

Path Selection of Renminbi (RMB) Internationalization under “The Belt and Road” (B & R) Initiative

Siqi Xia

School of Economics, Jinan University, Guangzhou, China

Email: xiasiqi2017@163.com

How to cite this paper: Xia, S.Q. (2018) Path Selection of Renminbi (RMB) Internationalization under “The Belt and Road” (B & R) Initiative. *American Journal of Industrial and Business Management*, 8, 667-685.

<https://doi.org/10.4236/ajibm.2018.83045>

Received: February 1, 2018

Accepted: March 23, 2018

Published: March 27, 2018

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Abstract

The continuous improvement of international status, financial marketization and openness, and the deepening of regional cooperation have greatly promoted RMB internationalization. This paper analyzes the current situation and impact of RMB internationalization, and then basing on the new factors including the economic mechanism, investment and trade factors, the exchange rate system and the historical inertia of the currency, it explores a new path selection from regionalization to internationalization. Finally, some suggestions suitable for China’s national conditions under the Belt and Road initiative are put forward, such as speeding up the construction of domestic financial markets and international financial centers, strengthening trade with neighboring countries, making effective use of the AIIB platform and establishing a worldwide banking system.

Keywords

“The Belt and Road” Initiative, RMB Regionalization, RMB Internationalization

1. Introduction

The reason why RMB internationalization has become a hot topic, is that the growth of China’s economic strength and the development of foreign economic and trade relations provide a material basis and prerequisites for RMB internationalization [1]. The internationalization of currency is the process of currency crossing across borders, circulation abroad and becoming internationally recognized pricing, settlement and reserve. Since 2008, the financial crisis and the sovereign debt crisis stemming from the United States and Europe have created a great impact on the stability of the current international monetary system and

created a rare opportunity for the internationalization of RMB. To set a new starting point, Chinese government carried out a RMB settlement pilot for cross-border trade in July 2009. Over the past few years, the process of RMB internationalization has evolved steadily and impressively. So, in 2011 the father of the euro, Mundell, pointed out that China's yuan (which means RMB) has surpassed Japan's yen [2].

In 2013, General Secretary Xi Jinping put forward the strategic proposition of constructing "Silk Road Economic Belt" (**Figure 1**), which is to build "The Belt and Road" with neighboring countries and countries along the Silk Road. While addressing the development issue of our country, the formation of an economic belt has not only increased the use of RMB, helped enhance the recognition of RMB in the different markets, but also provided a new turning point for the internationalization of RMB and played a key role in it. The gradual use of RMB in neighboring countries and regions shows the huge potential for RMB internationalization, which has played a positive part in China's economy, finance and foreign exchanges [3].

As an objective requirement of economic development and globalization, RMB internationalization is the trend of the times. Therefore, it is of great theoretical and practical significance to further study its status quo and influence, and to seize the new opportunity of The Belt and Road to explore a new path.

2. Literature Reviews

For the definition of internationalization of currency, Cohen first started from the monetary function, believing that the function of international currency is consistent with that of domestic currency, except that the use of currency extends to the whole world [4]. Kenen further defines the international currency, separating the use of money into official and private. At the official level, the currency acts as the intervention currency, the pegged currency and the international reserve currency in turn in the foreign exchange market; and on the private level, the currency in turn is the settlement currency, the valuation currency and the alternative currency in the international trade and financial markets [5].



Figure 1. Silk Road Economic Belt.

For the internationalization of currency, many scholars summarize from different angles. Cohen believes that the internationalization of currencies depends on two types of factors: one is the government's intervention in the internationalization of its currency, which is mainly manifested in the government's monopoly over the issue rights of currency and the management of monetary policies in the country; the other is the domestic and overseas transaction networks formed by market forces [4]. Mundell argues that the conditions for a fully internationalized currency include the issuer's larger share of global trade, output and finance, a highly open economy, the elimination of foreign exchange controls, the predictability and continuity of currency, and the stability of the currency value [6].

In the process of currency internationalization, foreign scholars focus on the analysis of the influencing factors of currency internationalization, including the economic strength of a country, its foreign trade, the development of financial markets and the stability of currency value.

Economic strength is considered as the most important indicator that affects the degree of internationalization of a country's currency. Kindleberger suggested that a strong economy could provide a solid economic foundation and a larger capital market capacity for domestic currency [7]. Eichengreen & Frankel compared the share of international currencies in global foreign exchange reserves with the share of their currency issuers in world output and found that they were highly correlated: an increase in a country's GDP would promote its currency in the global foreign exchange reserves. An increase in the share of 1% of the issuing country's GDP will raise the country's foreign exchange reserve ratio by 1.33% [8]. Chinn & Frankel, through the logit transformation and mixed-panel regression of major international monetary data from 1973 to 1998, found that the economic scale has a positive and nonlinear relationship with the degree of internationalization of money [9].

Foreign trade is also an important factor affecting the internationalization of money. Kubarych suggested that the larger the volume of a country's trade, the greater the demand for local currency in foreign exchange transactions, which will further strengthen the pricing power of domestic currencies [10]. McKinnon pointed out that frequent fluctuations in the prices of commodity trade will affect the futures product market and thus promote the development of financial markets [11]. From the perspective of trade, Shams examines the internationalization of domestic currency, believing that international currencies often appear in those countries where international trade accounts for the largest share of global trade [12].

Some scholars also discussed the influence of the degree of financial market development on the process of currency internationalization. Williams and Kenen argue that the decisive factor in the internationalization of currencies is the breadth, depth and freedom of financial markets. The breadth of financial markets is reflected in the scale of financial markets; the depth is reflected in the effi-

ciency of financial markets, which is manifested in the degree of market sophistication; and the degree of openness is reflected in the degree of freedom in financial markets as manifested by the absence of capital and exchange rate controls [13] [14]. Tavlas & Ozeki pointed out that the United States owns the world's most advanced financial market and is an important foundation for the U.S. dollar as an international currency. He pointed out that the issuing countries of international currencies should have stable and unregulated financial markets, and that the market must have diversified financial instruments and the level of the market and so on [15]. Hartmann & Otmar argue that a mature financial market can promote a country's currency to perform its full function, whereas financial market maturity measures in terms of size, liquidity and degree of development [16].

Some scholars also analyze the currency internationalization from the perspective of currency stability. Tavlas & Ozeki pointed out that the instability of the currency would distort the signaling of price. When the information search cost of a currency holder rises, it will naturally reduce the demand for the currency [15]. Aliber found that the frequent fluctuations in the exchange rate of European currencies in the middle of the last century led the market demand for international currencies to move towards the U.S. dollar, thus setting the U.S. dollar's international status [17]. Calvo & Vegh, Li & Mat-sui pointed out that the currency with the uncertain value will be replaced by the currency with the denominated value, resulting in a drop in the market demand for the currency with the indefinite value [18] [19].

Domestic research focuses on the influencing factors of RMB internationalization. Li Daokui believes that factors affecting the internationalization of a country's currency include the total economic development, the inflation rate, the real interest rate level, the exchange rate appreciation (depreciation) and volatility [20]. Based on the state space model, Ma Bin concluded that trade integration is the main driving force for promoting the internationalization of the RMB [21]. Taking RMB settlement ratio as a measure of internationalization of currency and using VAR model to measure the factors influencing the internationalization of RMB, Yuan Shenguo and Xu Dongmei found that the development of offshore financial markets and RMB appreciation are conducive to promoting RMB internationalization [22].

With the proposal of the Belt and Road initiative, many scholars have started to study the issue of RMB internationalization based on it. Chen Siqing put forward the new main line of pushing forward RMB internationalization further, namely, "enterprise going global" and "outputting RMB capital" [23]. Lin Lefen and Wang Shaonan pointed out that the economic scale, foreign direct investment, trade scale and economic freedom have a significant impact on the internationalization of the currency. At the same time, the Belt and Road initiative will significantly raise the international level of RMB by expanding foreign investment and actively engaging in trade with Europe and Asia [24]. Sun Churen

and others found that the implementation of the Belt and Road initiative has helped to boost China's export trade [25].

At present, the academic circles have made some achievements in the study of RMB internationalization. However, there are few studies on the internationalization of RMB under the Belt and Road. Is there any new chance and factors that the renminbi internationalization faces under the Belt and Road Initiative? How to choose the path of internationalization in the new era and what measures to take? In this paper, a systematic and comprehensive analysis of the above problems is made and leads to a new path and measures to be taken in the context of the Belt and Road initiative: "RMB free exchange → regionalization of RMB → internationalization of RMB".

In recent years, in order to ease the pressure of the trade deficit of the countries issuing the international reserve currency and to better disperse the foreign exchange reserve risks of all countries, the diversification of the international monetary system is imperative [26]. The global reserve system can be strengthened by increasing the role of alternative currencies, and given the continued strong economic growth and impact on the world, the renminbi is likely to become the new international currency. Therefore, the research on the new path of RMB internationalization under the Belt and Road initiative has great realistic and practical significance.

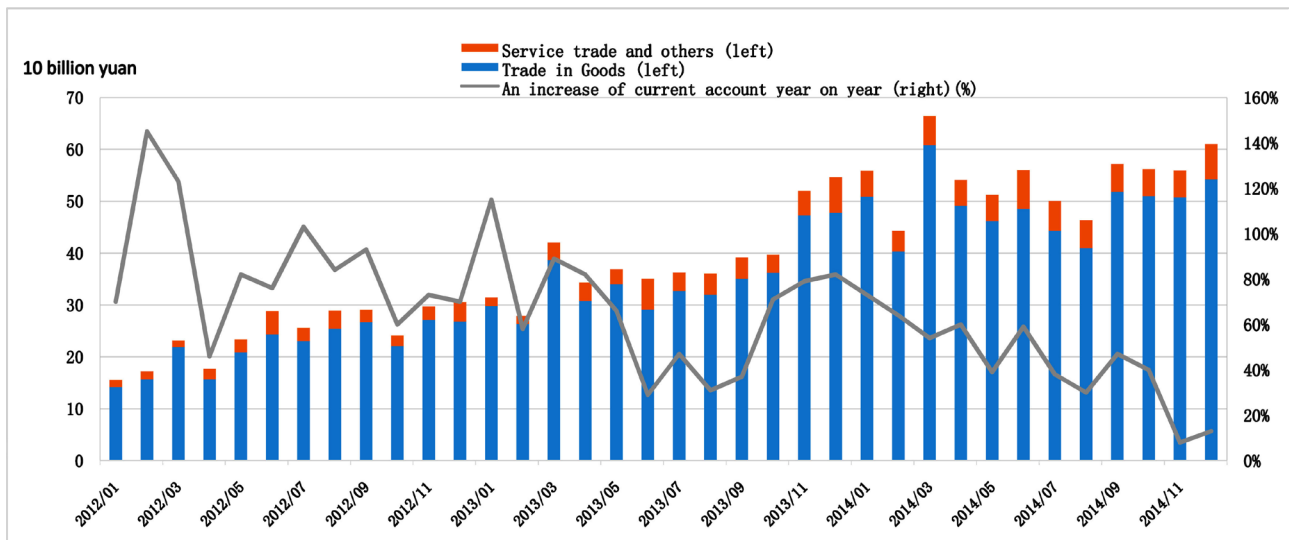
3. The Status Quo and New Opportunities

3.1. The Status Quo of RMB Internationalization

In 2014, the international use of RMB continued to develop rapidly and it is reported that the proportion of cross-border payments made by RMB has increased to 23.6 percent, and the offshore RMB market has been further expanded, which shows that the international cooperation in RMB has been continuously deepened. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) statistics, as of December 2014, Chinese RMB has become the world's second largest trade finance currency, the fifth largest payment currency and the sixth largest foreign exchange trading currency.

The use of RMB in cross-border trade and direct investment has steadily increased. Up to 2014, the amount of RMB settlement in current account was 6.55 trillion yuan, an increase of 41.6 year on year (Figure 2). RMB settlement in Overseas Direct Investment (ODI) amounted to 186.56 billion yuan, up 117.9 percent year on year; while that in Foreign Direct Investment (FDI) amounted to 862.02 billion yuan, up 92.4 percent year on year. Nowadays, RMB has become the price currency of foreign economic statistics, accounting and management for the Chinese government.

What's more, the international use of RMB is gradually expanded. According to incomplete statistics, as of the end of April 2015, about 666.7 billion RMB assets balance was held by foreign central banks or monetary authorities. Significant progress has been made in the convertibility of RMB capital account. In



Source: The report on the Internationalization of RMB in 2015, Hexun.

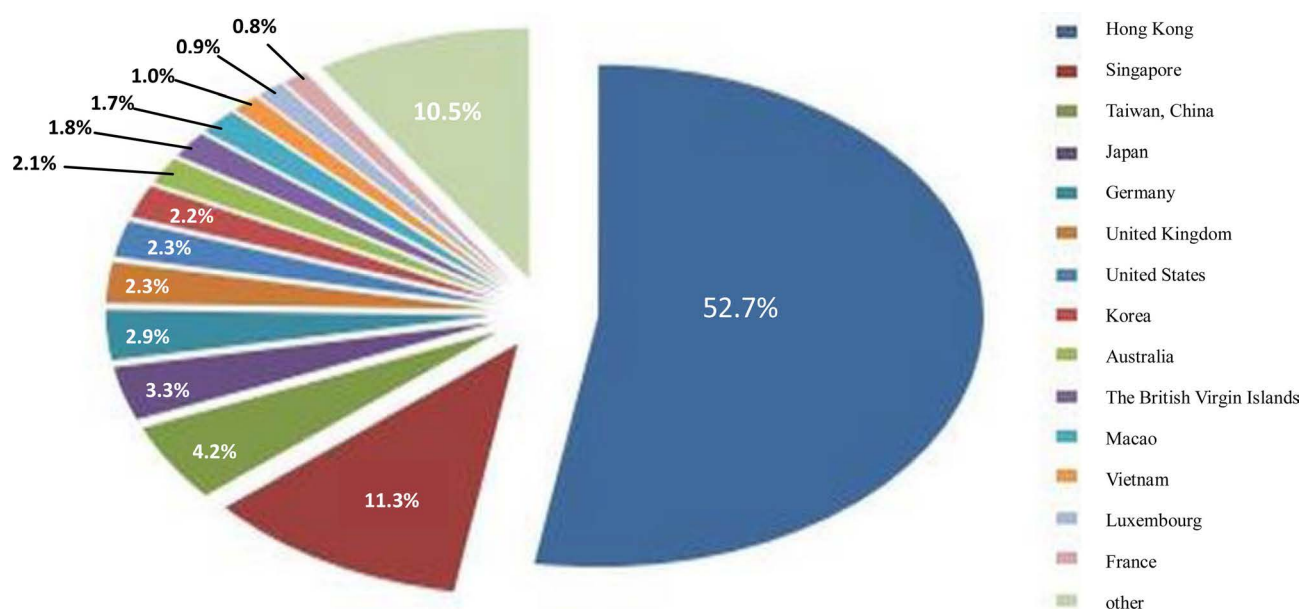
Figure 2. Monthly current-account renminbi settlement amount.

2014, the Shanghai-Hong Kong stock market transactions interoperability mechanism (also called “Shanghai-Hong Kong Stock Connect”) was launched smoothly; foreign institutions are more convenient to issue RMB bonds in China, and the foreign exchange management of capital projects is further simplified, so China is not far from the goal of realizing the convertibility of RMB capital projects [27].

The international cooperation on RMB has achieved remarkable results. By the end of 2014, there were 189 countries that had charged and paid cross-border renminbi with China (excluding Hong Kong, Macao and Taiwan). In 2014, the amount of Cross-border RMB Receipts and Payments in Hong Kong accounted for 52.7%, down 4.4 percentage points from a year earlier; while that proportion in Singapore, China Taiwan, Japan, Germany, the United Kingdom, etc., have increased over the same period in 2013. (Figure 3) What’s more, as of the end of May 2015, the People’s Bank of China signed bilateral currency swap agreements with the central banks or monetary authorities of 32 countries and regions, of which the total scale is about 3.1 trillion yuan and the substantial use has increased substantially; China also established RMB clearing arrangements in 15 countries and regions covering Southeast Asia, Western Europe, the Middle East, North America, South America and Oceania and other places, where the goods and services can be valued and settled in RMB.

3.2. New Opportunities of RMB Internationalization

October 24, 2014, China and other 21 countries jointly decided to set up the Asian Infrastructure Investment Bank (AIIB), for which China invested 50%. November 8, Chinese President Xi Jinping said that China will invest 40 billion US dollars to set up Silk Road Fund (SRF). The establishment of AIIB and SRF, have not only created a new model of regional financial cooperation, but also



Source: The Report on the Internationalization of RMB in 2015, Hexun.

Figure 3. The distribution of the country (area) in RMB cross-border payment.

accorded with the huge demand for Asian connectivity, which will effectively make up for the Asian infrastructure investment gap and promote regional economic and financial integration. When AIIB provides RMB infrastructure loans for Asian developing economies, some of the loans can be used to purchase China's machinery and equipment, or to pay for China's construction services, etc. This model will help to facilitate the settlement of RMB trade and reduce the transaction costs of foreign currency clearing, and furthermore, some RMB and financial assets purchased in RMB can also be held by local investors. Thus, through continuous investment, AIIB and SRF will increase the proportion of RMB in payment and settlement and accelerate the internationalization of RMB [28].

4. The Key Factors Analysis

4.1. Economic Factors Affecting Mechanism

The Belt and Road has provided a new impetus to China's economic growth. Through cooperation with foreign economies, China will export its competitive products, technologies and services to other countries and broaden overseas markets, providing the impetus for the improvement of China's economic strength.

Specifically, the Belt and Road will bring benefits to the development of the eastern, central and western regions respectively. In the east, with the escalation of China-ASEAN (Association of Southeast Asian Nations), not only the cooperation with neighboring countries will be deepened, but also the new regional cooperation system will be opened to make a new round of strong development in the eastern region. Central part is located between the eastern part of the de-

veloped manufacturing and high-tech industries and the western part with resource advantages. With the Belt and Road initiative, the effective flow of resources between the east and the west will promote the emergence of the central region as a hub. The western region closely follows Central and Western Asia [29]. With the proposed B&R strategy, the western region will gain new momentum of opening up. After the improvement of the infrastructure of pipelines, highways and railways and the construction of the AIIB, the Belt and Road Initiative will help promote the economic development and strength of the western region. Meanwhile, the rise of central and western China is conducive to the balanced development of China's economy.

In addition, the countries along the Belt and Road have the advantages of labor cost and natural resource endowment. As the roads are interconnected and the infrastructure such as high-speed rail and highways are completed, the geographical distance will be shortened to help transfer domestic labor and capital-intensive industries to countries along the Belt and Road [30]. The transfer of industry is bound to be accompanied by the exchange of money and the expansion of the settlement scale, thereby enhancing the internationalization of RMB.

4.2. Investment and Trade Factors Affecting Mechanism

There are 64 countries along the Belt and Road, whose trade volume with China is huge and has been accelerating. Statistics show that the visible and invisible trade exports along the Belt and Road have accounted for about 24% of the total world trade and that China's share of exports to the Belt and Road countries is expected to rise to one-third in 10 years [31]. From the perspective of trade structure, China imports various commodities such as energy, minerals, metals and grain from countries along the routes, while countries along the routes import major manufacturing products such as machinery and transportation tools from China.

As far as investment is concerned, the countries along the Belt and Road have a strong demand for long-term investment from China. According to statistics from relevant departments, the investment gap of infrastructure in the next five years in countries along the Belt and Road will be as high as 800 billion U.S. dollars, excluding the construction of industrial parks, capacity building and production and living arrangements for warehousing, logistics, housing and medical services. Because of the tremendous demand for funds, it is impossible to invest in foreign exchange alone, which means that it is inevitable to use a portion of RMB as the investment currency and the settlement currency. According to data from the Asian Development Bank, the gap in infrastructure investment in Asia in the next 10 years is estimated at 730 billion U.S. dollars each year.

The current international economic transactions and investment are basically denominated in U.S. dollars and euros, which shows the use of currencies has some "inertia" [32]. However, in the process of the Belt and Road initiative, countries along the line have had closer exchanges with the Chinese economy

and the renminbi may have more opportunities for use, expanding its scope of use. For enterprises, the provision of denominated functions and settlement functions in RMB will provide both parties in the transaction with a second choice opportunity to increase the utilization rate of Renminbi in financial institutions such as the AIIB and raise the level of RMB participation.

4.3. Exchange Rate System Affecting Mechanism

The precondition for a country's currency to become an international currency lies in the stability of the expected value now and in the future, so that people can gain a stable understanding of the currency and thus increase their confidence in holding. Not only that, but also a steady exchange rate is required for a country's currency to become a trade settlement payment tool or to realize its investment function under a capital account. In the long run, the fluctuation of the RMB exchange rate is too frequent to build people's confidence in the value of the renminbi. Moreover, the instability of the exchange rate in the short run will not be conducive to the stability of the renminbi, which causes the detriment of RMB internationalized.

Therefore, the stability of the RMB exchange rate is the condition for the RMB to win the international market. That is to say, a stable RMB exchange rate is the prerequisite for the internationalization of the RMB [33]. With the deepening of the construction of the Belt and Road initiative, the degree of recognition and acceptance of RMB will continue to increase. The renminbi has played an important role in East Asian countries and has been widely recognized in the region. So, the Chinese government is making every effort to ensure the stability of the yuan's currency and the renminbi's use in the surrounding area will widen.

4.4. Currency History Inertia Affecting Mechanism

Many countries in the world have inertia in the use of currencies in international trade and financial markets, while the U.S. dollar, Japanese yen and the euro are highly internationally recognized currencies. When a country wants to abandon or convert the use of the currency, it is necessary to persuade collaborators to make the same changes, which leads to the generation of switching costs. The economies of scale and conversion costs of international currency use are important reasons for the U.S. dollar to maintain its international status [34].

In the primary stage of socialism and as a developing country, Chinese financial market is not yet perfect, the freely convertible capital account has not yet been completed and the currency has not yet been freely circulated. Therefore, the process of RMB internationalization will be very slow. The construction of the Belt and Road Initiative covers many countries in Asia, Europe and Africa, making it an important channel for China to exchange economic, political, cultural and technological with other countries along the world.

The construction of the Belt and Road Initiative can enhance the economic and trade cooperation between China and other countries along the line and

enhance the regionalization of the Renminbi. Then, under the radiation of these countries, the RMB will be eventually internationalized.

To sum up, the strategy of the Belt and Road will not only promote trade and financial activities in the region, but will also stimulate the movement of currencies. The RMB impact mechanism under the Belt and Road initiative is as follows (Figure 4):

Foreign trade allowed the renminbi to cross the border and the renminbi reserve outside the country increased, which can be returned to China through RMB investment and the purchase of RMB financial products. Circulation of Renminbi at home and abroad has promoted the circulation of the renminbi, the acceleration of which has also been counterproductive in international trade and international financial activities, making the denomination and settlement of RMB in foreign trade further deepened and the level of RMB internationalization further raised. In terms of OFDI (Outward Foreign Direct Investment), the investment income of RMB will also be included in the RMB settlement, reducing the exchange rate risk and being counterproductive in foreign trade. Nowadays, due to the stable exchange rate and high hedging value, more and more countries regard the renminbi as a reserve currency, which will further expand

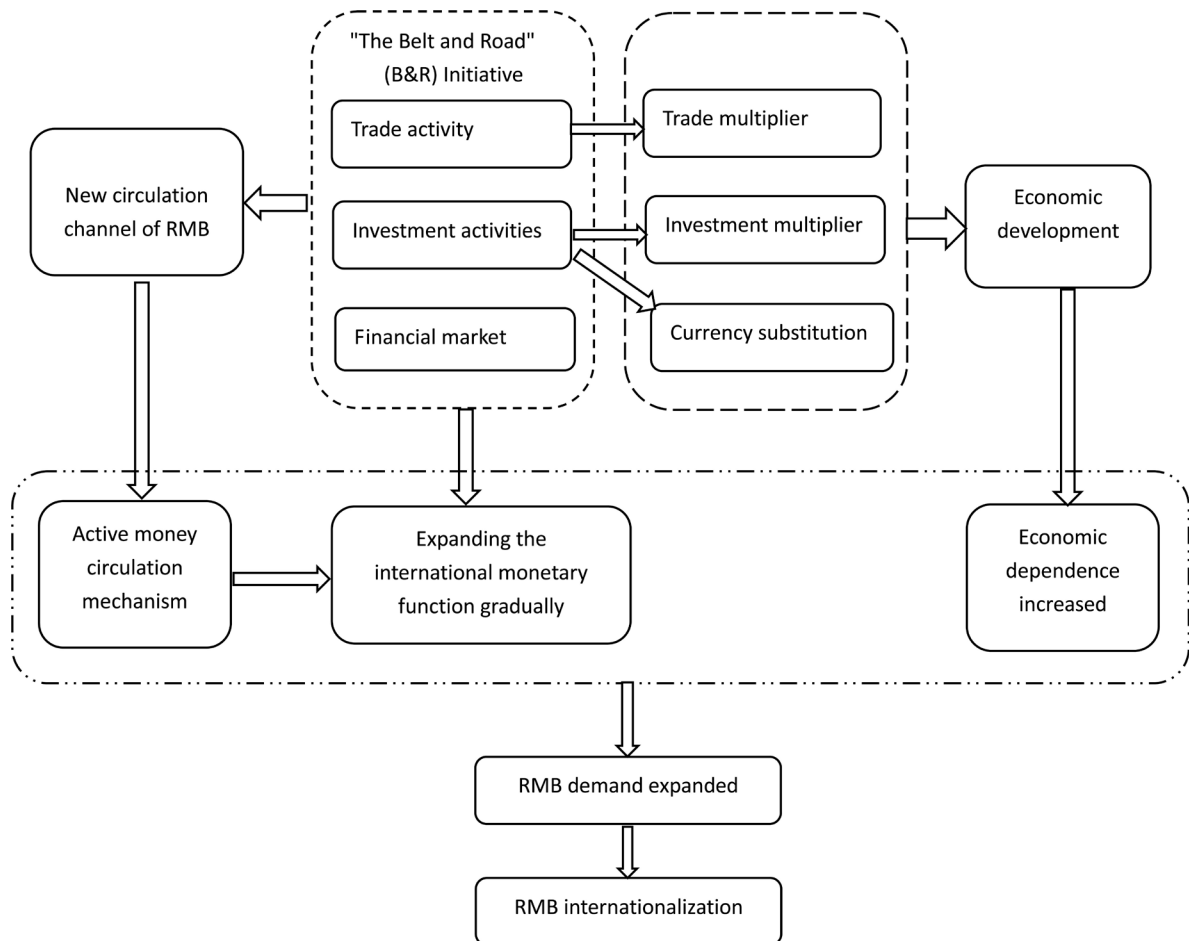


Figure 4. Factors influencing the RMB internationalization under the Belt and Road initiative.

the scale of RMB foreign exchange reserves and will be conducive to the extension of the renminbi storage function in other countries [35]. Under the Belt and Road Initiative, China will focus on infrastructure construction, and will surely become a major investor with the gradual landing of the AIIB. As a result, circulation of capital projects will be greatly promoted and the circulation speed of RMB will be further enhanced. Through the dual drive of trade and investment, trade multiplier, investment multiplier, currency substitution effect and financial platform, government can expand the use of RMB and its investment and value storage in overseas markets, and promote the effective circulation and the realization of RMB internationalization eventually.

5. The Path Selection

RMB internationalization generally need to go through the following three steps: RMB free exchange → RMB regionalization → to achieve the internationalization of RMB.

5.1. Promoting the Construction of Relevant Systems and Mechanisms to Achieve Free Exchange of RMB

The growth of international trade and investment, the development of financial markets, the requirements of the World Trade Organization and the strengthening of regional economic cooperation all require to realize RMB free exchange at an early date.

First, steadily promote the marketization of interest rates. Market-based interest rate means that the financial institutions will adjust their own interest rates according to their own financial conditions and their judgments on the financial markets. Based on the benchmark interest rate of the Central Bank and the interest rate of the money market, the market interest rate system and interest rate formation mechanism has determined the deposit and loan interest rates of financial institutions by market supply and demand [36]. At present, the control of lending rates of financial institutions in our country has been fully liberalized. Since August 26, 2015, the floating ceiling of interest rates on fixed deposits of more than one year (excluding one-year period) has also been lifted, and marketization of interest rates is being actively promoted in.

Second, implement the flexible exchange rate system. With the improvement of RMB internationalization and the gradual opening of capital account, in order to maintain the controllability of monetary policy, it is inevitable to expand the floating range of exchange rate so as to make it truly reflect the ratio between currencies. The market-oriented exchange rate can effectively regulate the circulation of RMB so as to facilitate its function of international currency. The reform of the flexible exchange rate system must be combined with the RMB free exchange and the RMB internationalization process and steadily promoted.

Finally, the renminbi current account has been liberalized, so RMB becomes a freely convertible currency after the capital account also becomes freely con-

vertible. At present, China uses the Belt and Road initiative to actively promote this process—First, to facilitate the personal investment inside and outside the country. Secondly, to promote the liberalization of capital markets. Whether it is a bond or a stock issuer, future degrees of freedom will be even greater. Overseas investors can issue domestically, or domestic investors can issue overseas, and the selected currency is convertible currency or RMB. The third is to examine and amend the “Regulations on Foreign Exchange Administration” in accordance with the requirements of RMB becoming a freely-used currency, allowing the RMB to be freely converted, and at the same time, strengthening the construction of the monitoring system so that the RMB can be circulated and used in an orderly manner.

However, the Chinese government has also made it clear that there is no timetable for the free conversion of the renminbi and it’s necessary to be cautious on the issue of the freely convertible RMB capital account. It not only needs to protect the domestic economy from overheating and inflation, triggering an economic crisis, but also to prevent frequent hot money from entering and leaving the financial markets, causing serious disruptions.

5.2. Increasing the Proportion of Pricing and Settlement in the Regional Economy to Conduct RMB Regionalization

RMB regionalization refers to exercise the functions of convertibility, trading, circulation and reserve in a geographical area by using RMB. Regionalization of RMB is not a monetary integration of RMB in the Asian region, but an attempt to become the key currency in the region. At present, RMB is widely circulated in South Korea, Russia, Vietnam, North Korea, Laos, Pakistan, Hong Kong and China Taiwan and other neighboring countries and regions to become truly hard currency, winning a high degree of recognition.

In the process of RMB regionalization, we should take the opportunity of “The Belt and Road” and make full use of it to inject new vitality into the internationalization of RMB, and also build a complementary relationship between B&R and RMB internationalization to expand the construction and operation of the RMB trade settlement business and RMB offshore financial center [37]. At the same time, it is necessary to actively sign free trade agreements with various Asian countries, eliminate trade barriers, give full play to China’s advantage as a major importer in Asia and expand the scope and scale of trade valuation and settlement in RMB.

The internationalization of RMB will surely impact the position and vested interests of the yen in Asia. The coordination and cooperation between the renminbi and the yen will be the key and difficult issue for the monetary cooperation in the regional economy, and the key to whether the renminbi can be smoothly regionalized. It is foreseeable that the renminbi and the yen will coexist for a long time to jointly promote the cooperation in currencies of the Asian region [38]. In addition, lessons should be drawn from the internationalization

of the yen in the process of regionalization of RMB, and the dependence on the U.S. dollar should be gradually reduced so as to reduce the risks that may arise in the course of getting rid of the U.S. dollar.

5.3. The Internationalization of RMB

With the gradual implementation of “The Belt and Road”, the recognition of RMB has been gradually increasing, based on which, the establishment of “RMB zone” will then be extended to the outside world by China’s strong economic and comprehensive national strength, and radiates the entire world. The Chinese government needs to take the initiative to participate in the reform of the international monetary system and actively promote the RMB internationalization. We believe this goal will eventually come to fruition.

6. The Influence of RMB Internationalization

The internationalization of the renminbi is the trend of the times and should be gradually achieved in line with the objective needs of economic development. However, it is also necessary to make clear the positive and negative impact this process has on economy.

6.1. The Positive Effect of RMB Internationalization on China’s Economy

1) Maintaining the value of stock amount on Chinese economy

Since RMB is not an international currency, Chinese exports and imports are denominated in foreign currencies, and as a surplus country, China is vulnerable to international capital markets with the continued accumulation of huge foreign exchange reserves. So if RMB is more widely used as a settlement currency in foreign trade, it can not only Reduce the size of the foreign exchange reserves so as to weaken the impact on the stock of China’s economy due to fluctuations in international financial markets, but also decrease the foreign exchange risk of Chinese enterprises and ease the pressure on the government to operate foreign exchange reserves.

2) Promoting the balance of incremental amount on Chinese economy

The imbalance between investment and consumption, exports and domestic demand in the Chinese economy affects China’s own economic development and puts pressure on China’s exchange rate and interest rate policies on the one hand; on the other hand, it is also brought to the global economy by large and persistent trade surpluses. Although the internationalization of RMB can not directly reduce such structural imbalance, it is of great significance to effectively control the growth of foreign exchange reserves, ease exchange rate pressure and increase the economic and trade balanced and harmonious development between China and its major regions and resource partners.

3) Heightening the right of economic and political discourse

China is already the world’s second largest economy, but in the international

economic and financial fields, China's voice and influence is far from commensurate with this achievement, which is largely related to the lack of international status of RMB. Under the influence of AIIB and The Belt and Road, if RMB can be accepted as a settlement currency by Chinese trading partners, it will have a positive effect on promoting regional relations and economic cooperation, and will also increase China's influence in international trade, through which Chinese government can increase the initiative and flexibility of the exchange rate policy [39]. Every step of RMB to the international reserve currency is a concrete manifestation of the promotion of China's global political discourse. Therefore, at this stage, whether from the consideration of economic development or national strategy and geopolitics, the internationalization of RMB is a necessary pace.

In addition, RMB internationalization will also bring huge international coin tax income to China, and promote China's financial market more standardized and international, which is more conducive to the healthy development of China's economy in the end.

6.2. The Negative Effect of RMB Internationalization on China's Economy

1) Increasing the difficulty of implementing domestic monetary policy

The internationalization of currency will affect the effect of issuer's monetary policies and reduce the ability of the authorities to control the base money and regulate the domestic economy. Since there is a conflict of internal and external balance between the different functions of the currency when it becomes international, the more RMB is held internationally, the harder it will be for domestic financial policies to be implemented [40]. Meanwhile, because of the removal of monetary barriers, the economic crisis and inflation can be passed on to China at any time.

2) Increasing the pressure on rising interest rates in domestic money market

Keynes divided the demand for money into three motivations—trading motives, motivations and speculative motives, beside which, there is another one called investment motives in the process of RMB internationalization. These motivations have led to an increasing demand for RMB, so that if its supply remains unchanged, the demand curve will continually move to the upper right and the interest rate will rise endlessly.

3) Affecting the stability of the domestic price level

According to Fisher's trading formula $MV = PT$ (M for the money demand, V for the currency circulation velocity, P for the total price level, T for the quantity of the commodity to be traded), it can introduce that $P = MV/T$, where M is the money supply and should take the demand for RMB at home and abroad into consideration after RMB internationalization. If T and V remain unchanged, the increase in M will lead to rising domestic price. But if China's central bank doesn't fully take into account the increase in foreign demand for RMB in the

supply of money, China's price level will keep up to decline and there will be deflation finally.

There are other potential drawbacks to the internationalization of RMB, such as increasing a long-term appreciation pressure of RMB exchange rate, causing international payments imbalance, influencing the effect of regulation on capital projects, increasing the risk of domestic financial institutions management, etc., but overall, the benefits of RMB internationalisation outweigh the disadvantages [41]. Therefore, in order to obtain the right to speak in the global financial markets, China must join the currency internationalization, and should continue to improve the domestic financial markets and constantly enhance the ability to resist risks at the same time.

7. The Promotion of RMB Internationalization

After fully understanding the impact of RMB internationalization, we should seize the new opportunities provided by the Belt and Road Initiative and do the following:

7.1. To Safeguard the Stable Operation of Economic Development and Speed up the Construction of Domestic Financial Markets and International Financial Centers

Both the realization of "The Belt and Road" and RMB internationalization require a strong economic strength. While focusing on vigorously promoting the RMB internationalization, we must also take into consideration the domestic economic conditions and maintain a steady economic development so as to make it better promote the internationalization of RMB.

The internationalization of RMB fundamentally depends on the steady growth of China's economy and foreign trade. In combination with major development strategies and measures such as the Belt and Road Initiative in China, the Silk Road Fund, the establishment of a free trade zone, and the AIIB, we can promote the steady and rapid growth of the domestic economy while promoting the use of the renminbi. The international currency needs a stable supply channel, and expanding foreign trade and investment is one important way to internationalize the RMB [42]. Therefore, China should continue to step up its efforts in foreign trade and investment, expand the scope and scale of RMB, change the traditional concept of maintaining trade surplus with international trade, and continuously export the renminbi to promote its internationalization.

In the process of internationalization of RMB, its overseas circulation will increase substantially, most of which will return to the domestic and a small part will form an offshore RMB market. Thus, a developed, open and free financial market is needed to absorb and digest these RMB. The construction of an international financial center will also greatly promote the internationalization of the Renminbi. We must seize the strategic opportunities for the current global financial system and accelerate the building of an international financial center in Shanghai.

In addition, the existing RMB cross-border payment and settlement channels and resources need to be consolidated to improve the efficiency of cross-border liquidation and meet the development needs of renminbi business in major time zones so as to enhance the security of transactions and establish a fair market competition environment.

7.2. To Intensify Trade with Neighboring Countries and Maintain the Stability of the Trade Environment

Under the “The Belt and Road” initiative, we should actively strengthen trade with neighboring countries, through which, the RMB will become the international reserve currency of those countries [43]. At the same time, we must speed up the RMB regionalization, further enhance its international status and strengthen China’s influence on the world economy when promoting the development of China’s international trade and investment.

There are conflicts inevitably arose among different countries along the “The Belt and Road”. Thus, China should make preparations and precautionary measures in advance to assume the responsibility of safeguarding the trade environment so as to provide a stable platform for the internationalization of RMB.

Exports have a catalytic role in RMB internationalization. Therefore, maintaining an appropriate trade surplus is an advantage for the internationalization of RMB. At the same time, bilateral trade activities with all countries along the “The Belt and Road” should also be strengthened.

7.3. To Make Effective Use of AIIB Platform and Establish a Worldwide Banking System

The AIIB came into being as the “The Belt and Road” infrastructure construction needs a lot of money. Being an important financial platform in China, the AIIB must shoulder the task of capital backing in this process and really solve the problem of shortage of funds [44]. We can actively advocate the priority of using RMB within the AIIB to expand its investment demand. This will, to a certain extent, help shape the currency inertia of Renminbi within the “The Belt and Road” and promote its internationalization.

In addition, in order to ensure and facilitate the development of overseas business of RMB, there needs to be a well-developed Chinese banking institution with offices all over the world. Based on the current status of RMB internationalization, we should speed up the construction of branches in the periphery or in other Asian countries and regions and gradually expand them globally.

Nowadays, signs of RMB internationalization have been shown in neighboring countries and some regional economies with a low current level, which have different effects on China’s economy, but the trend of internationalization is irreversible. According to the current pattern of the world economy and the historical law, the process of RMB internationalization is long and tortuous, so we should steadily analyze every situation to push forward this process step by step.

8. Conclusions

RMB internationalization is a long-term strategy, which requires unrelenting efforts and perseverance to gradually promote the development of RMB internationalization. Based on the status quo and new opportunities of RMB internationalization under the Belt and Road initiative, this paper analyzes the new influencing factors including the economic mechanism, investment and trade factors, the exchange rate system and the historical inertia of the currency on the RMB internationalization process. On the basis of the above analysis, a new path of “RMB free exchange → RMB regionalization → RMB internationalization” is proposed. Then, after clarifying the positive and negative effects of the renminbi internationalization on economic development, financial markets and policy implementation etc., we proposed some new measures to speed up the internationalization of the renminbi, which includes speeding up the construction of domestic financial markets and international financial centers, strengthening trade with neighboring countries, making effective use of the AIIB platform and establishing a worldwide banking system.

At this stage, we should take the opportunity of vigorously pushing forward the Belt and Road initiative and make good use of the strategy to inject new vitality into the RMB internationalization. It is wise to exert the synergy between the Belt and Road and renminbi internationalization to expand the RMB trade settlement business and the construction and operation of the RMB offshore financial center.

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