

Thoughts on RMB Internationalization under the Belt and Road Initiative

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Abstract: In September 2013, the "Belt and Road" has been included in the country's highest strategy. After joining the SDR in 2015, the internationalization of RMB has entered a new era. The implementation of the "Belt and Road" has created favorable conditions for the RMB internationalization, and the economic and financial cooperation between countries along the "Belt and Road" will also promote the further improvement of the RMB internationalization. This paper first takes Southeast Asia as the case to discuss the actual progress of RMB internationalization after the implementation of the "Belt and Road" Initiative. Secondly, it analyzes the factors and challenges influencing RMB internationalization. Finally, the paper summarizes and puts forward suggestions to enhance the internationalization level of RMB.

Keywords: The Belt and Road Initiative, the RMB internationalization, influence factor

1. Introduction

The concept of the "Belt and Road" cooperation Initiative was first proposed in September 2013, with the purpose of further accelerating China's opening-up and "going global". In terms of policy, monetary cooperation with countries involved in this policy has been strengthened, making it part of their foreign exchange reserves, thus expanding its influence; In terms of trade, maintaining the connected infrastructure opens up new channels for trade and investment, and expands the scope of the use of RMB [1]. Under the complex global and regional background, the study of RMB internationalization is very valuable to the mechanism improvement of China's monetary system and the prosperity and stability of China and the world economic system.

2. Actual Progress of RMB Internationalization (Taking Southeast Asia as an Example)

2.1. Expansion of Bilateral Currency Swap Scale

With the acceleration of economic globalization, many countries are implementing this strategy. A currency swap agreement can effectively reduce foreign exchange risks and play a positive role in bilateral trade and investment. At present, the total amount of swaps between China and nearly 40 countries is extremely high, which has exceeded 3 trillion yuan. Countries around the world are increasingly calling for "de-dollarization". Therefore, the currency swap can not only stabilize the

financial market, but also provide liquidity for bilateral trade, thus promoting the overseas circulation of RMB.

2.2. Development of RMB Offshore Market

The offshore yuan market, which involves renminbi deposits and loans outside China, is designed to provide a market for the currency to circulate and thus secure the settlement of trade in the currency at a time when it is not freely convertible. China showed great power in the global financial crisis and actively participated in various international affairs. Realizing the internationalization of RMB has gradually become a major strategic goal of China's current development. The establishment of the clearing bank will transfer domestic yuan business to local banks, a move that will simplify the yuan settlement process and reduce the risk of yuan payments abroad [2].

3. Factors Influencing RMB Internationalization under the Belt and Road Initiative

3.1. Monetary Inertia

The construction of "One Belt and One Road" has made the application of RMB more and more frequent in the world, gradually forming the currency usage inertia of RMB in related countries. Since 2021, the cross-border payment of RMB has continued to grow on the basis of the high base of the previous year. In 2021, the total cross-border RMB amount received and paid by banks on behalf of customers reached 36.6 trillion yuan, and the amount received and paid reached a record high [3]. The implementation of "One Belt and One Road" has expanded the breadth and depth of the international use of RMB, enhanced its network externality, deepened the currency inertia of RMB in related countries and promoted its internationalization process.

3.2. Foreign Trade

The implementation of the Belt and Road Initiative has smoothed the geographical barrier between China and neighboring countries, optimized the flow of materials, and promoted the vitality of trade. In 2022, China's trade with countries along the Belt and Road continued to grow rapidly, with imports and exports reaching 13.83 trillion yuan, up 19.4% over the previous year, 11.7 percentage points higher than the overall growth rate, accounting for 32.9% of China's total foreign trade value, a record high [4]. This data shows that China has strong competitiveness in the competition with other countries.

4. Challenges in Promoting RMB Internationalization under the Belt and Road Initiative

4.1. Mainstream International Currencies Have Inertia

For a long time, the world's trade and investment are denominated and settled in the currencies of developed countries such as the US dollar [5]. With the development of The Times, this kind of "inertia" has gradually emerged in many countries, so that other countries will pay higher costs if they want to change the existing way of using currency. The dollar has a strong historical inertia [6]. The process of RMB internationalization is bound to be bound by the inertia of the US dollar, and this will be a long and difficult process.

4.2. Unbalanced Development of Countries along the Belt and Road

Most of the developing countries along the Belt and Road have weak infrastructure and lack of voice in the world. In the process of globalization, countries are in a passive position in the global economic

integration, lack of effective capital and technology to allocate productive resources efficiently, and it is difficult to get international credit from the international monetary system dominated by the US dollar [7]. Due to the low level of economic development and social construction of the "Belt and Road" countries, the "Belt and Road" strategy is difficult to be smoothly promoted and deeply implemented, which has an adverse impact on the realization of RMB internationalization.

4.3. Domestic Financial System is not Perfect

Currency internationalization cannot be separated from the support of sound financial system. According to the 2020 Global Bank Internationalization Report released by the International Monetary Institute of Renmin University of China (IMI), the Bank Internationalization index (BII) of the bank of China, which has the highest level of internationalization, is only 22.74, while that of developed countries is basically between 35 and 36. To promote the internationalization of RMB, it is necessary to continuously improve the operation capacity of banks, promote financial innovation and improve the financial system [6].

5. Suggestions to Promote the Internationalization of RMB under the Belt and Road Initiative

5.1. Encourage the use of RMB for Trade Settlement with Belt and Road Countries

The RMB cross-border trade settlement has been gradually expanding since the launch of the pilot program. At the beginning, the cross-border RMB business volume was not large, mainly because foreign banks lack renminbi positions and unable to provide diversified financial derivatives and hedge instruments to overseas companies, thus making overseas sellers reluctant to accept RMB payment [1]. At the same time, the high cost for foreign buyers to obtain RMB locally also restrains the level of foreign holdings of RMB to some extent. The amendment of the Settlement Agreement has tried to solve this problem, and achieved good results. The increasingly frequent trade between China and countries along the Belt and Road will lay good conditions for the RMB internationalization.

5.2. Expand Investment Activities with "Belt and Road" Countries

The internationalization of RMB should not only be promoted unilaterally through trade settlement, but also be driven by two wheels through direct investment. "The Belt and Road" fund investment gap is large, railway, energy, port, communication and other fields need a large amount of capital, China's overcapacity, can meet the infrastructure needs of many countries [8]. Therefore, China should seize the opportunity, expand the capital account, relax all kinds of restrictions on overseas investment by domestic enterprises, vigorously promote "China's infrastructure" to go global, and use investment to drive the Silk Road Economic Belt.

5.3. Promote the Establishment of Global RMB Offshore Market

China should vigorously promote the establishment of a global RMB offshore market, enhance connectivity among countries, and form an efficient, dynamic and multi-level offshore network circle [9]. Southeast Asia is the region with the closest trade contacts with China. As the trade center of Southeast Asia Free Trade area, Singapore is also a key node of the "One Belt, One Road" strategy, which has natural advantages in RMB cross-border trade settlement. Therefore, the government should support Singapore's offshore RMB market as an international financial center for the investment, holding, trading and storage of RMB [10].

6. Conclusion

Based on the "One Belt, One Road" Initiative, this paper analyzes and studies the internationalization of RMB in various aspects and draws the following conclusions:

(1) There are many factors influencing RMB internationalization u, such as currency inertia, foreign trade and exchange rate. Among them, currency inertia and foreign trade have a positive impact on RMB internationalizationt.

(2) The overall trend of RMB internationalization in Southeast Asia is good, which is reflected in the expansion of bilateral currency swap scale, the development of RMB offshore market.

(3) The internationalization of RMB under the "Belt and Road" initiative will face many challenges, such as the inertia of mainstream international currencies, the unbalanced development of countries along the "Belt and Road" and the imperfect domestic financial system. All these problems need to be solved in the future.

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