economic status.

Slowly but surely, the yuan is on course to internationalise both as a currency of trade and a reserve currency. While the SDRs are not a currency per se, as synthetic monetary units, they can be exchanged for the currencies in the basket; hence the significance of the higher weight assigned to the yuan, which has already surpassed the Japanese yen, at 7.44 per cent and British pound, 7.59 per cent.

But, before China's monetary nationalists start uncorking champagne, they need to face the reality that the US dollar has increased by 1.65 percentage points, taking its share to 41.73 per cent of the IMF's currency basket.

So while the yuan has made progress at internationalisation, Beijing's multi-year efforts to reduce reliance on the US dollar in trade and exchange, sometimes called de-dollarisation, will face even greater obstacles.

The SDR adjustment owes in no small part to the number of bilateral currency swaps with numerous countries around the world between their currencies and the yuan. At the end of 2020, China's central bank had swaps with 40 global central banks, including 22 economies along the Belt and Road Initiative (BRI).

The signing of these bilateral swaps accelerated after 2013 and reflected the greater push to globalise the use of the yuan, especially along the BRI.

Even so, it must be acknowledged that the yuan still has a long road ahead in challenging the euro and especially the US dollar's global status. It accounted for a mere 2.2 per cent of global payments in March, far lower than the 41.07 per cent for the US dollar and 35.36 per cent for the euro.

In terms of global forex reserves, the yuan ranked fifth with a 2.79 per cent share by the end of last year, a fraction of the 58.5 per cent for the US dollar and 20.6 per cent for the euro.

Unprecedented sanctions imposed by the US and its allies against Russia, including kicking out major Russian banks from the Swift messaging system for international currency settlement and freezing Russian state assets, have alarmed Beijing.

In an increasingly complex and dangerous world, what might have been an economic and monetary issue for the yuan is now further complicated by geopolitics.

## **SCMP Editorial**

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