RENMINBI INTERNATIONALIZATION, AN INTERPRETATION OF REAL CHINA ORIENTATIONS AND POSSIBLE EFFECTS FOR HONG KONG STOCK EXCHANGE MARKET

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Abstract

The article is a research on Chinese Political Economy, dealing about Renminbi Internationalization and its effects on Hong Kong Stock Exchange. In the article I went through the step conducted by Chinese government to internationalize its currency. Then tried to analyze real Chinese intentions and actions, examining indexes of Hong Kong market to understand what are the effects on Hong Kong finance market. Hong Kong is an ideal stage to measure perceptions of benefits underpinned to Renminbi (RMB) internationalization. In fact Hong Kong is part of People's Republic of China as a Special Administrative Region and benefits from this situation, having particular political and economic autonomies. In particular Hong Kong has its own currency and political economy and can deal with Chinese economy from the particular position of an external insider. Hong Kong is also the first market where have been issued bonds in Renminbi and is probably going to become the most affected economy from the internationalization. I conducted an analysis of possible real benefits (or negative effects) that Hong Kong and its population could have from an internationalized RMB taking in account effects of Chinese step toward Internationalization on Hong Kong finance market. In conducting my research I found out four steps particularly representatives of RMB internationalization, for each step I analyzed Hong Kong financial market behavior and I tried to assess the effects of a definitive RMB Internationalization. I finally tried to conclude if process has to be considered and advantage or disadvantage for Hong Kong and what could be better actions for Special Administrative Region to take in order to avoid or diminish possible negative effects of RMB Internationalization process.

Keywords: Renminbi, China, Hong Kong, US Dollar

Introduction

While the world is facing the end of the economic crisis started in 2008, financial crisis is probably not near to a resolution. The European Union is still under a negative finance situation. China is protagonist of a positive recovery from the crisis finance crisis started in 2009 and has consolidated its role of second world economy (even with a revised GDP). The People's Republic of China policy of Renminbi Internationalization has made big progress from 2009 onward, probably also because PRC and People's Bank of China are trying to take advantage from impasse caused on US Dollar and Euro from the crisis. Internationalization of Chinese currency it's having and will have huge effects on Hong Kong HUB (one of the principal Stock Market worldwide).

In the first part of the article I summed up an history of RMB Internationalization policy illustrating it trough principal Chinese actions and strategies. In the second part of the article I listed the effects of Chinese step toward RMB Internationalization on Hong Kong Stock Exchange (either if planned or not from PBoC). Finally in third part I tried to understand the real intentions of PBoC (is China willing to Internationalize RMB in short terms? What are the risks?).

I finally analyzed what Hong Kong should expect in term of effects on its HKSE in the near future, concluding if RMB Internationalization in short term will be positive or negative for that market. I even suggested what should be better steps for Hong Kong Political Economy in order to avoid Internationalization negative effects. For my analysis I used a comparative methodology: I collected official data from Hong Kong Stock Exchange website (Hong Kong Stock Exchange, *Annual Fact Book*, 2000-2014, from https://www.hkex.com.hk/eng/index.htm) and from specialized print editions (newspaper Il sole 24 ore, daily editions 2009-2014). I selected data starting from four principal steps that are considered China main steps in Currency Internationalization road by literature. By this selection data are taken from different periods for each step analyzed: as an example the Internationalization of dim sum bond market started in 2010, so I considered data from 2010 to 2015. I tried to read from data taken the HKSE behavior in term of gain and loss and so to interpret if the road to Internationalization is carrying positive or negative effects on Honk Kong's Political Economy.

Renminbi Internationalization:

First steps. At the end of 2003 Central Bank of China started to work toward RMB internationalization and in 2004 China started to allow border trading of money, especially through Southern and Western border. Since that date Chinese Central Bank started a policy to apt and adapt its money to be exchanged in International markets (Eichengreen & Kawai, 2015). In fact internationalize a money is the process through which a State and its Central Bank get its currency apt to be used (exchanged and available to Foreign Direct Investments) outside its borders.

The first step took place in 2000 with the Chiang Mai Initiative and the signing of the bilateral agreement between the ASEAN countries and the three East Asian Major economies: South Korea, China and Japan. Most of the exchanges planned by the treaties were effected in US dollars, but some of them also in RMB (Otero-Iglesias, 2011). An amount of analysts consider one of the first motivations to start the process a consequence of the great financial Asian crisis of 1997-8. This crisis was caused by the opening of Thailand financial market to foreign investments. These investments were mostly speculative, as they were realized in order to earn a short-term profit on interest rate differences, and lead to market instability through economic bubbles. Thailand Central Bank couldn't manage to control the speculative flow and asset prices joined an unsustainable level. These asset prices finally began to collapse, resulting in panic among lenders and investors. This situation took to a sudden withdraw of liquidity and a credit crunch. The crisis caused GDP growth rates to fall rapidly, bankrupting of companies overexposed to foreign-currency risk, and eventually necessitating costly and politically humiliating IMF-led bailouts. Critical situation spread from Thailand to the other Asian countries, and at the end was solved with the help of Chinese economy that renouncing to its strong exporting country role made most hit economies starting recover.

One of the lessons perceived from the 1997-8 crisis was that Asian countries couldn't rely on the Western financial institutions (IMF and IRBM) and they had to develop their own system and a second lesson was that China acted as a leading economy of these institutions.

So we can affirm that China around 2000 years started to conceive its role of hegemonic regional economy to understand that internationalized money was one of the first step to fulfill this role.

Main benefits that China could obtain from the Renminbi internationalization are 1) To reduce the change risk for Chinese enterprises operating abroad, for example in European market (Fox & Godement, 2009). 2) To incentivize and sustain Chinese FDI outflows (Kang, 2007) 3) To enter its currency in the official basket of currencies used to quote the SDR, actually China would need this capability to play a bigger role in the International Political Economy obtaining a greater autonomy in international monetary affairs.

First and second points have become more and more important starting from 2005 (Zhu, 2008), when China increases its interests in trading with European economies. Particularly China, as a lot of analysis suggest, (Gabusi & Andornino, 2012) established with EU a number of "asymmetric competions" in market. China and Chinese enterprises used basically three tactics to operate in EU markets (Fox & Godement, 2009). First is to take advantage of differences between its own centralized authority and the EU's rules-based system. In fact, China makes full use of the openness of EU markets while using fragmentation of its own administrative channels is able to restrict access (even with non-tariff barriers) to its own market to the European Union firms (Fox & Godement, 2009). The internationalization of RMB would make Chinese firms gain the confidence of European States (for having liquidity in internationalized currencies) but they actually wouldn't maintain the protection of the political Chinese apparatus.

Second Chinese tactic is based in assuring EU on its opening to questions as general human rights and opening to market economies, in effect, as quoted from Fox and Godement "EU hails as a great victory the opening to human rights dialogue with China" (Fox & Godement, 2009). A bigger victory for EU and Western markets in general will be, at the same way, the perception of opening to finance markets realized with RMB internationalization.

Third factor used by China would be to have a strong and international currency and autonomous monetary policy, renouncing fixed rates of exchange.

Third point to examine is the Chinese awareness of importance of Renminbi entrance in the "club" of currencies used by IMF to quote SDR. This basket encompasses Euro, US dollar, Sterling pound and Japanese Yen. The currency value of the SDR is determined by summing the value in US dollars of the currencies of this basket. IMF and generally international finance system recognize the currencies of the basket as the "major currencies" (IMF, 2015). Being part of the basket is fundamental for major economies currencies for having an immediate quotation in SDR. China realized to be one of the leading economy and its need to be part, with RMB as major currency, of IMF system after the 1997-1998 crisis, with its entrance in WTO in 2001 and during Hu Jintao Era (Breslin, 2010). In fact in 2009 China Central Bank Governor, Zhou, started to talk about SDR in a relevant contribution appeared in People's Bank of China website. He, quoting Keynes and Triffin, enounced possibility of transforming SDR in a super national reserve currency, used to give liquidity decided by IMF and administrated with a clear corpus of rules. This particular kind of use of SDR could have taken to overpass US dollar (money used for IMF operations). Zhou's idea naturally, even if evaluated by a UN's commission wasn't approved, but, if read as an expression of Chinese thoughts about the balances of currencies in IMF, it's a signal that China and Chinese officials understood the new role of their economy and their currency. China need an international Renminbi to be in a directive position in the finance world.

Chinese position in financial community has then become much more important after the 2008 International crisis and a partial “erosion” of US dollar role (Eichengreen, 2009). In fact, one of the effect of International finance crisis has been the weakened role of America economy and US Dollar, that left space for a new strong currency, that currency could be, completing its internationalization by 2016, the Chinese Renminbi. On the one hand from 2008 date China started to potentiate their reserve to prepare Renminbi to enter in the International currency market as a strong currency and to accelerate the pace for RMB internationalization, on the other hand, Western countries investors started a series of speculative attack to Chinese markets either just with speculative purposes or more broadly, to defend their market and currencies from imminent internationalization of a strong new currency. In any case, as economic reforms process started with Deng an proceeded steadily and almost monotonically until Hu Era, China is going to join the aim of Renminbi internationalization by next years and, road map to arrive to that date has been really interesting and dense of events until present days.

Actions toward an RMB Internationalization. As we have seen in 2004 Chinese government started to allow cross border money trading (first step toward the currency internationalization). Political opinions on RMB internationalization are generally positive either for neoliberal thought (Eichengreen, 2015) and non-liberal thought (Subacchi,2015) . In effect even recent scholarship suggests that this positive view is right. One of t conventional view is that there can only be one international reserve currency at a point in time. Recent historical scholarship shows, to the contrary, that several international currencies have regularly coexisted. If we analyze the currencies History, The unconventional period from this point of view is the second half of the 20th century, to use different words, the “Washington Consensus Era”: an era when only the US possessed deep and liquid financial markets open to the rest of the world and, consequently, the dollar was the lonely and really International Country.

But there is no reason why, in the circumstances of the 21st century, the dollar and the RMB could not both play major global roles. There is no reason why the US should continue to possess a monopoly in international finance without starting another International financial crisis (Eichengreen & Kawai 2015).

Of course, the same arguments suggesting that two currencies can share the international stage at a point in time also admit the possibility of more than two international currency (another candidate could be Euro). Despite of this theory, as we will see, from 2010 onward there have been two speculative attack to Chinese markets from Western investors probably related to the internationalizing policy of China Central Bank.

A first acceleration in the project was made with the creation of “dim sum bond market”. The definition “dim sum bond” generally is related to RMB-denominated bonds issued in Hong Kong. The majority of dim sum bond are denominated in CNH, but some are linked to RMB and quoted in that currency. In July 2007, dim sum bonds worth a total of US$657 million were issued for the first time by China Development Bank. These bonds were issued to foreign investors in Renminbi, for first time, rather than the local currencies.

In June 2010, China allowed Financial Institutions in Hong Kong to issue dim sum bonds. HSBC was the first foreign credit Institute that issued RMB Bond (dim sum bond). In August 2010, the American McDonald was the first corporate that issued dim sum bonds. In October, the Asian Development Bank (ADB), became the first supranational agency who issued dim sum bond and also the first dim sum bond listed in HKSE. The dim sum bonds market grew 2.3 times from 2010 to 2013, with an amount at the end of 2013 of 310 billion of RMB (Artus & Xu, 2014).

One of the biggest evolution was in August 2012, in that year China and Taiwan signed an memorandum of understanding on new cross-strait currency settlement and in March 2013, China Trust Commercial Bank became the first to issue RMB bonds in Taiwan market (known as Formosa bond). Political issues were overpassed for PRC needing to internationalize RMB.

Another important series of action taken from China was the 2008 Cross-Border Trade RMB Settlement Pilot Project on 24 December 2008. China allowed import and export in RMB between Yunnan province and countries in GMS including ASEAN countries, Guangdong province, Hong Kong and Macau.

Then on 1 July 2009, China officially announced regulation on RMB Settlement Pilot Project and opened up Shanghai and 4 cities in Guangdong (Guangzhou, Shenzhen, Zhuhai and Dongguan) with Hong Kong, Macau and ASEAN countries.

By 2014, RMB cross-border trade settlement reached RMB 5.9 trillion making a 42.6% (YoY) increase, which represent 22% of China's trading volume.

Third Chinese step toward a future currency internationalization started in 2009: since that year China has signed currency swap agreements with numerous countries such as Argentina, Belarus, Brazil, Canada, ECB, Hong Kong, Iceland, Indonesia, Malaysia, Singapore, South Korea, Thailand, the United Kingdom and Uzbekistan. The Renminbi deposits in Hong Kong gradually grow up and become 59 billion in 2009.

In June 2013, first country of G7 to start an official currency swap line with China was United Kingdom, that event was an official acknowledgement of the Chinese third step through currency internationalization.

As of 2014, the RMB is the 7th most traded currency in the world while US Dollar remains the First one (with 41% of transactions in USD). (IMF, 2015).

Finally the fourth macro-step in RMB Internationalization was taken from China in 2013: the opening of Shanghai Free Trade Zone (SFTZ).
The SFTZ was launched on 29 September 2013 with key implementation details announcing in 2014. The SFTZ is being used as a test ground for trade, investment and financial reforms, before the complete extension nationwide. The RMB can flow freely between Free Trade Account (FTA), non-resident onshore account and offshore account. Transactions between resident onshore account outside SFTZ and FTA with the same entity are also allowed provided they do not involve capital account transactions that are not yet approved by People's Bank of China (PBoC) and SAFE (Eichengreen & Kawai, 2015). United Kingdom finance immediately showed its interest in project sending an Expert task force in Shanghai and a large number of British financial services provider started to operate in Shanghai.

Notwithstanding the actions taken from China road to the RMB Internationalization is far from complete. History suggests that economic stability in the form of low inflation, small budget deficits and stable growth is also important. China's record of supportive government policies and macro-economic stability has undoubtedly contributed to the RMB's appeal in recent years but probably Chinese economy is not yet enough stable to risk a RMB Internationalization (Subacchi 2015).

In addiction a deep, open and well-regulated capital markets are necessary so the currency can be used to finance trade as well as provide a large enough market in securities for investors. The opening up of China's onshore capital market will be an important step in the RMB becoming a major investment currency. For the RMB to be a truly global and become a more widely held reserve currency there needs to be greater access for foreign investors to local capital markets, even deeper global RMB liquidity and wider cross-border flow channels. But one time PBoC will have established these conditions, it should have the instruments to defend its markets from external speculation (in order to avoid 1997-1998 Thailand crisis outcomes).

While, on the one hand the scholars see, in general, the RMB Internationalization, positively, on the other hand that step will open Chinese markets to speculation. We already assisted to a double speculative attack in partially opened markets.

A double attack was conducted in 2010 and 2013 and could be read as an attack to China policy for currency Internationalization or a preemptive attack to taste speculative possibilities (Aveline-Dubach, 2013). We assisted to a speculative bubbles on real estate markets in China that took to an unjustified overestimation of properties in some areas controlled by foreign investors.

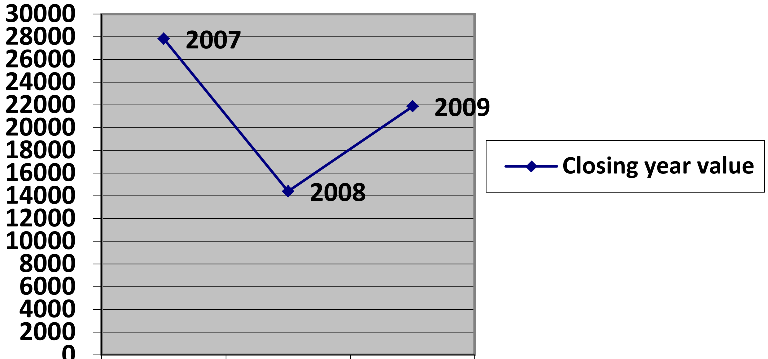
Effects of Internationalization in Hong Kong. Hong Kong is a particular case of a mixed sovereignty state from 30th July 1997: when Great Britain governor abandoned the British colony. The return of Hong Kong under Chinese sovereignty marked the success of Deng’s concept of “one country, two systems” and combined the Chinese Communist Party control on Foreign Affairs Political (International Policy) aspect and Defense with a large autonomy in Internal Politics and Political Economy, maintaining its own currency, financial market and autonomous political choices.

Hong Kong remains one of the biggest finance market and it has been a sort of access for Chinese investors to International finance markets.

I will try to examine effect of the four macro-steps realized by PRC on Hong Kong stock market (with data taken from official sources), then I will try to conclude if those effects could be replicable in case of a definitive Chinese currency internationalization for Hong Kong stock markets or not and what could be the effects of a real, definitive RMB internationalization on Hong Kong finance market.

Chiang Mai initiative started in 2000 with the negotiation for a series of bilateral swap agreements, even if Hong Kong entered in the agreements just in April 2009. Hong Kong contributed to the currency reserve with a monetarization of 19,2 US $ contribution and its liquidity was summed to the one of PRC though Hong Kong remained a sovereign administration in its own. That event represented an advantage either for PRC because China doubled its contribution (precedent was 19,2 US $) and Hong Kong for it joined Chinese economy being part of an far bigger economy even if it partially lost its autonomy. In April 2000, also because the newborn Hong Kong finance market (really autonomous from 1997) wasn’t affected from start of negotiation and it didn’t register any major effect (HKEX, 2000-2014). In fact Hong Kong wasn’t involved in Chiang Mai Initiative (CMI) if not partially until 2009. First agreements between China and Hong Kong were signed in April and on 8 April, HKEx and the Shenzhen Stock Exchange entered into a Closer Cooperation Agreement. In the same month Hong Kong signed a Memorandum Of Understanding with State Securities Commission of Vietnam to strengthen their cooperation in cross border capital movements control. That happened for the new Chinese and Hong Kong orientation toward capital and currency internationalization. In June HSBC Holdings started (as first no-mainland China Bank) to issue Renminbi

(RMB) bonds in Hong Kong, with an issue of RMB1 billion (HK$1.1 billion) bonds by its Mainland branch to institutional investors. For first I examine the principal index of trading: the Hang Seng. The Hang Seng Index (HSI) reached its highest level of the year at 22,943 points on 16 November 2009 and closed the year at 21,872 points, 52% higher than the previous year's closing. At the end of 2009, the Hang Seng China Enterprises Index (H-shares Index) increased year-on-year by 62%, closing at 12,794 points. The Hang Seng China-Affiliated Corporations Index ended the year at 4,059 points, a year-on-year increase of 23%. That happened despite 2009 was immediately successive to the 2008 crisis effect. Considering Graphic 1 we can better assess the immediate recovery of Hong Kong finance market from crisis effects.

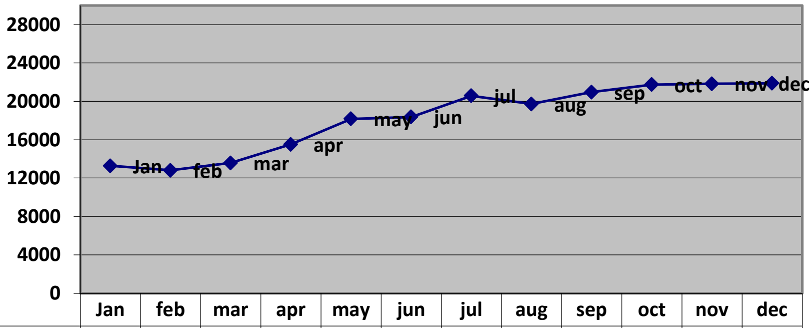


	2007	2008	2009
Closing year value	27812	14387	21872

Graphic 1 Hang Seng Index value last day of the year (2007-2009)

Immediate recovery from crisis, due to new trust given to Hong Kong market, especially if compared with Euro countries was probably effect of RMB area swap agreements. A general progress in crisis response was made thank to Chinese dimension of the Hong Kong market, and was helped by the swap agreements (HKE, 2009).

In Graphic 2 are reported monthly closing indexes, and we can better highlight the changing point of negative HS index was April, when agreements were sign

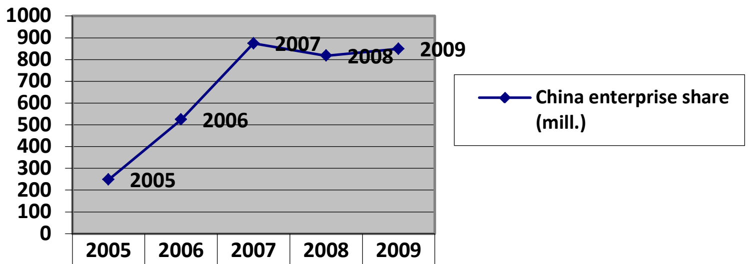


	Jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec
Closing month value	13278	12811	13576	15520	18171	18378	20573	19724	20955	21752	21821	21872

Graphic 2 Hang Seng Index value last day of the month (2009).

From Graphic 2 is clear that growth of the index start after agreements date and keep on until the end of the year (apart from August flexion due to the closing period of some international markets for Summer).

Another really interesting index to consider is the China Enterprises Share reported in Graphic 3.



	2005	2006	2007	2008	2009
China enterprise share (mill.)	247,604	523,738	874,087	817,352	848,968

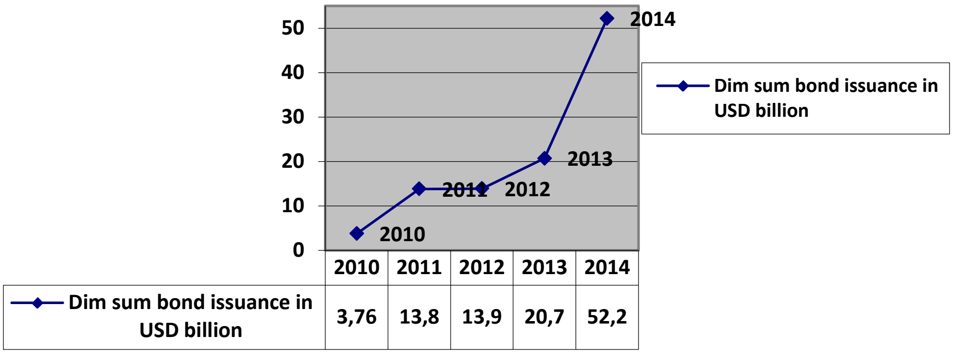
Graphic 3 China Enterprises share in the year (2005-2009).

Chinese Enterprises represent biggest group of enterprises listed in Hong Kong market and are an huge resource of capitalization. RMB swap agreements are a mean to facilitate Chinese Enterprises in Hong Kong and we can assess the importance of the agreements considering the increase in number of Chinese Enterprises operating in Hong Kong. In fact Chinese Enterprise passed from 80 in 2005 to 95 in 2006, going to 104 2007 and to 110 in 2008 to arrive at 116 in 2009, after the agreements. From Graphic 3 we can notice that shared increased starting from 2007. This effect was probably created from Chinese Institutions (PBoC) to prepare the Hong

Kong market for the agreements and to better convince Hong Kong government in signing them. A positive aspect of increased number of Mainland Enterprises in Hong Kong is the liquidity taken from China to the market.

There is evidence that Chinese swap agreements to prepare their currency internationalization resulted in a series of positive immediate effects for Hong Kong. In fact Hong Kong market lost partially its autonomy to gain an huge liquidity and a number of Chinese finance investors.

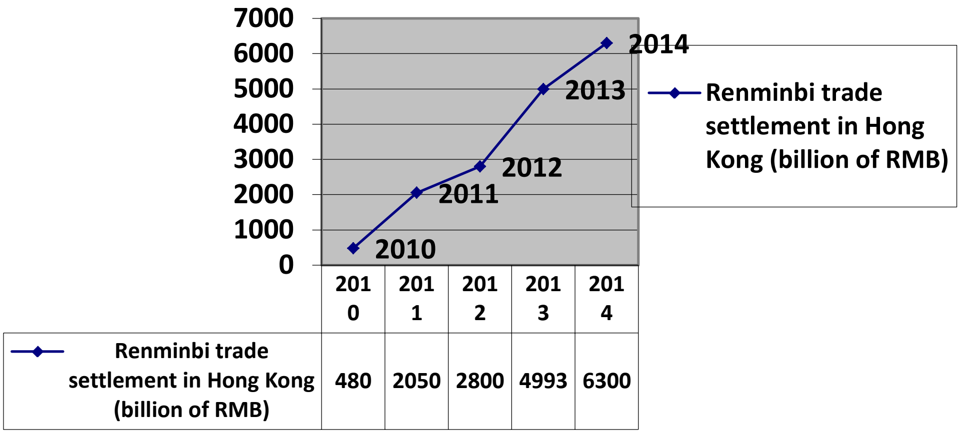
The creation of some international "dim sum bond" markets is another important indicator for RMB internationalization effects on Hong Kong market. China gave permission to Hong Kong financial Institution to issue bonds in RMB in June 2010. Regional actors accepted this possibility and even if offshore RMB issuing is still modest, (just 2% of all global trade settled in Chinese currency and a low 0.3% of all notes and bonds denominated in RMB in 2013) but expansion of its use will almost certainly continue as suggested from analysts: for example from J. Ciorciari in "Asian Survey" (J. Ciorciari, 2014). In Graphic 3 is reported the dim sum bond market growth from 2010 to 2014, considered in term of dim sum bond s issuance (value expressed in US dollars at the issuance day). We can immediately notice the growth year per year from 2010 to 2013 at a pace of some percent points. In 2013 we witnesses an increase of 49,6 % and from 2013 to 2014 to an explosive increase of more than 100%.



Graphic 4 Dim sum bonds issuance (2010-2014).

On the one hand the dramatic increase in dim sum bonds market represent an immediate advantage for Hong Kong Exchange by the fact that more than 50% of that bonds are issued in Hong Kong. On the other hand it exposes Hong Kong Exchange to a number of risks linked to speculative bubbles. Hong Kong market is, in a certain sense, used as an experimental stage from PRC (Frankel, 2012), in realizing and testing economic and finance acts.

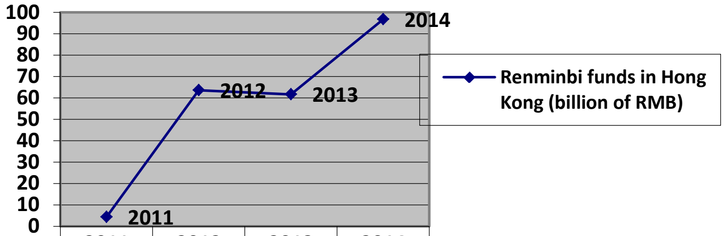
Concerning the Cross-Border Trade, started in December 2008, Hong Kong has been newly one of the first country involved and with an huge amount of finance traffic. By 2014, RMB cross-border trade settlement reached RMB 5.9 trillion making a 42.6% and became 22% of total Chinese trading. Generally speaking, Renminbi deposits in Hong Kong are an enormous amount of liquidity available to Hong Kong banks and Institute and are an important part in making its market the most important Asia market. Cross-border trade of currency followed an incremental trend from 2010 to 2014 in Graphic 5 are shown the trade settlement realized in Hong Kong with Chinese currency.



Graphic 5 Renminbi trade settlement in Hong Kong billion RMB value per year.

Hong Kong is the first market offshore for Renminbi trade and trade settlement in RMB in 2014 have been almost the same in Hong Kong than in Mainland China. Therefore China push to realize much more cross-border traffic in Renminbi has caused an impressive increase of Hong Kong market trade volume.

The forth step of the road to RMB internationalization is the creation of Free Trade Zone (SFTZ). The SFTZ was launched on 29 September 2013 with key implementation details announcing in 2014. The SFTZ is being used as a test ground before the complete extension of economic reform to the whole Mainland China. As an example in SFTZ are not applied tariffs otherwise present in Mainland China. SFTZ has been seen by many analysts as a try of China to build a HUB competing with Hong Kong market (Subacchi, 2015;). Notwithstanding fear of completion between the two zones if we analyze, for example, data regarding Renminbi funds deposited in Hong Kong, shown in Graphic 6.



	2011	2012	2013	2014
Renminbi funds in Hong Kong (billion of RMB)	4,3	63,6	61,7	96,8

Graphic 6 Renminbi funds in Hong Kong billion RMB value per year.

We can immediately notice that even if in 2013 has been started and promoted the new Mainland China HUB (SFTZ), instead than decrease, the number of RMB funds in Hong Kong has grown sensibly. The effect is even a natural consequence of presence of a large number of Chinese Enterprises operating in SFTZ in HKE. SFTZ rather than being a finance market competitor of Hong Kong is a zone of economic reform whose Enterprises operate in Hong Kong Finance Market (Haibin, Z., Grace G., Lu J., 2014). Furthermore, through the Shanghai-Hong Kong Stock Connect (created in 2014 by the Chinese Prime Minister Le Keqiang), Hong Kong and international investors are able to invest in eligible shares listed on the Shanghai Stock Exchange, and Chinese investors can invest in eligible shares listed on the Hong Kong Stock Exchange directly. Thank to this new channel Chinese Enterprises are facilitated in investing in Hong Kong and has been created a link between SFTZ and Hong Kong Stock Exchange

Real Chinese (and PBoC) orientations. If we consider the growth of the two major stock exchanges in China, Shanghai Stock Exchange (SSE) and the less important Shenzhen Stock Exchange (SZSE), the internationalization could be considered as an idea already present in PBoC behavior from 2000.

The SSE was founded on 26 November, 1990 and has become the most preeminent stock market in Mainland China in terms of number of listed companies, number of shares listed, total market value, tradable market value, securities turnover in value, stock turnover in value and the T-bond turnover in value. As at the end of 2013, there were 953 listed companies on SSE, with 1 new listings in 2013. By the end of the year, there were 997 listed stocks on SSE with a total market capitalization of RMB 15,116.53 billion and free-float market capitalization of RMB 13,652.64 billion. The SZE, founded in the same year as the SSE, is also growing fast. Focusing ont the domestic market capitalization in USD millions in January 2014, the

NYSE (17 006 535.4) e la NASDAQ OMX (5 997 512.8), the two most important American stock exchange, are the first and the second position in the international ranking, but the SSE (2 414 391.4) and the SZSE (1 510 124.8) have the sixth and tenth place.

If SEE will reach the same level as the Hong Kong Exchanges, fifth in the international ranking, there will be a significant alteration of balance, as the most important stock exchanges in Asia would be Chinese, incrementing the RMB key role at the international role. Whereas now, Tokyo and Singapore still have a higher domestic market capitalization. So, even if China tried to build strength in its markets, generally, Renminbi needs a more effective capitalization.

The PBoC, in charge of Internationalization process, consists of 18 functional departments (bureaus) and in particular General Administration Department (in charge of political affairs) and Monetary Policy Department (in charge of Monetary Policy). PBoC has never used officially the word "Internationalization", even if it is speaking about a progressive opening of markets from 2004 onward (Eichengreen & Kawai, 2015). On the one hand there are evidence of Chinese reinforcement of their financial markets, on the other hand there are not initiatives involving the whole Chinese territory (in term of cross border exchange) and markets (in terms of global swap agreements). While the political level (General Administration Department) could benefit in term of soft power policy and general opening to liberal system (Cheng, 2013), there are not evidences that Chinese economy could be able to sustain a currency Internationalization as many analyst declare (Fu, 2015). We can say that while Dollar is the first currency for use (41% of transactions), Renminbi, despite the huge Chinese Economy, doesn't actually need an International dimension before increasing its real circulation (still at 1,47%), speaking in term of Political Economy, at the same time, speaking in term of Economic Policy, China would need a more International image, that could pass through an International currency.

Conclusion

There are evidences that for Hong Kong Stock Exchange the Renminbi Internationalization is going to cause an increase in trading, capital flow and capital accumulation. I highlighted how Renminbi swap agreement and Renminbi cross-border traffic increased the volume of trading in Hong Kong and the number of Chinese Enterprises in that Market. Furthermore China created a deposit of RMB to increase liquidity of Hong Kong banks and Hong Kong participation to the swap agreements. Hong Kong's Hang Seng Index has had dramatic increase, as an example on May 2015 after China made it easier for mainland funds to use the cross-border link to buy stocks, energizing newly the Hong Kong Market and linking more to the world's second-largest economy.

Dim Sum Bonds Market has become an important part of Hong Kong Stock Exchange to the extent that Hong Kong has become the principal issuer of the RMB bonds, and is giving to Hong Kong the principal role in a market in rapid expansion.

Even SFTZ, as I stressed in the last part of text is going to be a resource other than a disadvantage for Hong Kong Stock Exchange. To sum up there will be no short term negative effect in a Chinese currency Internationalization.

On the one hand a RMB internationalized would cause a huge increase of capital flow in HKSE, on the other hand is going to expose Hong Kong to an excessive linkage with China (diminishing its autonomy in Political Economy) and to the excessive growth risks (as speculative bubbles).

Especially if China has not yet the real intention of Internationalize its
currency in a relatively short term (as I suggest in the very last part of my text) Hong Kong operators should avoid to concentrate their investment solely in Chinese capitals, bonds and enterprises. In fact basing every investment on Chinese currency will expose too much Hong Kong to an experimental stage (that is, at this moment, the RMB Internationalization) eligible to all the risk of an experiments and not yet solid.

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