

The Influence of “The Belt and Road” Strategy on the Internationalization of RMB

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Abstract—This paper uses the core word “The Belt and Road” strategy as the main line. The paper introduces the current status of the internationalization of RMB firstly, then analyzes the opportunities brought by the construction of “The Belt and Road” to the internationalization of RMB, and finally makes recommendations for our country to be able to realize the internationalization of RMB with the opportunity of “The Belt and Road”. The internationalization of RMB does not happen overnight, and it needs to go through the process from peripheralization to regionalization then to internationalization. The paper focuses on the impact of “The Belt and Road” strategy on the internationalization of RMB.

Keywords—“The Belt and Road”; the internationalization of RMB; the regionalization of RMB

I. INTRODUCTION

The world is of great change and development. “The Belt and Road” is the abbreviation of “the Silk Road Economic Belt and the 21st-Century Maritime Silk Road”. It was the national top-level strategy made by Chinese leaders in September in 2013 in order to actively respond to changes in the global economic situation and coordinate both domestic and international situation. At the same time, the world is facing a variety of problems and challenges. The economy is slowly recovering and developing, the pattern of international investment and trade is also changing. The proposal of “The Belt and Road” strategy will also help China better respond to these challenges. The purpose of “The Belt and Road” is to promote the economic development of the region along the route, establish a multilateral cooperation mechanism and achieve mutual benefits and win-win results, thereby contributing our own strength to global economic governance. Under this background, the internationalization of RMB has gained more and more attention. The further implementation of “The Belt and Road” strategy will have a profound impact on the internationalization of RMB.

Many scholars have started related research on “The Belt and Road”. Viewing the existing research literature about the impact of “The Belt and Road” strategy on the internationalization of RMB, many of them focus on the opportunities brought by the “The Belt and Road” to the internationalization of the RMB. Han Yujun [3] believes that “The Belt and Road” will expand the use of RMB, promote

the upgrading of China’s industrial structure, create new opportunities for investment and financing and create a favorable environment for use of RMB. Tu Yonghong [6] believes that the construction of the Silk Road Economic Belt can open up the yuan-denominated settlement of energy and commodity trades, increase the share of RMB in global financial transactions and expand the scope of currencies. Bao Jianyun [1] points out that the construction of “The Belt and Road” not only facilitates trade and financial cooperation between China and the countries along the Silk Road Economic Belt, but also brings many investment opportunities for the internationalization of RMB. Yuan Ping [8] believes that the demand for currency in infrastructure construction in the Asia-Pacific region has brought opportunities for the export of RMB, and the internationalization of RMB will achieve breakthroughs in the scope of application and commodity settlement.

However, the previous research scholars did not discuss how these opportunities brought by the “The Belt and Road” can promote the internationalization of RMB, that is, conduct an in-depth analysis of the specific impact mechanisms. Therefore, this paper mainly analyzes this influential mechanism to explain how “The Belt and Road” promotes the internationalization of RMB. For example, in addition to explaining the investment and financing opportunities that “The Belt and Road” can bring to RMB, it is necessary to analyze these investment and financing opportunities that will promote the capital export of RMB, the important role of capital output and export of RMB in the internationalization process of RMB, and through the elaboration of impact mechanism to provide a reference for the better internationalization of RMB in “The Belt and Road” process.

II. THE CURRENT STATUS OF INTERNATIONALIZATION OF RMB AND “THE BELT AND ROAD”

A. The Meaning of Internationalization of RMB

Currency internationalization refers to the process by which a country’s currency crosses national borders and becomes a universally recognized and used currency [5]. The internationalization of the general currency has three levels: Firstly, the currency of a country can become the international trade settlement currency of the private sector and the

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intervening currency of the official sector. At this time, the currency has played the role of the transaction medium and it is required to have sufficient liquidity; Secondly, It is the country's currency that can be used by the private sector for the valuation of goods, services, and finance. It functions as a bookkeeping unit and requires a stable currency; Thirdly, the country's currency can become the investment currency of other countries' private sector and the reserve currency of the official sector also requires that the currency should also have the function of maintaining value and adding value. If a country's currency can reach the third level, it means that a country's currency has been fully internationalized. Seen from the definition, the current international currency functions of RMB remain mainly in the private sector. (See Table 1)

TABLE I. THE MAIN FUNCTIONS OF INTERNATIONAL CURRENCY

Projects	Private Sector	Official Sector
Trading medium	Settlement currency (settlement of international trade and capital transactions)	Intervention currency (intervention in the foreign exchange market, balance of international payments)
Bookkeeping unit	Valuation currency (counting of commodity, service trade and financial transactions)	Peg currency (exchange rate anchor)
Value storage	Investment currency (indicating the value of deposits, loans, bonds, etc.)	Reserve currency (International Reserve)

Source: Zong Liang, Li Jianjun, Theory and Prospects of Internationalization of RMB, 2011.

B. Current Status of Internationalization of RMB

After adding RMB to the SDR, RMB plays an increasingly important role in international economic and trade exchanges. More and more foreign financial institutions have begun to handle RMB business. Among them, cross-border RMB settlement is the main channel for cross-border use of RMB. The RMB settlement business for cross-border investment and financing has also been further developed, more and more overseas central banks, monetary authorities, and commercial banks use RMB to invest in the domestic bond market. In addition, bilateral currency cooperation and offshore RMB market have also achieved great development results [4].

From the start of the trial of RMB settlement services for cross-border trade in 2009, the degree of internationalization of RMB continues to deepen. In 2014, the RMB Cross-border Payment System (LIPS) was established in Shanghai to provide hardware support for the internationalization of the RMB, making RMB the fifth largest payment currency in the world, and the layout of the offshore RMB center gradually developed. In 2015, the IMF announced the official inclusion of the RMB in the Special Drawing Rights (SDR). It was an important symbol of RMB becoming an international currency. The central bank and the monetary authorities of 33 countries have signed up to 3.3 trillion yuan in exchange currency, which indicates that international IMF recognition of the function of RMB international reserves [2].

As of 2017, the development of internationalization of RMB is mainly reflected in three aspects: Firstly, the index of internationalization of RMB has continued to increase. From the first quarter of 2012, the index of internationalization of RMB was 0.55 to 2.26 in 2016, which indicates that the level of internationalization of RMB has been continuously increasing in the past five years. However, due to the impact of the Fed's rate hike in 2016, the market has expected to depreciate the RMB, making the RMB internationalization index drop by 29.8% year-on-year. Secondly, the value of cross-border trade settlement of RMB continues to increase. In 2012, the cross-border trade settlement of RMB was 294 million yuan. In 2016, the cross-border trade settlement of RMB was 523 million yuan, which was more than tripled in five years. Thirdly, the scale of offshore RMB market continued to expand. It is estimated that the RMB deposit balance in the offshore market in 2016 was nearly 2.3 trillion yuan, indicating that more and more regions in the world will have an offshore RMB market.

Although the internationalization of RMB has achieved corresponding achievements under the two main lines of cross-border trade settlement and off-shore markets in recent years, there are still many challenges to be taken in order to promote the internationalization of RMB further [7]. First of all, the settlement level of RMB in cross-border trade has yet to be further improved. Secondly, we should consolidate the important phase of regionalization in the three phases of internationalization of RMB. The internationalization of RMB is a long-term and gradual process. At present, most scholars agree that the internationalization of RMB should undergo these three phases: peripheralization, regionalization, and internationalization. However, in the surrounding areas of China, the settlement of RMB in ASEAN and South Korea is still not high. Therefore, we should focus on raising the level of cross-border use of RMB in China's neighboring countries and regions, further consolidate the level of regionalization, and lay a solid foundation for realizing the internationalization of RMB. Thirdly, it is necessary to further broaden the output channels of RMB funds. As the internationalization of RMB began, China mainly relies on current accounts to export RMB funds offshore. However, as more and more countries are involved in cross-border use of RMB, China's current account of RMB cross-border receipts and payments may show a surplus situation. Therefore, we should explore new channels for the export of RMB funds, for example, by increasing the RMB output capacity of capital projects to meet the requirements of the continuous expansion of overseas circulation.

C. Overview of "The Belt and Road"

"The Belt and Road" covers a wide range of areas and has a large population of radiation. It connects China with more than 60 countries and regions such as Asia-Pacific, Northeast Africa and Europe. The total population has reached 4.4 billion, accounting for 63% of the world's total [9]. According to the data of July 2017, China's "going out" situation under "The Belt and Road" initiative is mainly from January to June 2017. China's enterprises have conducted non-financial operations for 47 countries along "The Belt and Road" of

US\$ 6.61 billion, investments accounted for 13.7% of the total for the same period, mainly in Singapore, Laos, Malaysia and other countries and regions. In respect of overseas contracting projects, 2431 new contracts amounting to 71.42 billion U.S. dollars were signed with 61 countries along the route, which accounted for 57.7% of the newly contracted foreign projects in the same period and completed a turnover of 33.07 billion U.S. dollars, an increase of 7.6% year-on-year. In terms of overseas trade cooperation, Chinese enterprises have established 77 overseas economic and trade cooperation zones involving industries including steel, building materials, and household appliances.

The construction of “The Belt and Road” is conducive to the mutual exchange of supply of world resources. For example, China currently has excess capacity in some industries. “The Belt and Road” can provide transport channels and markets for its exports and promote the development of resources and economy in the world. Secondly, through the construction of railway ports, it will help accelerate the development of the provinces and cities in the central and western regions of China. Industrial upgrades are to achieve a balanced development of the eastern and western parts of China. Thirdly, the “The Belt and Road” can promote mutual exchanges and cooperation between countries in economy and culture, accelerating the process of internationalization of RMB in China. The countries along the “The Belt and Road” have great development needs and potential. As long as we rely on “The Belt and Road” strategy and expand the use of RMB, the degree of peripheralization and regionalization of RMB will surely be increased and the international status of RMB will be improved..

III. THE INFLUENCE OF THE CONSTRUCTION OF “THE BELT AND ROAD” ON THE INTERNATIONALIZATION OF RMB

A. *The Positive Impact of the “The Belt and Road” on the Internationalization of RMB*

1) “The Belt and Road” Expands the use of RMB and make RMB a key currency for infrastructure financing

Infrastructures of Many countries along “The Belt and Road” have substantial funding gaps and many of them are inadequate. China has a high level of infrastructure construction and savings rates, and it can become a supporter of fund providers and infrastructure for countries along the country. By providing capital and technical support to the infrastructure construction of the countries along the route, it promotes the circulation of RMB abroad and promotes the process of regionalization of RMB. This has enabled RMB to become a key currency on the international stage, providing more opportunities to further expand the use of the RMB and promoting regionalization of RMB. The internationalization of the RMB has undergone a process of long-term accumulation. It does not happen overnight, it is the process from peripheralization to regionalization then to internationalization. At present, China has realized the peripheralization of RMB, and promoting the regionalization of the RMB will prepare for the internationalization.

2) “The Belt and Road” promotes bilateral monetary cooperation

“The Belt and Road” has promoted economic and trade cooperation between China and the countries along the route, and has further increased bilateral monetary cooperation. As of May 2017, the People's Bank of China has signed bilateral exchange agreements with several countries along the “The Belt and Road”. The signing of bilateral monetary cooperation is of great significance for enterprises to evade exchange rate risks in economic and trade cooperation and reduce the cost of corporate exchanges. Bilateral currency cooperation has promoted RMB to go further to the world and played a more important role in economic and trade exchanges.

3) “The Belt and Road” Increases the Recognition and Demand for RMB and enables e RMB to Appreciate

At present, in order to provide more financial support to countries along the route, China's foreign investment quota has further increased, and its foreign investment flow ranks third in the world. China provides a certain amount of loans to assist their economic development through the newly established Asian Infrastructure Investment Bank, increasing the circulation and acceptance of RMB. Demand for RMB from abroad will increase and the appreciation of RMB will promotes in the process..

4) “The Belt and Road” Broadens the Capital Outflow Channel of RMB

The industrial structure of the countries along “The Belt and Road” is irrational and the industrial foundation is weak. It is biased towards resource development and primary processing and light industry. The products need a lot of imports, and there is a coincidence between the types of industries it needs and the surplus industries in China. China has transferred the remaining high-quality domestic production capacity to markets in Central Asia and Southeast Asia, broadened the outflow channels for capital, achieved a ratio between the supply of production capacity and demand, and strengthened the economic ties between China and the countries along the route. This not only solves the lack of capacity and resources in the countries along the route and promotes the optimization and upgrading of its industrial structure, but also effectively uses China's excess production capacity and improves the utilization of resources.

5) “The Belt and Road” Promotes the Development of RMB Settlement Business

Under the joint guidance of the “Internet Plus” strategy and “The Belt and Road” strategy, cross-border e-commerce activities will be further promoted using RMB for pricing and settlement. Countries along “The Belt and Road” are mostly resource exporters, and exports are dominated by bulk commodities. The adoption of direct RMB settlement can avoid the risk of fluctuations in the exchange rate of bulk commodities. As a major importer of bulk commodities in countries along the country, China can establish a foreign trade circle settled in RMB to promote the use of RMB in trade settlement. Cross-border e-commerce utilizes both wholesale and retail channels to increase the settlement of RMB abroad, which will promote the transition from regionalization to internationalization of RMB.

B. Financial Platform Construction Promotes the Internationalization of RMB

China has established an Asian Infrastructure Investment Bank to integrate cross-border financial services, encouraging policy and commercial financial institutions to actively participate in "The Belt and Road" financial cooperation, and enhance international financial service capabilities. The construction of a financial platform has also brought more opportunities for domestic financial institutions to invest and finance overseas, and has enhanced their financial cooperation with Central Asian countries and regions, further increasing the international circulation of RMB. In addition, the construction of RMB offshore financial centers in recent years and the establishment of multiple RMB settlement banks abroad will further enhance the regional influence and international influence of RMB.

C. The Negative impact of the "The Belt and Road" on the Internationalization of RMB

1) The independence of China's monetary policy weakens

With the deepening of the internationalization of RMB, when we formulate monetary policies and use the three major monetary policy tools, we must not only consider the impact of domestic supply and demand for money, but also be affected by international conditions such as international currency demand and international policies. In order to maintain the stable development of the global financial market, China's monetary policy will be subject to restrictions on the circulation of money by the International Monetary Fund and other factors, which in turn will affect the formulation of monetary policy by the Central Bank.

2) The Internationalization of RMB may Increase Financial Instability

Most of the countries along "The Belt and Road" are developing countries. Their economic development depends on the export of domestic oil and other resources and the import of foreign high-quality production capacity. Their economic development is closely related to the import and export levels of other countries and the currency value is vulnerable to be influenced by the economic fluctuations of other countries. At the same time, these countries have insufficient financial supervision over financial institutions and financial institutions have a weak ability to evade market risks. As the economic crisis has a certain contagion effect, it brings risks to the financial market. Moreover, China has provided substantial funds to the countries along the "The Belt and Road" to support its infrastructures and export its production capacity. The economic foundation of these countries is weak and there is a potential risk of default on funds. Once a default occurs, it will cause great negative impact on China's economy.

3) The Internationalization of RMB will Further Complicate the Situation

With the implementation of "The Belt and Road" strategy, RMB will become internationalized through regionalization and will play an increasingly important role in the international stage further. However, in the face of a complex global situation, the exchange rate of RMB fluctuations will

be affected by global economic and political factors, which will bring great challenges to the exchange rate reform of RMB.

4) Improving the Internationalization of RMB will Bring the Triffin Puzzle to China

With the large-scale trade and infrastructure investment between China and the countries along the route, the money flowing out of China will continue to precipitate overseas. As for China, a trade deficit will occur and RMB may depreciate; but in order to prevent Confidence in RMB between domestic and foreign countries has declined and the development of the economy has stabilized. China must also maintain the stability of RMB, which in turn requires that China must be a country with a long-term trade surplus.

In order to better promote the internationalization of RMB, we must face Triffin puzzle. China can increase gold reserves on a large scale, giving more confidence to international holders and ease the concerns of RMB holders about the devaluation of RMB. At the same time, it should be possible to use RMB in international investment to accelerate the advancement of RMB regional economy. China should cooperate with multilateral financial institutions to form a multilateral cooperation financial platform so that countries along "The Belt and Road" can form a community of interests and reduce frictions of interest. China should also actively promote the reform of RMB exchange rate market and increase the flexibility of RMB. Forming a market-determined RMB exchange rate mechanism can avoid the risk of domestic and foreign exchange rate of RMB and maintain the stability of currency value.

IV. POLICY RECOMMENDATIONS

Although "The Belt and Road" strategy has brought opportunities for the internationalization of the RMB, there are many challenges in the promotion of the internationalization of RMB while relying on the construction of "The Belt and Road." In order to promote the internationalization of RMB better, we should pay attention to the following points:

Firstly, handle the relationship between RMB and major international currencies such as the US dollar and the euro correctly and clarify the strategic position of the internationalization of RMB. We must respect the laws of the market and do not necessarily emphasize the use of RMB to replace the US dollar or other international currencies in bilateral trade and investment. When promoting the internationalization of RMB in "The Belt and Road" development process. In fact, many countries along the route have the subjective willingness to use RMB for price settlement. As long as we provide convenience for the use of RMB effectively and promote trade investment, we can naturally form RMB regionalization to internationalization.

Secondly, strengthen regional financial cooperation. "The Belt and Road" construction process has huge capital requirements. Some major infrastructure construction and road traffic construction require large-scale funds. This will require China to strengthen financial cooperation with countries along the route, accelerate the pace of China's bank industry going

out, reform the financial sector in China, and actively promote regional finance Cooperation represented by the Asian Infrastructure Investment Bank and the BRICS Development Bank. It will increase the exchange rate at the central bank level and provide financial support for the construction of "The Belt and Road".

Thirdly, strengthen policy and cultural communication with countries along the route. In order to promote the internationalization of RMB, it is necessary to strengthen political, economic and cultural communication with countries along the route and strengthen cooperation with countries along the lines of trade and finance. In carrying out cooperation, we must respect local trade, investment and financial methods, overcome a series of obstacles from religion, culture, and systems to seek coordinated development.

V. CONCLUSIONS

To sum up, through the implementation of "The Belt and Road" strategy, expanding the economic exchanges between China and the surrounding areas will be conducive to the realization of the development approach to "peripheralization-regionalization-internationalization" of RMB. The scope of application of RMB in the countries along "The Belt and Road" should be greatly expanded to increase the overall awareness of RMB in the international community, the acceptance of RMB abroad and the interest in the region as well as the entire international trade market and financial market should be increased. The above weightings further promote the more robust internationalization of RMB. "The Belt and Road" strategy has both opportunities and challenges for the internationalization of RMB. It is necessary to properly handle the relationship between RMB and major international currencies such as the US dollar and euro, and then clarify the

strategic position of the internationalization of RMB, strengthen financial cooperation within surrounding region and cultural communication with the countries along the route.

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