

The Relationship Between RMB Internationalization and the International Monetary System

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ABSTRACT

This article summarizes the current research situation in the internationalization of the RMB and the International Monetary System. The article will face significant events since the start of the RMB internationalization process, including the Subprime Mortgage Crisis, the “One Belt, One Road” initiative, and China's entry into the SDR currency, the Sino-US trade friction and COVID-19. It summarizes the impact of these five events on the process of RMB internationalization and reform of the International Monetary System.

Keywords: *RMB Internationalization, International Monetary System, COVID-19*

1. INTRODUCTION

Since China overtook Japan’ place to become the world's second largest economy in 2010, China's international status and national power have steadily risen, and its political discourse has also increased day by day, but the international status of the RMB is not yet fully recognized. The degree of internationalization of the RMB lags behind our country's influence in the world. A study on the impact of RMB internationalization and International Monetary System reform is not only academically important, but also related to the current political and economic issues. The relationship of influence between the two countries is very worth studying, as the reform of the International Monetary System will certainly promote China to some extent in the process of RMB internationalization.

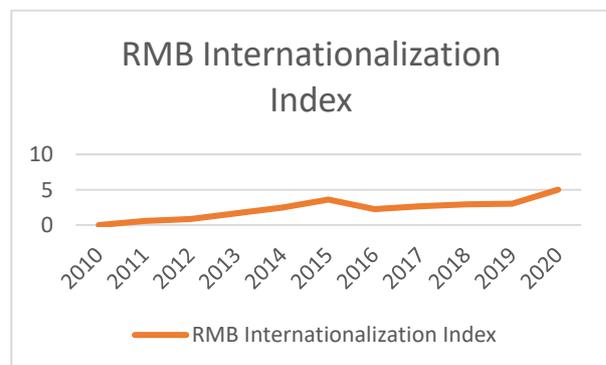
international currencies according to their functions which is now most commonly used worldwide, the other is to classify international currencies according to the nature of the factors that support their use.

In 2020, the hand settlement function of RMB in the international trade will continue to be strengthened, and the international finance measurement and trading function will continue to deepen,so that the status of the international reserve currency will be stable and developed. The RMB internationalization index for 2020 in 5.02%. This is an increase of 54.20% from the previous year of 3.03% in 2019, which is a highest record in history. Meanwhile,the use of RMB has surpasses the Yen and Pound, becoming the third largest currency in the world. But there are also some problems come across.

2. LITERATURE REVIEW

2.1 Definition and Research Status of RMB Internationalization

We generally think of currency internationalization means that the currency of a country is used in other countries or regions while Hyoung-kyu chey [1] divided it into two concepts in more detail. One concept is to classify



2.2 Definition and Research Status of International Monetary System

And about the International Monetary System, Edwin M. Truman [2] believed that the International Monetary System is a set of rules and official actions to manage and affecting international economic and financial system, the current International Monetary System has its advantages and disadvantages.

One of the main advantages of monetary system is the existence of its financial system and its adaptability to different demands of different users. Meanwhile, there is a high degree of freedom in the current International Monetary System compared with the past. [3] But its instability is also evident. Guo qing [4] argues that the Triffin conundrum in particular. The US dollar still has a considerable advantage in the International Monetary System which as a “irregular time bomb” leading to a financial collapse, and the excessive fluctuations in the international currency exchange rate also lead to the excessive fluctuations in the exchange rates of other countries, resulting in frequent currency crises. Secondly.

3. THE IMPACT OF HISTORICAL EVENTS ON THE INTERNATIONALIZATION OF RMB AND THE INTERNATIONAL MONETARY SYSTEM

3.1 Subprime Mortgage Crisis

Subprime Mortgage Crisis has swept the major global financial markets since 2007, which inflicting a massive structural crash to the global financial system and is being forced to under restructuring. However, the U.S. dollar as the major international reserves and settlement currencies didn't affected heavily, actually it grasped the chance and strengthened in the Financial Crisis which help to maintain the International Monetary System.

As American adopted the loose Monetary policy and weak dollar exchange rate policy, many Southeast Asian countries also chose to reduce the impact of the Subprime Mortgage Crisis through currency depreciation, which reduced China's exportation and slowed China's economic growth. The sharp devaluation of the U.S. dollar also created a huge exchange rate risk for China. But Chinese government was still choosing to maintain

the stability of RMB which improved the credibility of RMB in the international market.

3.2 One Belt One Road

When the Belt and Road Initiative was proposed in 2013, the internationalization of RMB was still in its infancy compared to some developed countries. However, as the currency internationalization level of the nations along the "One Belt and One Road" is generally low, which means the RMB is the currency with the highest level of internationalization in the "One Belt and One Road" region and this provides an opportunity to improve the level of nationalization of the RMB.

In the process of building the Belt and Road Initiative, China has been actively promoting international monetary cooperation and domestic currency settlement, which ensured RMB liquidity supply, expanded the RMB usage platform and significantly increased the RMB usage scale.

3.3 SDR

Joining the SDR currency basket is a kind of confirmation by the international community to the achievements of China's economic development and reform. It also has strengthened the RMB's status as an international reserve currency and helped to fulfill the RMB's monetary function by enabling countries worldwide to increase their confidence in RMB, which further enhance the international credit of RMB, actively promote the internationalization of RMB and also contribute to the reform of the International Monetary System.

Global reserve assets are an important quantitative factor in monetary internationalization, but the proportion of SDR in global reserve assets does not exceed 5% which means that it cannot play a significant role in International Monetary System. So joining SDR has certain benefits to the internationalization of RMB, but the impact of this benefit is limited.

3.4 Sino-US trade friction

The US-China trade friction was provoked by the US in order to reduce the US trade deficit in US-China trade. America has always maintained the output of the U.S. dollar through a large current account deficit. If the trade deficit has been reduced, the dollar output of the current account will inevitably decrease. The Fed's policy of continuing to raise interest rates has significantly reduced the international liquidity of the US dollar.

And this is actually detrimental to maintaining US dollar's international status, as well as undermining foreign investors' confidence in the US dollar which present certain opportunities for the internationalization of the RMB.

The Sino-US trade friction also poses great risks to the current International Monetary System, but it also brings great opportunities. US dollar as a key international reserve currency, all countries, are facing the 'dollar trap', because it is impossible to do without the dollar as a foreign exchange payment method. China or the world need to seize the opportunity to further promote the diversification of the international monetary system, to share the role of the US dollar as an international currency.

3.5 Covid-19

The spread of the Covid-19 at the end of 2019 has hampered global economic development plans over a long period of time. To address the economic losses caused by Covid-19, the Fed has implemented an unprecedented macroeconomic response policy which may cause the dollar to weaken. And the after-influence caused by the policy can be similar to the long-term weakening of U.S. dollar after the US followed the same economic policy during the Subprime Mortgage Crisis. The same thing happened with the US dollar now, which may also favored the development of the RMB.

However, overall, the Covid-19 may not significantly undermine the US dollar's international standing. While the Covid-19 has hit the American economy seriously, it has also seriously affected the economies of other developed countries. Many countries and regions, such as the Eurozone, UK and Japan, have also implemented very loose monetary policies, which would also make them face negative shocks, and the US dollar is likely to outperform relative to these currencies. This could result in “more dollars” in the global economic system, which could cause many countries to fall into the currency crisis.

4. INFLUENCE

By actively promoting the internationalization of the RMB so that the RMB can actively participate in major international currency competitions, the RMB can play a legal role in the International Monetary System, thereby solving the

current international reserve currency supply problem and retaining the repaying of international reserve currency. Also the ability to maintain system stability plays an important role.

In the long run, further reforming the current International Monetary System and establishing a more diverse, rational and stable International Monetary System are important tasks that faced by all countries. Moreover, multipolarization of international currencies are the trends and prospects for reforming the international monetary system. In the process of diversifying the International Monetary System, the internationalization of the RMB will help to reform the current Monetary System leading to an increase on the influence of RMB

The current Jamaican system has three main characteristics which significantly influence the process of RMB internationalization. First, the international currency is dominated by the US dollar that puts certain pressure on the internationalization of the RMB. Internationally, there is a tendency to use the US dollar as a unit of valuation, a means of payment, and an international savings currency rather than trying to use the RMB.

Secondly, the current trend of International Monetary System is the diversification. Currently, most developed countries implement a floating exchange rate system, while most developing countries are implementing a fixed exchange rate system. To some extent, the status of US dollar has been weakened, but the dollar's international status still remains irreplaceable. Many countries have chosen to peg their exchange rates to the US dollar. Meanwhile, the US currently has a very loose monetary policy now, which make the external environment of RMB internationalization not optimistic.

The third is to coordinate the balance of payments through multiple channels. The IMF has not prepared a clear regulation on the balance of payments adjustment mechanism after the Jamaica system, so the existence of a “Triffin crisis” is still clear. There will be occasional financial crises happens that has dealt various blows to international economic development, and also has brought opportunities and challenges to the internationalization of RMB.

5. CONCLUSION

5.1 Summary

Since the official start of the internationalization of the RMB, the internationalization of the RMB has been in an appreciation trend as a whole. Although the world economy is currently in depression due to the global pandemic of COVID-19. However, due to the correct response of the Chinese government, the Chinese economy has achieved an effective recovery, and the internationalization of the renminbi will continue to deepen.

The international currency trading system has also suffered a huge impact in COVID-19. From the current point of view, the international status of the US dollar as the main currency has not been greatly affected, and the reform of the international currency system still has a long way to go.

5.2 Advice

5.2.1 Promote domestic economic recovery and development, and establish a hard background for RMB internationalization

The essence of RMB internationalization is actually the development of China's economy. It is a manifestation of China's strong national power. RMB internationalization still needs to rely on China's own power to address the weaknesses of its economic development and stimulate domestic demand. As the pandemic spreads, previously bankrupts of small businesses and small business providers need to be offered re-employment opportunities and better policies and also for vendors that have not yet opened or are already doing business. It also creates a good domestic factor for the internationalization of the RMB.

5.2.2 Strengthen international economic and financial cooperation

The internationalization of the RMB is a market-driven process which has become a consensus. So it is very important to strengthen international economic and financial cooperation at the government level. Continue to promote the "One Belt, One Road" policy, deepen political mutual trust, economic complementarity and cultural integration and stimulate the demand for RMB in the countries along the border and China. Meanwhile, maintaining the exchange rate of RMB against other international currencies, minimizing

the risk of cross-border trade and international investment and maintaining financial stability are also important.

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