

Research on the Process of RMB Internationalization under the Belt and Road Initiative

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Abstract. The internationalization of the RMB is of great significance to the further development of China's economy, the reform of China's financial system, and the improvement of the status of the RMB in the international monetary system. The "One Belt, One Road" is a global development initiative proposed by Chinese President Xi Jinping in 2013. The countries along the route are China important strategic direction of opening up to the outside world. Through the "One Belt, One Road" initiative, strengthening trade exchanges and financial cooperation between China and neighboring regions will help China's economic prosperity and development, and this will also support efforts to improve the RMB's standing within the global monetary system. The internationalization of the RMB is an important manifestation of the financial integration of Chinese capital under the "One Belt, One Road" initiative and an important support for promoting the construction of the "One Belt, One Road" initiative. Strengthening the research on the process of RMB internationalization under the "One Belt, One Road" initiative has important practical and strategic significance. This article mainly combines the influencing factors of RMB internationalization, summarizes the results of RMB internationalization under the "One Belt, One Road" initiative, and provides prospects for RMB internationalization.

Keywords: One belt one road; financial cooperation; the internationalization of the RMB.

1. Introduction

In the context of economic globalization, international trade has become increasingly frequent and has evolved into a complex network of global value chains. The production of products involves multiple countries and regions, and the Asia-Pacific region has become a key participant in global trade. However, countries around the world are also facing a series of challenges and opportunities while pursuing economic prosperity. In recent years, trade protectionism has risen, and some countries have adopted tariffs and trade restrictions, increasing uncertainty in global trade. Geopolitical tensions and changes in international relations have had a certain impact on international trade, and China needs wider openness and cooperation to promote economic growth.

In 2013, the President of China, Xi Jinping, proposed the Belt and Road Initiative, which aims to provide China with opportunities to expand its market, seek new economic growth points, and further expand China's platform for foreign trade, investment, and cooperation. The Belt and Road Initiative covers Asia, Europe, Africa, and other regions, and has huge potential for economic cooperation.

The Belt and Road Initiative has accelerated the construction of infrastructure in the countries along the route, and the transportation and logistics convenience of the countries along the route have been further improved. The Belt and Road Initiative reduces trade barriers, promotes investment and economic cooperation, strengthens trade exchanges between countries in the region, expands market size, and promotes economic growth. At the same time, the initiative also promotes cultural exchanges and personnel exchanges among countries along the route, contributing to the protection and development of cultural diversity. The Belt and Road Initiative not only brings development opportunities to countries along the route, but also provides reference cases for the development and construction of other developing countries, and has a positive impact on global economic governance and development patterns.

The internationalization of the RMB will help improve the convenience of trade between China and other countries, simplify the steps of trade settlement, and reduce trade costs. The internationalization of the RMB helps improve international credibility, enhances the confidence of global trade investors in China's financial market, further attracts direct investment from foreign investors, improves the competitiveness of China's financial system on a global scale, and further promotes China's financial market. develop. The internationalization of the RMB will also contribute to currency multipolarity, reduce the dependence of the international financial system on a few major currencies, and make the international financial and monetary system more balanced and diversified.

The direct goal of RMB internationalization is to protect domestic enterprises from the risk of U.S. dollar exchange rate fluctuations when engaging in international trade and investment [1]. The first manifestation of the internationalization of the RMB is its use in settlement in international trade and investment. From this perspective, the joint construction of the "Belt and Road" will help promote the internationalization of the RMB. This is because financial integration is not only the main content of the Belt and Road Initiative but also an important support for the Belt and Road Initiative from concept to action [2].

2. Factors Influencing RMB Internationalization

"RMB internationalization" means that the RMB has been widely recognized by most countries or regions in the world and has realized the function of currency in overseas countries and regions [3]. There are many factors affecting the internationalization of the RMB.

Economic strength and stability, China's increasing economic strength on the international stage has established a strong basis for the RMB's globalization. China's sustained economic growth, stable macroeconomic environment, and huge foreign exchange reserves are all important factors in promoting the internationalization of the RMB. From 2013 to 2021, the world's average annual economic growth rate is 2.6%, the average growth rate of developing economies is 3.7%, and the average economic growth rate of China is 6.6%, far exceeding the world average and ranking among the world's major economies. China's GDP has been ranked second in the world for many years, and its proportion of the world's economic aggregate has been increasing. In addition, China's performance in responding to the international financial crisis and global economic uncertainty has also strengthened people's confidence in the RMB and further promoted its status in the international monetary system.

China is one of the world's largest trading countries and has established solid trade relations with many countries, which provides more opportunities for the application of RMB in international trade. In addition, the increase in China's overseas investment has also promoted the internationalization of the renminbi, as companies need to use the renminbi for cross-border investments and M&A transactions. In 2000, China's total foreign trade was approximately 4 trillion yuan, the total foreign direct investment in China was nearly 16 billion yuan, and China's GDP was about 14 trillion yuan. By the end of 2020, the total foreign trade in China was estimated to be 32.16 trillion yuan, while its total foreign direct investment was nearly 1 trillion. yuan, China's GDP is about 100 trillion yuan, which means the foreign trade, the foreign investment, and China's GDP have increased by 7 times, 61 times, and 6.1 times respectively [3].

By progressively deregulating its financial systems, China has encouraged the usage of the RMB in global financial markets. These policies include joining the International Monetary Fund, signing currency swap agreements with neighboring countries, establishing an offshore RMB market, and promoting financial innovation and financial reform for the internationalization of the RMB. According to the collection of data from previous years, Since China's entry into the SDR currency basket in 2016, the RMB's proportion of global reserves has increased. The market has strong expectations for RMB appreciation, and the RMB's reserve currency status in the international market has continued to improve. By promoting the opening of its financial market and actively promoting

the application of the RMB in international trade, investment, and finance, China has enhanced the status and influence of the RMB in the international monetary system.

International status and influence. A country's status and influence on the international stage have an important impact on the degree of internationalization of its currency. China has put up a number of significant plans and projects, including the joint building of the "Belt and Road" and the Global Development Initiative, and actively engages in the development and reform of the global governance system. More than 30 international organizations and more than 150 countries have inked cooperation agreements with China in the ten years since the Belt and Road Initiative was first announced. The broadest platform for international cooperation and the most well-liked global public product today is the Belt and Road Initiative. It has contributed significantly to the development of an open, accepting, and thriving global economy. More than a hundred nations and international organizations, including the United Nations, injecting Chinese impetus into promoting global common development. These measures have improved China's international status and influence, and also strengthened the RMB's status in the international monetary system.

3. Achievements of RMB Internationalization under the Belt and Road Initiative

The Belt and Road Initiative promotes the global use of RMB, increases the international recognition of RMB, and promotes the recognition of RMB. The financial cooperation behind the initiative has led to the joint construction and sharing of financial institutions, for example, the Asian Infrastructure Investment Bank, etc. providing more usage scenarios for the RMB. In 2021, the number of cross-border RMB receipts and payments between China and countries along the "Belt and Road" was 5.42 trillion yuan, a year-on-year increase of 19.6%, accounting for 14.8% of the total cross-border RMB receipts and payments in the same period. With bilateral local currency swap agreements negotiated with 40 nations and regions as of June 2022, China's total swap value exceeded RMB 4 trillion [2]. The People's Bank of China recently released the 2023 RMB Internationalization Report, which demonstrates the RMB's continued internationalization. The RMB ranks fifth in global payments and fifth among international reserve currencies, accounting for 2.69%, with more than 80 overseas central banks or the monetary authorities include RMB in foreign exchange reserves. In May 2023, the International Monetary Fund announced that it would increase the proportion of RMB in the SDR from 10.9% to 12.3% [4].

The Belt and Road Initiative has promoted the development of the offshore RMB market, and the RMB's share in the international payment system has gradually increased, strengthening the RMB's status in the global payment system. The offshore market has developed rapidly, and in recent years, the scale of the offshore RMB market has continued to expand. In terms of offshore RMB deposits, at the end of 2021, the balance of RMB deposits in major offshore markets exceeded 1.54 trillion yuan. Among them, the balance of RMB deposits in the Hong Kong market is approximately 930 billion yuan, ranking first among all offshore markets. The balance of RMB deposits in the Taiwan market is approximately 230 billion yuan, and the balance of RMB deposits in the London market is approximately 80 billion yuan, occupying the second and third places respectively [5].

The Belt and Road Initiative promotes the signing of currency swap agreements between China and relevant countries, which enhances the circulation capacity of RMB among these countries and reduces exchange rate risks in trade and investment. By signing currency swap agreements with Belt and Road countries, China has promoted the wider use of the renminbi among these countries, improving the convenience of trade and investment. As of the end of 2021, the People's Bank of China has signed bilateral local currency swap agreements with 40 overseas monetary authorities (involving 56 countries and regions). The amount of the agreement exceeds 4.02 trillion yuan, making it a swap scale equivalent to that of the Federal Reserve and covering more than 100 economies. As the central bank of the Federal Reserve, China has gradually become one of the leaders in global currency swaps [6]. The signing of the agreement will help reduce exchange rate risks in bilateral

trade and enhance the circulation capacity of the RMB. The RMB clearing system has been further expanded, China has expanded RMB clearing cooperation with other countries and enhanced the RMB's status in the international payment and clearing system. China has strengthened cooperation with multilateral financial institutions and supported the clearing and settlement of RMB on a global scale.

In general, the Belt and Road Initiative has promoted the widespread use of RMB in countries along the route, making RMB a commonly used settlement currency for trade and investment. The initiative has promoted the development of the RMB offshore market, and the RMB's status in the international payment system has been continuously improved, becoming an important payment currency in global trade and financial activities. The initiative promotes the development of currency swap agreements, greatly reduces the exchange rate risks faced by countries in international trade and investment, and reduces unnecessary losses caused by regular exchange rate fluctuations.

4. Challenges and Prospects of RMB Internationalization

The instability of the financial systems of countries along the Belt and Road may pose risks to the internationalization of the RMB. Geopolitical tensions within the region may affect the circulation of RMB in relevant countries. Geopolitical risks can significantly affect the currency anchor effect of the RMB in some regions, but there is significant heterogeneity in different regions and different degrees of trade openness. When geopolitical risks rise, Eastern and Southeastern Europe will anchor the RMB more to avoid exchange rate risks, while Southeast and East Asia will choose to reduce the weight of anchoring the RMB to seek exchange rate stability; countries with high trade openness will anchor the RMB more. Countries with lower trade openness are more likely to anchor the RMB less [7]. At the same time, the international monetary system is mainly dominated by the US dollar, and the RMB's status in this system is relatively low. Although the RMB has been included in the Special Drawing Rights basket of the International Monetary Fund, it still faces great difficulties in challenging the dominance of the US dollar.

Continue to promote the opening of financial markets and accelerate the liberalization and facilitation of capital accounts, which will provide broader space for the use of RMB in the international financial market. Further, deepen financial market reform, improve the convertibility of the RMB, and attract more international investors to participate. Strengthen cooperation with other countries in international financial supervision and improve the transparency and standardization of RMB internationalization. Promote innovative financial instruments - digital currencies to improve the convenience of RMB in international payments and settlements. The challenges and opportunities in the development process of digital currency have also prompted banks to continue to carry out financial innovation to provide users with services that better meet their needs. As a result, China's financial market has become increasingly developed and improved, thereby increasing the acceptance of the RMB around the world. Promoted the internationalization of RMB [8]. At the same time, in the face of uncertainty in the international financial market, risk management and monitoring in the process of RMB internationalization have been strengthened. By establishing an effective risk prevention mechanism, it will ensure the stability and sustainability of RMB development in the international market.

5. Conclusion

The Belt and Road Initiative, a key component of China's international cooperation policy, attempts to enhance economic cooperation between the nations that make up the route across Asia, Europe, and Africa. In light of this, the RMB's progressive internationalization has emerged as a crucial element in fostering regional financial cooperation and economic integration.

First and foremost, the Belt and Road Initiative's implementation has sped up the growth of global investment and trade while also fostering favorable circumstances for the broad use of RMB in

bilateral and multilateral trade agreements. Cooperation between China and nations along the route has deepened, and the signing of currency exchange agreements has increased the use of RMB in trade, improved settlement efficiency, and decreased transaction costs.

Secondly, the Belt and Road Initiative has promoted the deepening of international financial cooperation and further strengthened the activity of RMB in the financial markets of countries along the route. By promoting the construction of financial institutions such as the AIIB and the signing of currency swap agreements, the circulation of RMB in areas along the Belt and Road has been further promoted, providing more opportunities for China's direct overseas investment and trade with countries along the Belt and Road. convenient.

In addition, the Belt and Road Initiative has also had a positive impact on the development of the offshore RMB market. The expansion of offshore RMB markets in Hong Kong, Taiwan, and other countries has increased the share of RMB in the international payment system and greatly improved the status of RMB in the international payment system.

However, there are also obstacles in the way of this process, like financial system risks, geopolitical unpredictability, and other elements that will affect the internationalization of the RMB. In order to achieve broader and deeper internationalization of the RMB through the Belt and Road Initiative, it will be necessary to further deepen the reform of the financial system, innovate financial instruments, improve the convertibility of the RMB, and strengthen cooperation with other nations in financial supervision. Overall, the Belt and Road Initiative's RMB internationalization is a significant example of China's active engagement in international cooperation and has aided in the advancement of regional economic integration and the varied growth of the world financial system.

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