Innovative Research on the Blending Learning Mode of Econometrics Global and Regional Impacts of RMB Internationalization

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ABSTRACT

China has seen exponential development within the first twenty years of the twenty-first century, making it the second largest global economy. Together with this growth, the People's Republic of China (PRC) has put in place various strategies to help it grow its economic muscle as well as international influence. One of the ways it has followed this is by promoting the Chinese Renminbi (RMB), as a substitute to the United States Dollar, whose role as the international currency dates back after World War II. This paper will analyze various aspects of the Chinese economy using various models, to assess the global and regional impacts of RMB internationalization. Preliminary studies indicate that while the PRC is poised to reap from internationalization of the RMB, which entails generating the momentum to drive reforms in the domestic financial sector, such occurrences could take time, and it is unlikely to parallel the performance of the USD as the preferred global currency any time soon.

Keywords: *RMB, internationalization, China, PRC.*

1. INTRODUCTION

The PRC government initiated a campaign to globalize the RMB by officially endorsing its introductory usage beyond Mainland China. This was a complete divergence from the PRC's past financial policy, which disavowed RMB transactions outside Mainland China, until 2004[1]. From that time, the supply of the RMB in the global market has been maintained through the Chinese government's negotiations with central banks all over the globe for swap lines, issuance of bonds in RMB denominations, as well as sanctioning international financial institutions to officially transact with the currency[2]. This has seen a dramatic widespread of the RMB as a reserve currency as well as a currency that both investors and foreign nations use for recording transactions, earning it the eighth spot in the category of the most traded global currencies. It is out of these recent developments, coupled with PRC's rapid growth that made it the second biggest world economy that scholars are asking a vital question: What global and regional impacts would internationalization of the RMB achieve?

To answer that question, we will need to review the circumstances under which the PRC declared its intentions to internationalize the RMB as a global exchange medium. Whilst China has been aggressive in pursuing this objective, it is unlikely that the RMB will match the influence of the United States Dollar (USD) as a global currency. Looking at the domestic and regional fronts, PRC has not yet a) developed its economy to the best potential, b) completely open its economy, and c) address the inefficiency and lack of transparency within its monetary institutions. This leaves the RMB lacking in numerous elements that define a global currency, such as the USD. In view of this, the best-likely scenario is that the RMB will rise through the currency ladder to emerge a leading regional currency.

2. LITERATURE REVIEW

The globalization of the RMB would provide various benefits to the Chinese government. Firstly, a rise in popularity of an world currency implies that national banking plus other financial institutions will obtain extra business because they may acquire a competitive advantage over foreign financial institutions by gaining from the government security network, including incentives[3]. It allows banks in China to offer extra services to their clients, which include deposit insurance as well as fraud protection, enabling them to recoup possible losses while boosting consumer trust. Moreover, the issuing government might benefit from economic rent through printing currency with more value than its production cost (210). Likewise, the issuing nation can reduce its total debt by raising the supply of money, lowering the worth of any existing obligations.

Notwithstanding the numerous advantages, currency globalization has a number of negatives, inclusive of those that would be especially detrimental to the economy of China. Among the major impediments to the Chinese RMB offering a significant challenge to the premier global currency is timing, since the RMB is becoming internationalized concurrently with the still developing Chinese economy. Despite the fact that China has significantly greater growth rates in comparison with its Western rivals, inclusive of multiple years of double-digit development prior to 2008, a huge wealth difference endures [4]. By 2018, the GNP per capita of China was $17,841, or a little more than 1/4 of the United States [5]. In comparison, Eichengreen and Kawai[6], observe that both the United States Dollar and the Pound Sterling were only embraced following their respective nations' establishment as indisputable powers in the world economy throughout the 19th and 20th centuries.

The above suggests that the PRC government has maintained its prioritization of long-term growth in the economy. However, authorities face a conundrum since internationalizing the RMB would be counterproductive to the growth. If the RMB is accepted as a world currency, the influx of foreign consumption will undoubtedly drive its value to grow compared to other currencies. The shift in valuation would end up making exports appear increasingly costlier to prospective investors, resulting in lower sales, and therefore, slower economic development. Furthermore, Tang notes an already reduced economic growth rate to 6 percent for the Chinese economy as the worst in nearly three decades[7]. Without additional globalization initiatives, the Chinese economy might entirely stall or perhaps begin shrinking, a potentially immensely unpopular result for a populace that has seen many years of financial boom.

3. APPLICATION OF BUSINESS MODELS

Considering China's growing importance in the international market, including the benefits of currency globalization, some might claim the RMB's inevitable transition to a worldwide currency. Nevertheless, if an event of such a nature occurred, the drawbacks indicated above will be exacerbated, providing an extra reason for the PRC government to change trajectory. To make the RMB less appealing, the China government may either devalue it or impose further capital controls. In the case of the former, the result would be devalued foreign RMB assets, weakening international credibility in the RMB as a reserve currency. Meanwhile, increased capital regulations would decrease the currency's international supply, effectively lowering the volume of RMB transactions thus raising trading costs.

Neo - realists may claim that a move in the regional and global monetary system for the RMB is unavoidable, considering PRC's rapid emergence among the world's largest economies, recording a growth rate eclipsing that of the U. S. [8]. Proponents believe that as People's Republic of China(PRC) increases political and economic strength, it will allow the nation to shape the global financial framework to its favor, while imposing the RMB on smaller and regional governments. In the interval, the analysis unit in analytical liberalism starts with individual preferences. As they learn about the interests of everyone else, they create groups of interest competing with each other to the emergence of a dominant group with capacity to influence the policy of government. As a result, modifications can occur only if the distribution of preferences start to alter. According to this viewpoint, the administration would confront increased criticism from a variety of influential organizations.

Initially, China's huge industrial sector would be opposed to additional efforts to globalize the RMB since an increase in the currency's value would have a direct impact on the PRC's revenues. Furthermore, globalization might make it increasingly challenging for the Chinese Central Bank (PBOC) to regulate financial policy in accordance to local needs. If GDP continues to slow, treasury will be obliged to cut interest rates to promote spending and borrowing. Nevertheless, Helleiner posits that such a move cannot be executed on a large scale since excessive stimulus can contribute to severe inflation[9], leading RMB credibility to drop. Thus, to appease these organizations, the PRC government will very certainly be obliged to restrict or halt future attempts to globalize the RMB, effectively removing any possibility of competing significant with other global currencies in the near term.

4. ANALYSIS

The Chinese RMB's globalization is further impeded by substantial limitations on capital movement as well as financial exchange, where both issues have since been dropped by the world's major economies. Following the 1997 financial turmoil in Asia, the central government significantly curtailed the capacity of Chinese banks to borrow from outside lenders whilst reducing the quantity of PRC stock market purchases by non-citizens. As advanced by Eichengreen and Kawai, those measures aided in lowering volatility of the stock market and "hot money," meaning short-term investments made by investors before being withdrawn immediately. Nevertheless, the continuation of these rules currently prohibits more international firms as well as individuals from developing economic relations with mainland China, inclusive of the circulation of the RMB globally. Complicating things even more is that as of this writing the RMB was not yet fully transformable.

Rather, a distinct onshore and offshore RMB rate gives importers RMB's source whilst safeguarding the capital account of the nation. Unlike the RMB, which is strictly managed by the PBOC, the offshore RMB is freely traded on the foreign markets. The parallel market causes concern for both companies plus investors since the two rates might vary by as much as 10 percent, greatly raising transaction fees. Furthermore, Prasadfound that despite the establishment of formal clearing houses as well as currency exchanges beyond mainland China, the RMB remains generally inaccessible in significant amounts beyond the primary financial centers like Geneva or London. Whereas no formal announcement has been made, the PRC's failure to launch new offshore clearing institutions after December 2016 shows that the government of China is deliberately avoiding rapid globalization of the currency. The significant difference in currency rates involving onshore versus offshore RMB marketplaces would provide a considerable impetus for local and international firms to engage in arbitration of cross-border exchange rates. The core idea for global currency rate arbitrage was that in the event of a projected appreciation in the RMB, the offshore exchange rate between the RMB and the USD would surpass the onshore one, making it beneficial for firms to shift RMB cash to the offshore marketplace from the onshore one. China, on the other hand, is in an uncomfortable situation. From one end of the spectrum, I t has the world's second biggest GDP besides being biggest trading country, and it is on track becoming the world's largest economy soon. This serves the interests of the RMB's globalization. China, on the other hand, is still an emerging market, which means that the nation's financial and legal structures are still underdeveloped in comparison to the more evolved Western system. However, given that the Chinese government is not inclined to fully integrating its financial structures with the Western economy in the near future, coupled with the fact that currency globalization necessitates that the currency be widely interchangeable within the capital account, that issue inhibits RMB's internationalization. As a result, China attempts to internationalize its currency in its own distinct manner, namely by implementing the "one currency, two markets" strategy, which comprises building a worldwide offshore RMB market.

China uses this method to create a barrier amidst the onshore and offshore markets, enabling the currency to be fully convertible in the offshore market while being only partially convertible in the onshore market. A variety of governmental initiatives, inclusive of opening up the financial market, liberalization of capital account, as well as supporting the creation of a series of offshore RMB hubs, including London, Hong Kong, and Singapore backing this strategy. According to theoretical considerations and facts, I believe that the four important conditions for the achievement of RMB globalisation are China's economic size, its adherence to appropriately open capital movement, the creation of a rich, extensive, and liquid financial market, and people's faith in the RMB. The nation has economic size, but it must improve on the other three elements. It is unclear whether or not the economic powerhouse will attain sufficient levels of capital movement as well as financial market growth to elevate the RMB to the status of an important global currency at the same level with, for instance, the euro, much alone the USD.

Aside from financial and currency market limits, Chinese as well as international investors are worried about a lacking openness in Chinese institutions, which, according to Eichengreen, is already the standard in the advanced economies. The above issues are emblematic of China's continued authoritarian governance, which precludes state-owned financial firms from being restrained by institutional checks and balances or made responsible for their conduct. Consequently, firms have suffered from poor corporate governance, lax standards of auditing, including bad accounting methods through time. As such, the perceived risk of investors about RMB rises as a result of the obscurity, which presents the chance of unanticipated volatility.

In comparison, aside from the United States Dollar remaining capital-control-free following closure of the 1971 gold opportunity, the USD is also governed by the Federal Reserve, functioning independently of the United States government. The policies reflect global standards that have steadily evolved in favor of an open-market economy throughout the 20th century. Investors, in particular, are incentivized to spend in nations that honor agreements between people as well as obligations between citizens and the state. Such motivations are amplified if future conflicts can be resolved by an objective and unbiased judiciary. Additionally, a free-market economy frequently has robust property rights, which protects entrepreneurs' assets from government confiscation. As a result, until genuine efforts are taken to achieve systemic change, international players have little motivation to use the RMB for transactions beyond the Chinese region.

Notwithstanding the currency's current difficulties, the RMB will nearly probably be more instrumental in the world economy by increasing market liquidity. For investors, a market that is more liquid tends to be linked with less risk emanating from reduced trading costs, the flexibility to switch assets, reduction in price instability, as well as better formation of prices, because a willing party is always present ready to opposing consequences of a specific position. For instance, it was included as a currency basket to the International Monetary Fund (IMF) in 2015, comprising 10.92 percent of the Special Drawing Rights, effectively ranking number three behind the US Dollar and the Euro. It was the world society's metaphorical acceptance of the RMB's growth to make a key reserve currency. Equally, the RMB's popularity as a settlement currency has skyrocketed. According to Eichengreen and Kawai, the proportion of RMB utilized in cross-border mainland business settlement rose to 11 percent in 2013, from the previous 3 percent of 2010. Lastly, since 2011, China has inked a slew of bilateral trade treaties involving the RMB and key trading partners' currencies, such as Australia, Japan, as well as Russia. It removes the necessity for the Dollar as an intermediary currency, resulting in significant cost savings for both parties. Whereas the pursuit of such an aggressive globalization agenda has numerous downsides, as previously noted, it is obvious that the PRC leadership perceives the gains of dominance with prestige to carry more value compared to any economic ramifications for the meantime.

5. CONCLUSION

Given the prevailing conditions in PRC, the RMB is unlikely to present significant influences on the world currency. The government of China is now pursuing globalization in order to reap its multiple benefits, including greater opportunities for Chinese banks as well as leverage over nations that utilize the RMB for a major part of their commerce. Nevertheless, the move has failed to comprehend how a major decrease in growth in the economy would outweigh such advantages. Whereas the advantages seemed sustainable throughout the double-digit growth era, recording the lowest rates of growths since the 90s makes it essential to reconsider the incentives of further globalization. Furthermore, PRC's financial institutions as well as monetary system remain heavily regulated, weakening the confidence of investors in the RMB's value thus keeping it from flowing freely in the global market. Above all, the lack of openness as well as oversight in financial institutions of PRC further inhibits the public's trust that the RMB would be free of unforeseen intrusions.

Whereas the RMB is difficult to match the world currencies like the Pound Sterling and particularly USD anytime in the near future, it is already on its way to become a dominating regional currency. Today, for instance, the US Dollar is no longer used as a medium of exchange between PRC and several of its main trading partners. Furthermore, neighboring nations have commenced to issue bonds in RMB denominations and are keeping a growing quantity of RMB in reserves. Going forward, the PRC has to renounce its overly ambitious aspirations in order to optimize its prospects of currency globalization. Following that, it is vital for PRC to prioritize solidifying the regional standing of RMB as well as addressing more urgent economic and institutional issues that exist domestically. If they are successful, the PRC authorities will most likely discover that RMB globalization will take place in a seamless and efficient manner.

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