

The Impact of the Belt and Road Initiative on the Internationalization of the RMB

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Abstract: The aim of this paper is to explore the impact of the Belt and Road Initiative on the internationalization of the RMB. Through analysis of the implementation of the initiative and related data, we find that the initiative has had a positive impact on the internationalization of the RMB. The initiative has promoted the use and recognition of the RMB in participating countries, and has contributed to the growth of the RMB in cross-border payments, trade settlement and as a reserve currency. In addition, the initiative has increased the visibility and trust in the RMB and strengthened economic cooperation between China and the participating countries. However, some challenges and obstacles also exist, such as financial system integration, regulatory harmonization and cultural differences. This paper presents a comprehensive analysis of these aspects and proposes corresponding policy recommendations to promote the wider use of the RMB in the Belt and Road Initiative.

Keywords: Belt and Road Initiative; RMB Internationalization; Cross-Border Payments

1. Introduction

The Belt and Road Initiative is an important strategic initiative proposed by the Chinese government to promote regional cooperation and global economic development. As the initiative continues to advance, significant progress has been made in the internationalization of the RMB as an important part of it. This paper will discuss the impact of the Belt and Road Initiative on the internationalization of the RMB. First, the background and objectives of the Belt and Road Initiative are introduced, followed by an analysis of the specific impact of the Initiative on the internationalization of the RMB, including its use and recognition in participating countries, the promotion of cross-border payments and trade settlements, and the status of the RMB as a reserve currency. This is followed by a discussion of the challenges and obstacles faced in the internationalization of the RMB, and the corresponding policy recommendations.

2. RMB Internationalization

2.1 Significance of RMB Internationalization

The internationalization of RMB has important significance for both China and the global economy. First, the internationalization of the RMB helps to increase China's financial strength and influence. As the world's second largest economy, the internationalization of the RMB can enable China to play a greater role in the international financial market and promote the opening and reform of the financial market. Second, the internationalization of the RMB helps reduce China's foreign exchange risk. ^[1] By expanding the international use of the RMB, China can reduce its dependence on the US dollar and reduce foreign exchange risks and external shocks. In addition, RMB internationalization can help promote the facilitation of international trade and investment, improve transaction efficiency and reduce transaction costs.

2.2 Progress of RMB internationalization

Since 2009, the Chinese government has taken a series of measures to promote the process of RMB internationalization. First, China has strengthened the cross-border use and settlement of the RMB and promoted the application of the RMB in

foreign trade. Second, China has actively developed offshore markets for the RMB, such as Hong Kong, Singapore and London. These offshore markets offer a more flexible RMB trading environment and a wider range of financial products. In addition, China has signed a series of currency swap agreements with other countries to facilitate the internationalization of the RMB. These efforts have led to a gradual increase in the RMB status in international trade settlements, investments and reserves.

3. The use and recognition of the RMB in participating countries under the Belt and Road Initiative

3.1 Growth trends and data analysis of RMB payments

As the "Belt and Road" initiative progresses, the use of the RMB in participating countries is on the rise. An analysis of data and statistics reveals the growth of the RMB in the payment sector in countries along the initiative. This includes the use of RMB in trade settlement, investment and financing, as well as the proportion of payments and the amount of transactions between RMB and other currencies. 2021, the total amount of cross-border RMB settlement was RMB 36.61 trillion, an increase of 29.0% year-on-year. Total receipts were RMB18.51 trillion, up 31.3% y-o-y, while payments were RMB18.10 trillion, up 26.7% y-o-y. The ratio of receipts to payments was 1:0.98, with a net inflow of RMB404.47 billion, compared to a net outflow of RMB185.79 billion in the same period last year. the share of cross-border transactions settled in RMB accounted for 47.4% in 2021, 1.2 percentage points higher than that in 2020. in the first half of 2022, cross-border RMB settlement amounted to RMB20.32 trillion, up 15.7% year-on-year.

3.2 The application of RMB in trade settlement

The One Belt One Road initiative has led to an increase in trade activities between participating countries, and the use of the RMB in this context has also been enhanced. By exploring the use of RMB in trade settlement, including the share of RMB settlement, the number and scale of trading partner countries, and the development and innovation of RMB settlement mechanisms, China's cross-border RMB settlement with countries along the Belt and Road was RMB 5.42 trillion in 2021, up 19.6% year-on-year and accounting for 14.8% of total cross-border RMB settlement. Of this amount, RMB 998.27 billion yuan was related to trade in goods. related to trade in goods, up 14.7% y-o-y; and RMB 622.56 billion for direct investment, up 43.4% y-o-y. By the end of 2021, China had signed bilateral local currency swap agreements with 22 central banks or monetary authorities along the route and had established RMB settlement arrangements in eight countries along the route.

4. Impact of the Belt and Road Initiative on cross-border RMB payments

4.1 Increased convenience and efficiency of cross-border payments

Cross-border payments in RMB have improved significantly under the Belt and Road Initiative. This analysis will look at the improvements in the convenience and efficiency of cross-border payments, including improvements in the speed, cost and security of cross-border RMB payments. It is also possible to explore the impact of the initiative on cross-border payment systems and technologies, such as the use of financial technology and the development of cross-border payment platforms.

4.2 Scale and growth trend of RMB cross-border payments

The analysis of relevant data and statistics provides insight into the scale and growth trend of cross-border RMB payments. In 2021, cross-border RMB settlement between mainland China and Hong Kong Special Administrative Region (SAR) accounted for 48.6% of the total, ranking first. Singapore (11.3%), the UK (5.4%) and Macao SAR (3.9%) rank second to fourth. The top 10 countries and regions accounted for 77.8% of the total cross-border RMB settlement, down from 80.9% in 2020, with more diversified cross-border RMB settlement fund flows. This includes the amount of RMB cross-border payments in countries along the initiative, the number of payments made and the number of payment recipients. By comparing data from different time periods and participating countries, the development and prospects of RMB cross-border payments can be assessed.

4.3 The position of the RMB in the payment systems of participating countries

The advancement of the Belt and Road Initiative has had an impact on the position of the RMB in the payment systems of participating countries. There are two reasons for the record high share of RMB in the global payment share. Firstly, China's stable epidemic prevention and control situation has fueled a steady economic recovery, with GDP growth of 8.1% year-on-year in 2021, a two-year average of 5.1%, leading the way among major economies; secondly, China's foreign trade has maintained a high boom, with exports growing by 29.9% year-on-year in 2021, with total exports exceeding US\$3 trillion for the first time, and a significant widening of the trade surplus, which exceeded US\$600 billion for the first time, reaching US\$676.4 billion, further increasing its share in global trade.

5. Suggestions

(1) Maintain stable economic growth, actively adjust the economic structure and promote innovation-driven development. China's economic development has entered a new normal, evolving into a more advanced form, more complex division of labor and more rational structure. Facing the complex and changing international situation, China should actively seize the opportunities brought by the "Belt and Road" initiative, recognize the new normal, adapt to the new normal and lead the new normal, further promote sustainable and healthy economic development, and lay a solid foundation for RMB internationalization.^[4]

(2) Actively carry out foreign trade activities and expand the scale of foreign trade. Promote the use of RMB for valuation and settlement in trade transactions with countries along the route, increase the use and recognition of RMB in the international market, make more countries familiar with and accept RMB, and cultivate currency inertia.

(3) Expand the scale of foreign investment and actively expand the countries where investment can be made. The infrastructure of some countries along the route is backward, so China can help countries along the route to build railroads, ports and other infrastructure, and turn our excess capacity into foreign investment, and actively promote the use of RMB in the process to further promote the internationalization of RMB.

(4) Control the level of inflation and maintain the stability of the currency. China should control the money supply, further deepen reforms, accurately grasp the economic situation, and prudently and flexibly use macro-control instruments.

(5) Play the regulating role of the government and gradually carry out opening up. In the process of promoting the internationalization of the RMB, free financial markets should not be pursued blindly, but should be developed gradually under the guidance of the government.

6. Conclusion

The Belt and Road Initiative provides an important opportunity and impetus for the internationalization of the RMB. By promoting the use and recognition of the RMB in participating countries, facilitating cross-border payments and trade settlements, and strengthening the RMB position as a reserve currency, the initiative has made a positive contribution to the internationalization of the RMB. However, it faces challenges such as financial system integration, regulatory harmonization and cultural differences. To further promote the internationalization of the RMB, governments should strengthen international cooperation, improve financial regulation and risk management capabilities, and actively promote the development of an international payment system for the RMB.

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