

Evolution of the International Monetary System and the Internationalization of RMB: A Theoretical Analysis

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Abstract. The foundation of the global economy lies in the international monetary system, influencing worldwide trade, investment, monetary strategies, and financial steadiness. This system has experienced numerous significant transformations, such as the 1971 separation of the dollar from gold, the emergence and growth of the euro, and the slow globalization of currencies in developing markets. Presently, the international monetary system is predominantly dollar-focused and multilateral, grappling with issues like fluctuations in exchange rates and conflicts in monetary policy, resulting in worldwide economic disparities. Post the 2008 global financial crisis, the issues with the international monetary system have gained prominence, prompting a growing global demand for reforms in the existing currency system. The Renminbi's (RMB's) internationalization stands out as a pivotal event, offering fresh research viewpoints and actionable instances for the development of the international monetary system. This study delves into the development of international currencies and the global spread of RMB.

Keywords: Global monetary system; reserve currency; monetary division.

1. Introduction

Today's globalization is transforming the global monetary system, drawing the focus of both national decision-makers and academic circles due to its stability and effectiveness. Over time, the structure of the international monetary system has experienced numerous significant shifts, each intimately connected to alterations in the worldwide economic power dynamics and technological advancements. RMB's internationalization has emerged as a novel aspect in the evolution of the international monetary system, drawing worldwide interest due to China's swift economic growth and its rapid liberalization.

This research aims to understand and scrutinize the progression of the global monetary system and the global spread of the RMB, along with its influence on the evolving structure of the International Monetary System, and to highlight the flaws in research during the grinding phase. The study focus on these elements: firstly, the execution of the RMB's internationalization; and secondly, the effects of this internationalization on the stability of the existing international monetary system. By thoroughly examining pertinent scholarly works, this document will offer potential pathways and recommendations for upcoming scholarly inquiries to comprehend the evolution of the international monetary system in relation to the RMB's internationalization.

2. The Development of Global Monetary System

2.1. A Synopsis of Global Financial System

The International Monetary System encompasses a collection of regulations, frameworks, and systems implemented by nations or areas in international economic dealings to manage and oversee monetary policy, exchange rate policy, and international payment techniques [1]. The development of this process is intricate and varied, encompassing alterations in the currency's value and role, as well as diverse impacts of policy decisions, economic strength, and global collaboration.

Tracing its roots to the gold standard system, the international monetary system's history utilizes gold for global transactions and settlements. This system directly correlates currency values with gold, simplifying international trade and investments. Post-First Century War, the challenges in

normalizing gold, especially its scarcity and irregular distribution, surfaced, complicating the maintenance of national currency stability [2]. It provides an in-depth exploration of the genesis and constraints of the gold stereotype, leading to its ultimate downfall.

Following the gold standard's downfall, the 1944 Bretton Woods Conference heralded the creation of the Bretton Woods System, an international financial framework. This system set up fixed exchange rates, connecting the dollar to gold and other currencies to the dollar. At this point, the global monetary framework, defined by stable exchange rates and the ability to convert currencies, has significantly aided in rejuvenating international commerce and capital movements [3]. A comprehensive overview of the Bretton Woods system is provided here.

The 1970s saw the US dollar crisis, shifts in US economic strategies, and the Bretton Woods system's "Triffin problem," casting global skepticism on the dollar's trustworthiness. This resulted in the Bretton Woods system's collapse [4]. Subsequently, the international monetary system became part of the Jamaican system. In this era, the exchange rates of key currencies were influenced by market supply-demand dynamics, and international financial markets and capital liquidity merged to unprecedented heights. Post the Bretton Woods system's downfall, this era also saw the emergence and ascent of the euro and the creation of a multi-polar international monetary order [5]. These narrative details the development and patterns of the international monetary system.

Presently, the primary reserve currency for the dollar is the international monetary system, with other currencies like the euro and yen emerging as secondary currencies. The formation of the European Coal and Steel Community in the 1950s signaled the start of European unification. European nations have collaborated extensively in various sectors, leading to a gradual intensification of economic integration. Nonetheless, the disparity in currency values among countries has heightened the intricacy and expense of international trade and investments. Post the 1973 separation of the dollar from gold, key currencies transitioned to a floating exchange rate system, exacerbating market instability. To lessen reliance on the dollar and foster regional economic unity, European nations have encouraged the establishment of the euro. In 1999, with the euro's official introduction as the primary sovereign currency shared by numerous countries, it not only improved European economic unity but also altered the global monetary system's power distribution. Moreover, the yen and pound have played a crucial role in diversifying the international monetary system through their distinct economic and monetary systems. Being the world's third-largest economy, the yen exerts a considerable impact on global financial markets. Japan has maintained a substantial trade surplus, resulting in a rapid international trade settlement of the yen. The oldest currencies in the history of the British pound, supported by the yen, has also garnered a low international interest rate. Moreover, the global market of the yen has seen a diminishing influence of major international investors. The euro, the euro, and other currencies, the euro, and the euro, are now moderately influential in the global financial markets [6].

2.2. Influences on the Development of Global Monetary System

A multitude of elements shape the development of the global financial framework, encompassing decisions in key economies, cross-border collaboration, and trends in currency diversification. Scholars have noted that the steadiness of the global monetary system is intricately connected to the political decisions and economic achievements of the three principal nations: the United States, Germany, and Japan [7]. In the context of international cooperation, experts have emphasized the significance of international cooperation in maintaining the stability of the global monetary system [8]. Amidst the emergence of developing market nations, there's a growing focus among scholars on the diversification of the international reserve currency system as a key future trend [9]. The global expansion of the RMB as a strategic move in China to address globalization challenges has garnered considerable interest from scholars and policy analysts since its inception in 2009. Initial research has highlighted the critical role of RMB internationalization in China's economic welfare [10]. With the increasing global presence of the yuan, scholars are now focusing more on its effects on the global monetary system. Scholars have examined the effects of the RMB's entry, the right basket of the

RMB, its withdrawal from the international monetary system, and its diverse viewpoints, suggesting that it could foster a progressive process within the system [11].

3. Globalization of the RMB

Post-financial crisis, the global monetary framework evolved for diversification, with the RMB's internationalization paralleled by China's swift economic growth and its gradual integration into the international arena, garnering significant interest from scholars. Since 2009, China has persistently propelled the RMB's international reach. Scholars argue that China's ongoing progress in renminbi internationalization serves both economic and political purposes, enhancing China's global reputation and fostering internal financial reforms via its internationalization [12]. Additionally, some academics highlight that the People's Bank of China had already proposed the RMB's internationalization strategy in 2006 [13]. This document delves into the RMB's internationalization from two fundamental dimensions.

3.1. Strategies for Executing the Global Expansion of the RMB

The global expansion of the RMB mirrors China's escalating economic prowess and its quest for a more prominent role in international affairs. In terms of executing strategies, China has implemented a phased approach, initially focusing on enhancing cross-border trade in RMB, followed by enlarging the offshore RMB market's scope or strengthening its bilateral exchange system. In April 2009, the Chinese Government unveiled a pilot international trade agreement in Shanghai and Guangdong, encompassing ten Southeast Asian nations. Subsequent efforts in July 2009 included establishing offshore RMB hubs and advancing Geo-integration strategies, along with the introduction of "Go Out" and "Belt and Road" programs. In 2009, China initiated the Chiang Mai Initiative, a multi-nation currency exchange program involving the Association of Southeast Asian Nations (ASEAN), Japan, and South Korea. In 2007, bonds in Hong Kong were sanctioned, and a 2010 interest-rate liberalization trial was carried out, permitting Hong Kong banks to extend loans to businesses in specific mainland regions. The "bridge mechanism" for the offshore RMB designation by the Chinese Government permits companies to issue licenses to be recognized as "qualified international institutional investors (RQFIIF), who are licensed under the offshore trading funds raised in Chinese securities markets. Following the rise of direct investment avenues like the stock exchange, bond exchange, and the China Interbank Bond Market (CIBM), resulting in several quota modifications to the program, the China Foreign Exchange Authority declared in September 2019 its decision to terminate the RQFII scheme [14].

3.2. Influence of RMB's Globalization on the Stability of Global Monetary System

The yuan, a rising global currency, holds varied views on its influence on the current dollar-focused multilateral monetary system. Some academics argue that the RMB's internationalization mirrors trust in the US government. Efforts to encourage increased RMB usage in overseas hubs like London and Singapore hinge on the trust in the dollar-linked RMB. The Chinese central government's ongoing accumulation of substantial dollar-valued reserves and the preference of offshore RMB holders for regular accounts over capital accounts indicate that RMB's internationalization won't disrupt global monetary history. Instead, it shows the RMB's dependence on the dollar-focused global monetary system [14]. Some experts argue that RMB's internationalization is progressively progressing, narrowing the gap between the dollar and euro, and fostering the ongoing evolution of the international monetary system towards multi-polarization [15]. It has been observed that with the decline of the US economy, the dollar's dominance as an international reserve currency, is diminishing, and the global monetary system is experiencing a safeguarded multi-polarization phase, particularly in the RMB. RMB is evolving into a key regional currency, evolving into a convertible form of the RMB [16].

To encapsulate, the global financial framework has experienced significant transformations, from the inception of gold reserves to the formation of the Bretton Woods system, followed by the system's downfall and the formation of the Jamaican system, culminating in the global spread of the RMB. It's evident that this process is intricate and multifaceted, encompassing numerous nations and areas. Grasping the fundamental rationale and forthcoming tendencies is more attainable by examining historical context and scrutinizing the existing state of affairs. The progression of the global monetary system is predominantly associated with shifts in domestic economic strategies and inter-nation collaboration, with current monetary systems leaning towards a monetary diversity rather than a singular international dollar foundation. The global adoption of the RMB also mirrors this trend. China has been instrumental in advancing the global integration of the RMB by advocating for the resolution of the RMB's cross-border trade, with varying academic circles regarding its influence on the global monetary system today. This gap in research leaves a gap in understanding the real-border effects of the RMB's internationalization on the RMB's future and the International Monetary System.

4. Conclusion

The document encapsulates the progression of the global monetary framework from the initial gold standard to the Bretton Woods framework, and ultimately the Jamaican system, culminating in the current dollar-centric, currency-centric, nascent international currency system, as deduced from literature review and scrutiny. It encapsulates the scholarly impact on the global monetary system's evolution, encompassing policy decisions in key economies, international collaboration, and trends in currency diversification. A recapitulation reveals that the international monetary system has experienced an extensive and intricate transformation involving various elements. Presently, the international monetary system is evolving towards multi-polarization, with the internationalization of the RMB being a significant aspect in this progression. This document outlines the trajectory of the RMB's internationalization and its effects on the international monetary system. It posits that further research in this domain is anticipated in the future.

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