

Research on the Internationalization Path of RMB based on the Analysis of Peripheral Circulation

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Abstract. The internationalization of RMB is of great significance to China's financial development and the reform of the international monetary system, and it is the inevitable result of the evolution of the world economic structure. The internationalization of RMB is the inevitable result of China's economic development and the reflection of China's international competitiveness. The internationalization of RMB will help China to become a world economic power. The circulation around RMB is only the initial stage of currency internationalization. Currency internationalization requires strict conditions and must bear the price of giving up the independence of domestic monetary policy. The "the belt and road initiative (B&R)" initiative promotes China enterprises to enter the global market and increases the opportunities for RMB capital export. Some progress has been made in the internationalization of RMB, which has been recognized by the international community. Based on the significance of currency internationalization, this paper expounds the influence of RMB internationalization on China, and further studies the mode and strategy choice of RMB internationalization on the basis of analyzing the circulation path around RMB.

Keywords: Internationalization of RMB; Peripheral Circulation; The Belt and Road Initiative; Monetary Policy.

1. Introduction

With the rapid economic development in China, the international status of RMB is improving day by day, and the internationalization of RMB has been paid more and more attention by the central and academic circles. During the Asian financial crisis, the China government promised that RMB would not depreciate, which contributed to the resolution of the crisis and the stability of the financial situation. As a responsible currency, RMB was praised by the world, especially Asian sovereign countries, and its international status and influence were greatly improved [1]. A country's currency must have some basic conditions to become an international currency: it becomes the main currency in international trade settlement; The currency is freely convertible with other countries' currencies; The value of this currency is relatively stable. Most scholars believe that the internationalization of RMB is the inevitable result of China's economic development and the reflection of China's international competitiveness. The internationalization of RMB will help China to become a world economic power [2]. With the increasingly prominent political and economic contradictions between China and the United States, China, as the world's second largest economy and the largest exporter, must firmly promote the internationalization of RMB if it wants to reduce the binding between its economy and the US dollar monetary policy and earnestly safeguard the achievements of its own economic development [3]. In this context, as a rising economic and trade power, it is particularly important for China to seek an international monetary status that matches its economic and trade status in the rules of the world currency game [4].

Internationalization of RMB is conducive to enhancing China's international status, enhancing its voice in the international arena, reducing exchange rate risks and foreign exchange transaction costs, promoting the growth of China's international trade and investment, and gaining a large amount of coinage income, reducing the holding of China's foreign exchange reserves [5]. Currency internationalization is determined by many factors. At present, RMB has the conditions for internationalization. The internationalization of RMB should follow the gradual path of internationalization around RMB-Asianization of RMB-globalization of RMB [6]. The circulation around RMB is only the primary stage of currency internationalization; Currency internationalization requires strict conditions, and it must bear the cost of giving up the independence of domestic

monetary policy [7]. In recent years, RMB internationalization has made positive progress, but it also faces many challenges. How to correctly understand the problems existing in the stage of RMB internationalization and put forward relevant countermeasures is of great significance to steadily promote RMB internationalization [8]. Based on the significance of currency internationalization, this paper expounds the influence of RMB internationalization on China, and further studies the mode and strategy choice of RMB internationalization on the basis of analyzing the circulation path around RMB.

2. The Problems of RMB Internationalization under the Background of "B&R"

2.1 Insufficient Core Competitiveness

Generally speaking, after the internationalization of a country's currency, its currency plays the functions of pricing, settlement and value storage in international economic exchanges. The "B&R" initiative not only promotes the internationalization of RMB, but also brings many challenges to the internationalization of RMB. Although RMB has become an important international reserve currency, there are still problems in the internationalization of RMB at present, and its international status still needs to be improved [9]. Countries with internationalized currencies must have strong military strength and a stable political foundation, so as to provide a solid foundation for their economic development and the long-term security and stability of their currencies. At present, most of the "B&R" are emerging market countries and underdeveloped countries, and their economic environment, market mechanism and credit system are still not perfect. In addition, the financial situation in some countries has deteriorated, making it difficult to create a stable environment for investment and financing transactions. Generally speaking, the internationalization of RMB is in the primary stage, and the RMB is mainly limited to the border trade of some neighboring countries around China as a means of pricing and settlement, while its share with non-neighboring countries and in international trade settlement, international investment and international reserves is almost zero.

2.2 Regional Cooperation is not Deep Enough

In terms of the openness of financial markets, some countries have implemented strict access restrictions and foreign exchange controls, which makes it more difficult for RMB to enter these countries for trading, which also reflects that the cooperation between China and countries along the "B&R" is not deep enough. Currency internationalization countries should maintain long-term economic growth, low inflation rate, relatively stable domestic prices and foreign exchange rates, and convertible capital and current accounts to ensure the availability of international currency. It can be seen that RMB is frequently used and accepted in neighboring countries and regions, but its circulation scope is limited to neighboring regions, and it is hardly circulated in other regions, and its influence is very limited [10]. The "B&R" initiative focuses on medium and long-term projects involving a large amount of funds. The fluctuation of the political situation makes the value of the local currency unstable, which weakens the ability to resist financial risks, increases the possibility of the other company's violation, and easily impacts China enterprises. Any RMB circulating abroad, even if it has not become a part of other countries' official reserve currency as foreign exchange, will only play the role of a regional international currency among the people, and will also bring economic benefits to currency issuing countries and become an important foundation for RMB internationalization in the future.

3. The Path of RMB Internationalization based on the Analysis of Peripheral Circulation

3.1 Improve the Financial System

With the growth of China's economy, foreign trade is increasing, and the scope and scale of RMB's circulation abroad are expanding. A country's extensive participation in world political affairs can promote the internationalization of its own economy and currency. In a sense, the stage of RMB internationalization depends on the perfection of China's financial system and the deepening of its openness. The stage of RMB internationalization is irreversible. With the deepening of this process, the connection between RMB and the international financial market will become closer and closer, and the independence of exchange rate control will become weaker and weaker [11]. Historically, the stage of currency internationalization in important countries is accompanied by the stage of net foreign investment. The main conditions for RMB to become an international currency are that it is easily available, highly acceptable in international transactions and can be easily converted into other currencies. Any mature financial market is based on a strong real economy. While carrying out the reform of the financial system, we should strive to realize the transformation of China's economic growth mode and the adjustment of economic structure, realize the sustained and healthy growth of the national economy, and provide a reliable guarantee for the smooth internationalization of RMB. Table 1 shows the stage of currency internationalization.

Table 1. Progress of Currency Internationalization

Stage	function	Space
Initial stage	As a means of pricing and settlement in border trade	Between currency issuing countries and individual neighboring countries
Primary stage	Expand to border trade as a means of pricing and settlement	Between the currency issuing country and several neighboring countries
Intermediate stage	Expand to general trade as a means of pricing and settlement	Expand to the trade between currency issuing countries and non-neighboring countries
Advanced stage	Expand to international reserve means	Accepted by quite a few countries

Countries with internationalized currencies should have good international credit, abundant foreign exchange reserves, healthy international balance of payments and its structure, sufficient foreign exchange reserves and the ability to raise funds from abroad, so as to meet the exchange requirements that may occur at any time and keep the international balance of payments dynamic. In order to establish a micro-foundation suitable for the growth of financial innovation and realize the effective combination of financial system and financial innovation, the government should make full use of macro-control means, correctly guide the financial innovation behavior of enterprises and establish an appropriate risk prevention mechanism for financial innovation. As a means of exporting RMB, RMB foreign investment solves the problem of RMB's availability abroad. At the same time of exporting RMB, it is necessary to promote the use of RMB for trade pricing and settlement. Only when RMB is widely used in investment and trade settlement can RMB's trade ability be greatly developed. For digital RMB, the regulatory authorities can continuously monitor the flow of various funds. Secondly, the management department can master the opening and closing of accounts by domestic and foreign investors, and monitor the cross-border receipt and payment information of funds and the allocation of domestic securities and futures investment assets in real time, on this basis, effectively evaluate the investment environment and identify investment risks, thus ensuring the safety of cross-border opening.

3.2 Strengthen Regional Cooperation

Regionalization of RMB refers to the process that RMB becomes the main means of payment and settlement tool for the regional economic shake by participating in economic and trade exchanges and cooperation in Asia, especially East Asia, and makes RMB become an important part of national

and private value reserve assets in the region. Mature financial market and strict financial supervision system are very important for the growth of financial industry. China should establish a sound financial risk control mechanism, strictly supervise the operation of capital, develop a sustained and healthy capital market, and encourage the development and growth of capital markets such as stocks, securities and funds. Adhering to the promotion of digital RMB is also an option to promote the internationalization of RMB. China can eliminate potential financial risks and enhance the security of financial markets by strengthening the management of financial risks by regulatory authorities. Strengthening regional economic cooperation and promoting capital opening with the help of "B&R" initiative is an important means to push RMB internationalization into a new stage. The influence mechanism of industrial agglomeration on regional economic cooperation is shown in Figure 1.

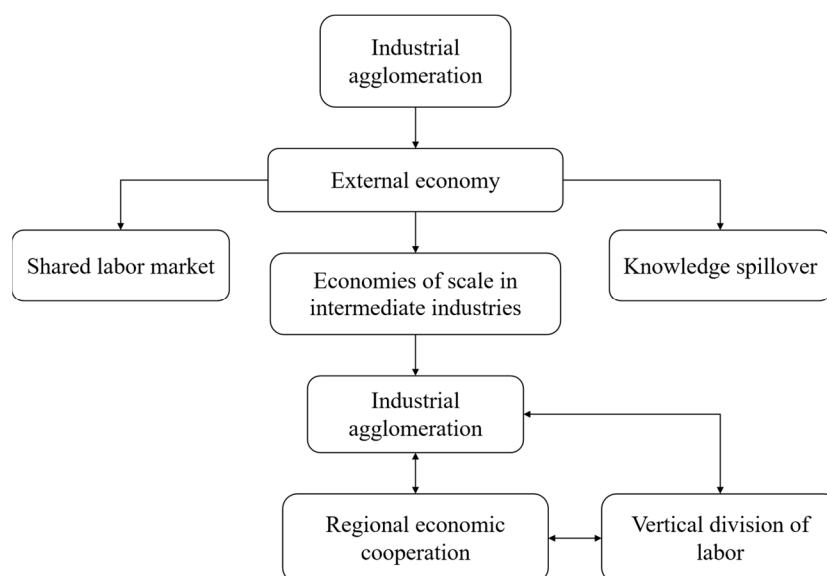


Figure 1. Influence mechanism of industrial agglomeration on regional economic cooperation

Because of the high risk of trade and investment activities along "B&R", it is more important to strengthen the construction of offshore market. Opening an offshore account for host country enterprises through offshore market channels can not only broaden the investment channels of RMB, but also help China to establish an effective mechanism for RMB outflow and return. An open and efficient financial market is an important prerequisite for RMB internationalization, and it is also an important means to effectively manage RMB exchange rate. China's financial market is not small, but there is still much room for improvement in terms of market maturity and stability, capital operation efficiency, ability to provide financial services and the construction of financial supervision system. In order to reduce the resistance of RMB internationalization, China can actively promote regional economic and monetary cooperation in Asia, especially in East Asia, become the leading currency of exchange rate cooperation by participating in institutional regional currency exchange rate cooperation, and play an important role in the construction of regional monetary system, opening up an effective path for RMB internationalization by relying on regionalization.

4. Conclusion

In recent years, the fluctuation of RMB internationalization level may be related to the continuous depreciation of RMB exchange rate. Due to China's stable political situation, sound economic development, abundant foreign exchange reserves and other internal factors, coupled with the impact of the US financial crisis on the status of the US dollar, the call for reform of the international monetary system is rising, and the external factors of historical opportunities such as the expectation of RMB appreciation have increased sharply. With the steady growth of China's economy and the deepening of reform and opening up, the RMB has gradually shown some signs of internationalization

in some neighboring countries and regions. Judging from the development trend of China's economy and the position and role of China's economy in the world map, the internationalization of RMB is in line with China's interests. The stage of RMB internationalization is full of risks and challenges. Only by correctly assessing risks, seizing opportunities and meeting challenges can China help China's economic rise and RMB internationalization.

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