

# ***Analysis of the internationalization of RMB under "the Belt and Road (B&R)" initiative***

*--based on comparing and learning from international experience as reference*

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**Abstract**—Learning from history shows that the currency internationalization of a country need to have strong economic strength, perfect financial system, open capital projects, timely exchange rate system, free foreign capital and other necessary conditions. The internationalization of RMB, however, is facing quite a few issues such as unbalanced development of trade, not fully opened capital projects, the lack of breadth and depth for financial market, which means the internationalization of RMB have not had the basic condition of traditional currency internationalization yet. The establishment of ADB and "the Belt and Road (B&R)" initiative create favorable conditions for RMB to play valuation, payment and storage functions in the region, and the choice of international development path of RMB will determine whether China can seize the opportunity to further promote the process of internationalization of RMB. This paper argues that only the external circulation mechanism and the internal economic environment can be combined to build a good RMB circulation path and promote the internationalization of RMB. In addition, the RMB internationalization cannot blindly pursue the speed, but should be gradual, planned, wise to move forward.

**Keywords**—the internationalization of RMB; international experience; style analysis of route

## I. INTRODUCTION

As China's comprehensive national strength continues to increase, foreign trade and economic exchanges has become more frequent, as well as the rising influence in regional and international affairs, the internationalization of the RMB can be described as an obvious trend. At present, however, China still can be described as "a big country in economic but a small country in currency", which is the only one country using mostly foreign currency in the international settlement of the world's GDP top five countries. Therefore, how to maintain the macroeconomic stability under the premise of further promoting the internationalization of the RMB has become one of the urgent problems to be solved in China.

In 2008, the explosion of global financial crisis hit the global economy terribly, but also exposed the existing problems when US dollars was the core in the international monetary system. It indicates that China should seize the opportunity to promote the internationalization of the RMB.

With the establishment of "the Belt and Road(B&R)" initiative in 2013 and ADB in 2014, RMB has been expanding its range and scale of application in regional trade and investment field, the degree of RMB recognition has gradually increased. As for the questions that how will "the Belt and Road" initiative and ADB give a favor to the internationalization of RMB, which developing path should be chosen under new trend, this paper would explore and answer these questions based on the comparison and summary of international experience.

## II. THE INTERNATIONAL EXPERIENCE OF CURRENCY INTERNATIONALIZATION

### A. The internationalization of GBP

GBP is the most vital international currency during the period from the late middle 19th century to Great War (WW1), the progress of its internationalization started from the 18th to the 19 century. The external mainly rely on maritime trade, foreign investment and colonial activities, the internal mainly rely on the establishment of modern financial system [3].

The summary of GBP internationalization:

#### 1) Monetary system

Britain formally adopted the gold standard system in 1821, the Bank of England achieved the continued convertibility between pound and gold so that the pound replaced the Spanish silver dollar became the main international currency at that time. With the rise of the emerging capitalist countries headed by the United States after the Great War, Britain's political, economic, military and other aspects were gradual weakened, coupled with the war led to a sharp drop in gold reserves, in 1931, the Bank of England announced to stop the convertibility between pound and gold, which means it's the end of the pound era.

#### 2) Financial market

In the late 17th century, modern financial system was born in Britain. After the first industrial revolution, Britain's productivity has been greatly improved, the real economy developed unprecedented, the British financial market which was regarded as the financial support has thus developed

rapidly. In the second half of the 18th century, London, the British capital, became the world's financial center and global trade center, and the pound is also logical to become the main international settlement currency.

### 3) Trade system

The success of first industrial revolution and the establishment of international trade system have built foundation for GBP internationalization, which helped Britain entered into a prosperous period early in 1870, the international status of GBP was rising stably. In addition, due to colonial expansion, the United Kingdom took the opportunity to promote the pound in its colonial countries, accelerating the internationalization of the GBP.

## B. The internationalization of US dollar

The first and second world wars have made European countries hit hard, the United States has begun to rise and the world pattern has changed dramatically. The internationalization of the US dollar not only depended on the international exchange rate system of the Bretton Woods system, but also played a crucial role in promoting the "Marshall Plan" in Europe after World War II [3].

The main experience of US dollar internationalization:

### 1) Monetary system

After World War II, with the establishment of the Bretton Woods system, the currency of other countries and the dollar, the dollar and gold linked to the "double hook system" implementation, which accelerated the internationalization of the US dollar. Even after the Bretton Woods system was replaced by Jamaica monetary system which characterized by floating exchange rate, the dollar remained to be the most important international currency in the world today.

### 2) The Marshall Plan

"The Marshall Plan" is a plan established by the United States after World War II. It can also be called European Recovery Program, with the fact to transfer domestic excess capacity. The United States allowed the purchase of US goods in the Western European countries by offer them funds for free charge, in order to stimulate the US domestic economic growth and solve the problem of excess capacity as well as took the opportunity to popularize the dollar to Europe. During the trade with the United States, European countries developed strong path dependence to US dollar due to the widespread use of dollars. After the end of the plan, the European economy recovered, the trade barriers eliminated gradually, the dollar has been widely accepted by the open market and become a well-deserved international currency.

### 3) Comprehensive national strength

After the victory of the Civil War, the US economy has a rapid growth, and then it became the most powerful industrialized countries surpassing Britain, and gradually become the core of international trade and international finance. US dollar took GBP's place gradually to be the most important international currency due to the continuous growth of economy and increasingly enhanced comprehensive national strength.

### 4) Financial market

Before the establishment of the Federal Reserve, the United States repeated financial turmoil. Due to the absence of the central bank as the ultimate lender, international investors lack confidence in the dollar. In 1913, the Federal Reserve established, on the one hand it was conducive to stabilize the dollar and to dispel investor concerns, on the other hand it laid the foundation for the market through the development of dollar-denominated financial instruments.

## C. The internationalization of Euro

The internationalization of euro is based on regional integration. Member States in the region have voluntarily renounced the independence of sovereign and monetary policy, established a unified monetary institution in the region, issued a unified regional currency, and gradually pushed it into an international currency. In 2011, the International Monetary Fund raised the euro's weight in the SDR from 34% in 2006 to 37%, while adjusted the dollar's weight from 44% in 2006 down to 41.9%. In 2014, the relevant data show that the euro in the global foreign exchange reserves accounted for 22.6%, ranked only second to the dollar [3]. It shows that the internationalization of euro only took more than a decade to reach a higher level.

Euro international experience Summary:

### 1) Regional integration

Member states in euro zone has transferred currency sovereignty, adopted common-oriented fiscal policy and formed regional integration. Brief development process: In December 1991, the European Community (EC) changed its name to the European Union and adopted the Maastricht Treaty, which includes a unified currency and currency exchange rate plan. In 1997, the EU gradually established the European central bank system, began to drive sovereign national central bank functions. In 1999, euro was officially enabled. On January 1st, 2002, euro became the only legal currency in euro region. At present, there are 19 member states in euro zone.

### 2) Beneficial foundation and cultural background

The success of the euro is in connection with the common political interests and economic interests of the European countries, it is also related to its cultural background and ideology, as well as related to the important influence of the European economy in the world economy and Germany's leading role in the euro zone economy, also, it has relation with the long currency stability of Deutsche Mark.

## D. The internationalization of yen

The driving force behind the internationalization of the yen came from a large number of export trade after World War II, which brought economic growth to Japan. In addition, the Japanese financial system reform and the positive foreign aid policy adopted by government also contributed to the process of yen internationalization [3].

The summary of yen internationalization:

### 1) *The rise of economy*

Japan launched the democratic reform after World War II, established the bourgeois democratic system which was compatible with the speed of economic development at that time and the enterprise organization form which was compatible with the modern management method, and tried to tap the potential of human capital to lay the foundation for the rise of Japan's economy. In addition, Japan is also making full use of the aid funds and technology provided by the United States after war to develop the economy.

### 2) *Financial system*

After the oil crisis in the 1970s, Japan's economic growth slowed down and the economic situation at home and abroad changed greatly. The financial system established after World War II could not adapt to the new form. The Japanese government has decided to reform the existing financial system and to use financial liberalization as the central objective of the reform. The specific measures are: Interest rate marketization, financial marketization, the relaxation of the securities market control, the abolition of capital account control, the abolition of foreign exchange restrictions. These initiatives have created a good foundation for the internationalization of the yen.

### 3) *"Capital Recycling Program"*

Japan followed "the Marshall Plan" of the United States to implement the "Capital Recycling Program" in 1980s, brought the international trade surplus, foreign exchange reserves and domestic private capital to the developing countries through government development assistance and commercial loans and other channels, in order to ease international pressure, reduce the balance of payments surplus, promote Japan's foreign investment, improve Japan's foreign relations and achieve other objectives. During the period from 1986 to 1992 implementing the program, a total of approximately \$ 65 billion was involved. Relevant data show that the proportion of the yen in the IMF's SDR increased from 13% in 1981 to 17% in 1991. In the second half of the 1980s, the proportion of Asian countries' import and export trade volume increased from 20% in the early 1980s to 40%. It can be seen that the plan also played an important role in promoting the internationalization of the yen.

### E. *The inspiration brought to RMB internationalization by currency internationalization experience*

First of all, the internationalization of currency needs to be supported by the country's strong economic power. Secondly, the internationalization of the currency need to have a sound financial system to support, it should be timely to cancel the capital project control and foreign capital restrictions, and choose the exchange rate system arrangements. Thirdly, the internationalization of money requires a conscious advancement of foreign aid and foreign investment projects, and to enhance the regional and international influence and dependency of the country's currency. Finally, currency internationalization can also be promoted through regional cooperation based on key currencies in the region.

## III. THE ANALYSIS OF CURRENT SITUATION OF RMB INTERNATIONALIZATION

### A. *What can be seen from international comparison to RMB internationalization*

#### 1) *The measurement of RMB Internationalization Index*

The measurement of the RMB internationalization index is from the perspective of the function of a country's international currency, to observe how much each function of RMB internationalization occupied in the world and study the degree of a country's currency internationalization objectively, accurately and dynamically. In the selection of index system, according to the definition of currency internationalization, we can select the index that can reflect the function of international currency to construct the currency internationalization index.

First-level indicators were given equal weight (1/3 for each) according to three major functions of the international currency, that is, trading functions, investment and payment functions, reserve functions. The international bond index is given a greater weight based on the data of the Bank for International Settlements. International bond and bill issuance accounted for 2/5, international bond and coupon balance 2/5, the total amount of currency in world trade accounted for 1/15, the proportion of direct investment in currency accounted for 1/15, and monetary credit accounted for 1 / 15, then multiplied by the secondary index investment and payment means the proportion of the function of 1/3, finally get the final weight [4]. See Table 1 for details:

TABLE I. SELECTION OF CURRENCY INTERNATIONALIZATION INDEX

Function	Index (%)	Weight	Source of data
Transaction function	Offshore market foreign exchange trading volume	1/3	Database of Bank for International Settlements
Investment and payment measures	The proportion of monetary settlement in world trade	1/45	IFS database of IMF
	The proportion of direct investment in currency	1/45	World Bank, United Nations Trade and Development Organization
	The proportion of money and credit	1/45	Database of Bank for International Settlements
	The proportion of International bonds and balance of bills	2/15	Database of Bank for International Settlements
	The proportion of international bond and bill issuance	2/15	Database of Bank for International Settlements
Value storage	The proportion of currency reserves amount	1/3	The COFER database of IMF

The calculation formula of this model:

$$INDEX_{RMB} = \sum \lambda_{it} X_{it} \times 100$$



$\lambda_{it}$  represents weight,  $\lambda_{it}$  represents index for current period, since all indicators are in percentage form, the exponent maximum is 100 and the minimum is 0. The more the index tends to 100, indicating it's the higher degree of internationalization of the currency, the more oriented 0, indicating it's the lower degree of internationalization of the currency.

### 1) The comparison of internationalization level between RMB and international currency

TABLE II. THE COMPARISON OF INTERNATIONALIZATION INDEX BETWEEN TRADITIONAL INTERNATIONAL CURRENCY AND RMB

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
RMB	0	0.01	0.01	0.02	0.05	0.06	0.09	0.11	0.14	0.25	0.34	0.45	0.63
US dollar	54.1	51.2	49.5	48.3	49.1	48.2	46.5	44.6	46.8	47.2	47.5	48.2	47.5
Euro	25.1	27.3	29.8	29.9	28.8	29.9	31.2	31.4	31.3	29.9	28.5	27.5	28.3
GBP	6.2	6.3	6.8	7.5	7.7	7.8	7.6	9.7	6.9	6.5	7.1	6.5	6.6
JPY	7.8	7.3	6.7	6.2	5.6	5.3	5.3	5.1	5.1	5.6	5.7	6.1	5.9
Swiss Francs	1.7	1.9	1.8	1.6	1.73	1.7	1.7	1.7	1.6	1.6	1.5	1.4	1.3

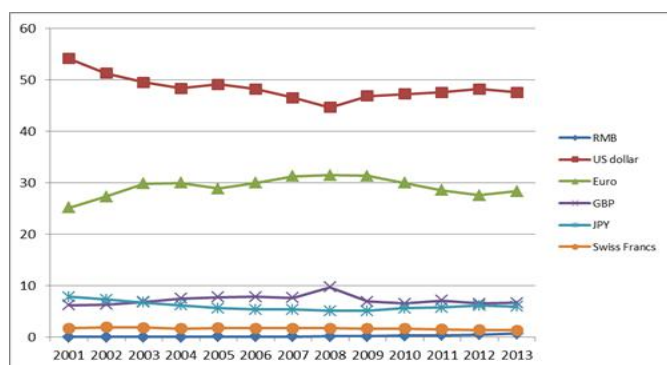


Fig. 1. The comparison of internationalization index between traditional international currency and RMB

As what can be seen from Table 2 and Figure 1, the dollar has the highest internationalization index, it has a trend of gentle decrease from 2001 to 2008, after the financial crisis in 2008, US dollar has rebounded with economic recovery. The euro had strong performance after official circulation in 2002, the internationalization index is only second to the dollar, it reached a peak of 31.4 in 2008. The public confidence in the euro weakened due to the financial crisis and the impact of the debt crisis in Europe, the euro international index fell below 30 in 2010. The GBP internationalization index is well below the dollar and the euro, and its trend is similar to that of the euro. As the traditional hedge currency like yen and the Swiss franc, their international level is relatively stable. RMB started its internationalization course after officially entering WTO in 2001. In 2004, the Chinese government approved the establishment of offshore RMB bank accounts, just in one year, the RMB internationalization index increased by 1.5 times. During the period from 2002 to 2013, RMB internationalization index has increased by 62 times, although developed rapidly, it still has a large gap compared with the international degree of world's major currency, which means it is in the early stages of internationalization yet. It is also worth noting that the global financial crisis in

2008 has had little impact on the internationalization of RMB.

### 2) The comparison about standard of RMB internationalization and currency internationalization of countries in emerging market

TABLE III. THE COMPARISON OF INTERNATIONALIZATION INDEX BETWEEN EMERGING COUNTRY CURRENCY AND RMB

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
RMB	0	0.01	0.01	0.02	0.05	0.06	0.09	0.11	0.14	0.25	0.34	0.45	0.63
Canadian dollar	0.96	0.96	1.02	1.06	1.04	1.07	1.15	1.09	1.27	1.41	1.29	1.55	1.71
Australian dollar	0.97	1.23	1.33	1.41	1.5	1.43	1.48	1.46	1.81	1.78	1.78	2.43	2.46
Ruble	0.06	0.08	0.09	0.11	0.12	0.13	0.17	0.18	0.17	0.21	0.27	0.35	0.3
Singapore dollar	0.2	0.2	0.2	0.19	0.22	0.23	0.25	0.24	0.26	0.29	0.34	0.32	0.29
Brazilian Real	0.08	0.07	0.05	0.05	0.08	0.09	0.11	0.11	0.15	0.24	0.21	0.2	0.26

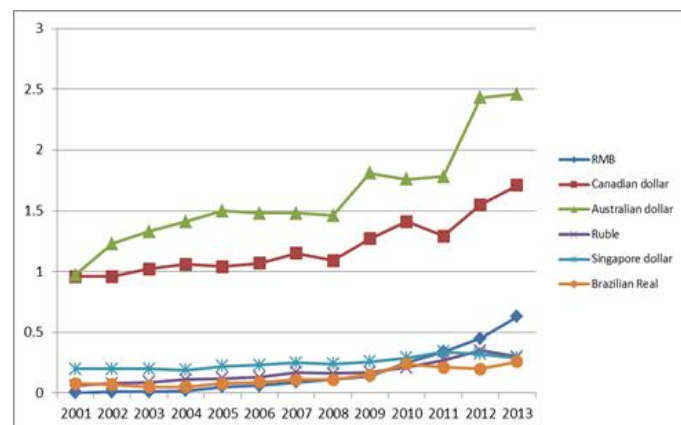


Fig. 2. The comparison of internationalization index between emerging country currency and RMB

As what can be seen from Table 3 and Figure 2, the internationalization of RMB in emerging market countries is generally low. The internationalization of Australian dollar and Canadian dollar are highest, due to the stable domestic political and economic situation, the internationalization of currency started earlier, and now it has been among the list of hedge currencies, the internationalization index of them in 2002 and 2003 has been exceeded 1 respectively. The internationalization of the ruble is based on the country's abundant oil resources and the relaxation of capital controls, and its internationalization index is growing steadily. The internationalization of Singapore dollar and Brazil real started early but grew slowly. In the emerging market countries, the RMB internationalization started the latest, before 2001, its internationalization index is 0, after then, although the international development rate is higher than the Australian dollar and Canadian dollars, the degree of internationalization still has a large gap compared with theirs.

### 3) The comparison of internationalization index between currency of major countries related to "the Belt and Road" initiative and RMB.

As what can be seen in Table 4, currency internationalization of countries related to "the Belt and Road" initiative remained a mainly low degree. The internationalization of Singapore dollar and won started earlier, but the pace of development is slow, in 2001, when

the RMB internationalization index is 0, the internationalization index of them were 0.2 and 0.14 respectively, but in 2012 and 2011, they have been caught up with RMB. The ruble, Turkish lira internationalization index started low, but grew fast, in 2001 to 2013, it increased by 4 times and 25 times respectively. Southeast Asian countries have a very slow process of currency internationalization because of political turmoil, economic instability, single trade structure and other reasons. Data shows that the internationalization of RMB started the latest but grew the fastest. China has become the country having the highest degree of currency internationalization in countries related to "the Belt and Road" initiative.

TABLE IV. THE COMPARISON OF INTERNATIONALIZATION INDEX BETWEEN CURRENCY OF MAJOR COUNTRIES RELATED TO "THE BELT AND ROAD" AND RMB

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
RMB	0	0.01	0.01	0.02	0.05	0.06	0.09	0.11	0.14	0.25	0.34	0.45	0.63
Singapore dollar	0.2	0.2	0.2	0.19	0.22	0.23	0.25	0.24	0.26	0.29	0.34	0.32	0.29
United Arab Emirates	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.03
Cambodian Riel	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.03	0.03	0.04	0.03
Lao Kipu	0.01	0.01	0.01	0.02	0.06	0.05	0.08	0.09	0.13	0.2	0.2	0.25	0.26
Turkish Lira	0.01	0.01	0.01	0.02	0.06	0.05	0.08	0.09	0.13	0.2	0.2	0.25	0.26
Won	0.14	0.16	0.18	0.2	0.2	0.2	0.23	0.25	0.27	0.25	0.23	0.21	
Romanian leu	0.02	0.02	0.03	0.03	0.04	0.04	0.05	0.06	0.07	0.07	0.06	0.07	0.07
Indian Rupee	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.03	0.04	0.06	0.06	0.07	0.07
Malaysia Jilin	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.03	0.04	0.06	0.06	0.07	0.07
Thai Baht	0.03	0.03	0.03	0.03	0.04	0.04	0.04	0.03	0.04	0.04	0.05	0.07	0.06
Indonesian Rupee	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.05	0.05	0.05	0.04
Ruble	0.06	0.08	0.09	0.11	0.12	0.13	0.17	0.16	0.17	0.21	0.27	0.35	0.3
Philippine Peso	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.03	0.04	0.03	0.04	0.03
Saudi Riyal	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.01	0.04	0.02	0.02

### B. The basic conditions of RMB internationalization

The former analysis pointed out that if a country wanted to implement the internationalization of the currency, the following work should be done in advance: Enhance economic strength, abolish foreign exchange restrictions, open capital markets, improve financial markets, maintain trade deficits, build pricing mechanisms, etc. And the internationalization of the RMB is more complex, which cannot fully meet the above conditions, so it can not apply to international experience directly. The following statements are brief explanations about the basic conditions that RMB are facing now.

#### 1) Economic foundation

Economic strength is the most powerful support for the internationalization of a country's currency. Since the reform and opening up, the development of China's economy is rapid, comprehensive national strength has been increasing, the economic status has been improved, and the role played in the world order has been increasing. From the total GDP, in 2006, China's GDP exceeded the UK's, becoming the world's fourth largest economy; In 2007, China has exceeded German and become the world's third largest economy; In 2009, China replaced Japan as the world's second largest economy. China took only 4 to 5 years to double its GDP while facing Britain, Germany and Japan. From the proportion of countries in the world's GDP, in 1990, China accounted for only 1.78%, while in 2014, China accounted

for 13.4% yet. Compared with the data in 1990, among the world's top five economies, in addition to China, the other four countries have a significant decline in the share.

#### 2) Trade structure

International experience shows that a country could broaden the scope of use of domestic currency through the trade deficit. However China's long-term domestic demand and export-oriented economic policy make China's trade structure have always been a unilateral surplus. In 2015, China's trade in goods exports 14.12 trillion yuan, imports 10.44 trillion yuan, surplus of trade are 3.68 trillion yuan. In 2016, China's trade in goods exports 13.84 trillion yuan, imports 10.49 trillion yuan, surplus of trade are 3.35 trillion yuan, which always shows a large surplus momentum. Although China has begun to carry out economic restructuring, the trade surplus is not a issue which can be reversed in a short period, it will exist for a long time in fact.

#### 3) Capital program

China's capital account under the capital flow is under strict control, most of the overseas investment funds can not directly enter into Chinese secondary market. A small number of foreign investors obtained investment qualifications have been controlled strictly on their capital orientation and the return of the channel is not smooth enough. In addition, the issuance of RMB bonds is not optimistic, market scales for dim sum bonds and Panda bonds are small and market participation is not enthusiastic enough, which cannot active market easily.

#### 4) Financial market of China

China's financial market is not perfect, lack of breadth and depth. Although China's financial institutions have shown a continuous optimization trend, the existing structural state cannot adapt to economic globalization and the international needs of the RMB, it will even seriously restrict the financial efficiency and international competitiveness. At present, the market funds are highly concentrated in the state-owned financial institutions, there are issues like hidden guarantees, distort the market signal, the lack of effective pricing and so on. In addition, bonds and financial debt issued in China's financial markets have limited length and poor liquidity. China's financial markets also lack effective hedging instruments for foreign investors.

#### 5) International financial market

The pattern of financial markets is largely based on the economic structure, so the pattern of international financial markets is closely related to the pattern of world economy. The pattern of the world economy has changed greatly due to the 2008 global financial crisis. In this financial crisis, the developed countries experienced rapid economic recession, although they have the recovery trend later, the overall development is slow. In contrast, China, India and other developing countries developed rapidly and became new focus of world economic growth, followed by the continuing improvement of developing countries in international financial markets. It can be seen that under the current world economic structure and the international financial environment, the internationalization of RMB is not only expected to change the existing international monetary

structure, but also to offer significant power to the development of China's economy.

### *C. What can be found for RMB internationalization from the perspective of international currency functions*

If RMB want to achieve internationalization, it needs to achieve three major functions of the international currency: trading functions, investment and payment functions and reserve functions. Specifically, first, RMB is required to have a certain degree of circulation abroad. Second, the major international financial institutions need to provide RMB-denominated financial products as an investment tool. Thirdly, the international trade in RMB denominated and settled trading volume need to achieve a certain proportion. Next there will be summary about the present development of RMB internationalization from the perspective of international monetary functions.

#### *1) Foreign circulation*

At present, the proportion of foreign circulation of RMB is relatively low, the scope of circulation is mainly concentrated in neighboring countries and regions, which can be divided into three types: First, Singapore, Thailand and other tourism-based countries; Second, countries like China and Vietnam, China and Russia which regard border trade and border tourism as the basis; Third, regions have close economic relations in Hong Kong and Macao.

#### *2) Cross - border settlement*

Since the RMB settlement pilot of cross-border trade was carried out in 2009, RMB internationalization has developed rapidly. From a global perspective, in March 2016, the using share of RMB in the global payment and settlement was 1.88%, although it has kept the fifth largest international payment of monetary status, given China's economic status, there is still a large gap.

#### *3) Value storage*

Since 2008, the People's Bank of China has signed a monetary swap agreement with the monetary authorities of 28 countries or regions. More and more central banks and monetary authorities have incorporated RMB into foreign exchange reserves. In 2014, the British Ministry of Finance issued a scale of 3 billion yuan of RMB sovereign bonds, becoming the first foreign RMB-denominated national debt. In November, 2015, IMF announced the inclusion of RMB in the SDR currency basket, marking the process of internationalization of the RMB has reached a new milestone, but also shows that the RMB value of the international storage function began to be reflected.

In summary, the RMB has begun to become the currency used in international trade and international financial transactions in the pricing and settlement, but the scope of circulation is still limited, and the function of RMB as international currency storage has been played initially.

## **IV. OPPORTUNITIES AND CHALLENGES OF RMB INTERNATIONALIZATION BROUGHT BY "THE BELT AND ROAD" INITIATIVE**

The core of "the Belt and Road" initiative are promoting regional cooperation and achieving common development by further deepening economic and cultural exchanges with the countries along the area. Asian Infrastructure Investment Bank (AIIB) is an intergovernmental nature of the Asian regional multilateral development agency. It focuses on supporting infrastructure construction to promote regional economic integration in Asia. The establishment of "the Belt and Road" initiative and AIIB has brought new opportunities for RMB internationalization. According to ADB estimates, if the current economic growth remains the same, from 2010 to 2020, Asia's infrastructure investment demand will be more than 8 trillion US dollars, 730 billion US dollars per year [2]. Most governments in Asia are unable to afford this expense independently, even with the help of ADB and the World Bank, it is difficult to fill such a huge funding gap. Under "the Belt and Road" initiative, however, with the economic strength of China, relying on the platform provided by Asian investment banks, Asian developing countries will be hopeful to solve the problem of capital construction in infrastructure construction. This will lead to a new round of infrastructure investment and construction boom, resulting in a lot of money and production needs. At the same time, providing funding and production capacity needs to Asian countries will help solve China's current problems such as slowdown economic growth and overcapacity in some areas and industries. In this win-win cooperation process, the use of RMB will be further expanded. As an important currency in the region, the position of RMB in the international money market will be further consolidated. After the "going out" of the RMB, it will force China to accelerate the reform of the financial market and better escort the internationalization of the RMB.

Nevertheless, the establishment of "the Belt and Road" initiative and AIIB also has brought challenges for RMB internationalization. First of all, countries in "the Belt and Road" initiative are mostly weak ones with backward economic development, political instability and not sound financial system. It's easy for them to get financial risks as the expansion of market scale. These potential risks are easily passed back to China through AIIB. Second, with the accelerated internationalization of the RMB, the RMB will also face the "Triffin problem", so how to grasp the circulation of RMB, how to deal with the surrounding countries under the premise of monetary policy to ensure the effectiveness of macroeconomic, China's monetary policy makers will face a great challenge.

Opportunities and challenges coexist is well known truth, although the establishment of "the Belt and Road" initiative and AIIB has given numerous challenges to RMB internationalization, history and international economic situation have shown this is the development opportunity of the RMB internationalization which cannot be missed.

## V. THE CHOICE OF PATH OF RMB INTERNATIONALIZATION UNDER "THE BELT AND ROAD" INITIATIVE

The establishment of "the Belt and Road" and AIIB has provided rare opportunities for RMB internationalization. Therefore, China should assess the situation, based on its own situation, learn from international experience, to explore the appropriate international path of RMB. The path is shown in the Figure 3.



Fig. 3. The path of RMB internationalization under "the Belt and Road" initiative.

Through the analysis of the previous analysis, this paper argues that trade activities and investment activities are the two main paths to promote the internationalization of trade under the background of "the Belt and Road" initiative. Ways like using RMB in the settlement of trade, valuing investment projects by RMB, are very favorable to achieve the export of RMB, especially in infrastructure projects with financing needs and huge funding gaps. And the overseas demand of RMB will also be derived from the transaction motive of foreign RMB. With the increase in the circulation and circulation of RMB overseas, there is an urgent need for a stable financial platform to support. In the process of circulation, for the consideration of risks or benefits, the offshore RMB market needs to provide more RMB-denominated financial assets to meet the increasing demand for RMB holdings. Foreign RMB can flow back to the domestic by investment, purchase of RMB bonds and other ways, thus to form the RMB international circulation.

In addition, history shows that the RMB internationalization must be compatible with China's domestic economic environment. First of all, the RMB internationalization needs to rely on China's economic strength, as for China, it will need to shoulder more responsibility. Second, the RMB internationalization needs to have a sound financial market to support, in order to reduce the cost of capital flows and enhance the ability to resist risks. Finally, the RMB internationalization should maintain a long-term stability of the yuan, that is, to maintain the stable purchasing power, stable fluctuation of foreign exchange rate, otherwise it will make foreign people lose confidence in RMB and then reduce the demand for it.

To sum up, this paper argues that only through the combination of the external circulation mechanism and the internal economic environment can China build a good RMB circulation path and promote the internationalization of RMB. In addition, the RMB internationalization cannot blindly seek for high speed, but should rely on the situation, be put forward step by step, well-planned, wisely and steadily.

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