

The Challenge and path Choice of RMB internationalization in Belt and Road Initiativeundefineds Construction

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Abstract: The construction of Belt and Road Initiative, launched by China in 2015, has brought new vitality and opportunity to the internationalization of RMB. Since the trial in 2009, RMB internationalization has made remarkable achievements, but at the same time, it faces many challenges such as low degree of RMB internationalization and high risk. Therefore, how to accelerate the process of RMB internationalization with the help of the expansion of the investment and financing needs of the countries and regions along the "Belt and Road Initiative" is a question worthy of in-depth study.

Keywords Belt and Road Initiative, Internationalization of RMB Challenge, Path Choice of RMB internationalization

THE PROGRESS MADE IN THE INTERNATIONALIZATION OF THE RMB

Since China launched the renminbi settlement business of pilot border trade in 2009, China RMB internationalization has made good achievements in cross-border payment, settlement, valuation, reserve assets and infrastructure, and so on. Its specific manifestations are as follows:

(1) RMB cross-border payment settlement increases rapidly.

The rapid increase in the RMB cross-border payment and settlement amount along with the steady and positive development of China economy, the gradual improvement of the RMB exchange rate market-oriented reform, and the continuous optimization of cross-border RMB payment and settlement business policies. As well as the smooth

progress of the "Belt and Road Initiative" construction, the use of the RMB in the world and countries along the Belt and Road Initiative is also expanding, and the RMB is more and more widely recognized and accepted, and used as a trade-denominated settlement currency. (See Table 1)

In 2017, China settled 4.36 trillion yuan across the border, with a total of nine trillion eight hundred and forty nine billion nine hundred and ninety nine million nine hundred and ninety nine thousand nine hundred and ninety nine yuan received and paid across the border. It has been the second largest in China for six years in a row, accounting for nearly 1/4 of the total cross-border receipts and payments of domestic and foreign currencies in the same period. Foreign direct investment RMB cross-border payment settlement amount is about 1.39 trillions RMB. (See Table 2)

Table 1. Current account settlement in RMB 2009-2017 (in millions of yuan)

Time	Goods trade	Proportion	Trade in services and others	Proportion	Amount
2009	19.5	76.2%	6.1	23.80%	25.6
2010	3034	86.7%	467	13.3%	3501.0
2011	13810.7	86.9%	2078.6	13.1%	15889.3
2012	26039.8	90.4%	2757.5	9.6%	28797.3
2013	41368.4	89.2%	4999.4	10.8%	46367.8
2014	58946.5	90.0%	6563.7	10.0%	65510.2
2015	63911.4	88.3%	8432.2	11.7%	72343.6
2016	41209.4	78.8%	11065.4	21.2%	52274.7
2017	32700	75.00%	10900.0	25.0%	43600.0
Amount	281039.7	85.6%	47269.9	14.40%	328309.5

Data Source: people's Bank of China

Table 2 settlement of renminbi under direct investments, 2010-2017 (in millions of yuan)

Year	Outward direct investment	Foreign direct investment	Total
2010	56.8	223.6	280.4
2011	265.9	1006.8	1272.7
2012	311.9	2591.9	2903.8
2013	866.8	4570.9	5437.7
2014	2244.1	9605.5	11849.6
2015	7361.7	15871	23232.7
2016	10618.5	13987.7	24606.2
2017	4568.8	11800	16368.8
Total	26294.5	59657.4	85951.9

Data Source: people's Bank of China

(2) A steady increase in the amount of RMB-denominated Financial assets.

In 2017, a total of 22 countries or regions in the world received RMB qualified foreign investors (RQFII), total quota of 1.86 trillion yuan; A total of 407 foreign institutions were allowed to invest in the inter-bank bond market, with a total amount of one trillion nine hundred and sixty nine billion nine hundred and ninety nine million nine hundred and

ninety nine thousand nine hundred and ninety nine yuan (excluding Hong Kong, Macao and Taiwan) with a balance of RMB deposits in domestic banks amounting to 915.47 billion yuan. The balance of RMB deposits in the offshore market, mainly in Hong Kong, amounted to one trillion one hundred and ninety nine billion nine hundred and ninety nine million nine hundred and ninety nine thousand nine hundred and ninety nine yuan.(See Fig.1)



Fig. 1 Holding of RMB assets by overseas institutions and individuals. Data Source: people's Bank of China.

(3) The function of RMB Reserve and the deepening of International Cooperation.

As the RMB is added to the special drawing rights (SDR) currency basket of the International Monetary Fund, the international position and image of the RMB are greatly improved, and the RMB is widely used in the fields of international economic finance and trade investment. As of June 2017, the size of foreign-funded foreign-exchange reserves was about

\$993.6 billion, up 9.5 per cent at the end of 2016. At the same time, as an important part of the global financial security, the renminbi has become the world's sixth-largest payment currency and is increasingly being internationally recognized. In 2017, the central bank of China and the central bank or currency authorities in 41 countries or regions have signed a bilateral functional currency exchange agreement of up to 3.9 trillion yuan.

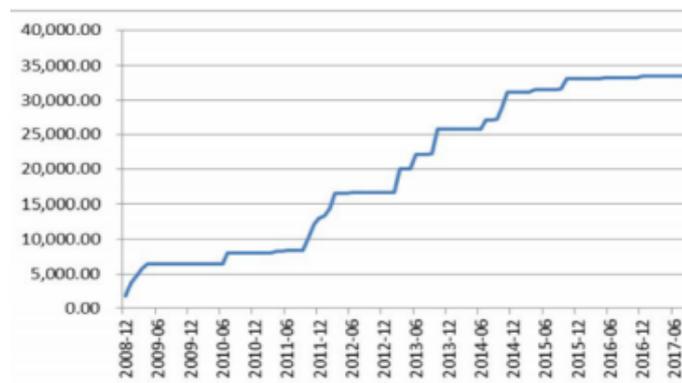


Fig. 2 size of currency swaps between the people undefined Bank of China and foreign central banks or monetary authorities, 2008-2017

THE CHALLENGES FACING THE INTERNATIONALIZATION OF RMB HELPED BY THE "BELT AND ROAD INITIATIVE" INITIATIVE

(1) Lower degree of internationalization of RMB.

In 2009, when China conducted a pilot cross-border RMB settlement business, the internationalization index of the RMB was only 0.02%, and the use of the RMB in the international market was almost blank; by the end of 2018, the internationalization index of the RMB has increased to 2.92%, with an increase of 143 times in the period of 9 years, and the RMB has begun to appear in the global scope. However, compared with the United States, the Euro, the Japanese yen and the Pound, China has a lower degree of internationalization and is still in a peripheral phase.

(2)The International Financial risk of RMB is higher.

The countries covered by the "Belt and Road Initiative" are basically in the state of economic development or underdevelopment, and there are significant differences in geopolitical, ethnic composition, political situation, natural environment, market structure, economic level and other aspects of the countries undefined geopolitical, ethnic composition, political situation, natural environment, market structure and economic level. Apart from the relatively strong economic power of Kazakhstan, other Central Asian countries have slow economic development and weak financial anti-risk capability. South Asia India country economy growth rate is relatively fast, is expected to become the Asia economy new growth point; The economic growth of Southeast Asian countries is stable, but the internal development is uneven. Ultimately restrict and hinder the RMB regionalization or internationalization process.

(3) Under the capital account, the RMB has not yet been freely converted

At present, China has realized the free exchange of RMB under the current account. Due to the imperfect

formation mechanism of China undefined current exchange rate and interest rate market, in 2016, China undefined trade with countries along the "Belt and Road Initiative" route was generally in a surplus. The total amount of foreign trade is about 6.25 trillion yuan, and for the time being, it is still unable to provide sufficient RMB for the current balance of payments and capital and financial projects of the countries along the "Belt and Road Initiative" route. So as to ensure cross-border currency liquidity and sustainable financing capacity.

THE STRATEGIC CHOICE OF "BELT AND ROAD INITIATIVE" INITIATIVE TO PROMOTE THE INTERNATIONALIZATION OF RMB

(1)Encourage RMB cross-border trade settlement and investment in countries and regions along the Belt and Road Initiative Initiative. As a large country in global goods trade, China has close trade exchanges and capital flows with countries along the "Belt and Road Initiative" route, which creates a great demand for the implementation of RMB cross-border valuation and settlement in the field of trade and finance.

(2)Strengthening the Monetary and Financial Cooperation Mechanism among the countries and regions along the Belt and Road Initiative Initiative. We will expand the signing of bilateral local currency swap agreements with countries and regions along the "Belt and Road Initiative" route, and achieve direct exchange and trading of currencies.

(3)Promoting managed RMB capital account convertibility. In the process of promoting the internationalization of the RMB, we should draw lessons from the experience of internationalization of other currencies in the world and insist on the convertibility of managed capital accounts. To alleviate the impact of international capital flows on China caused by a series of factors such as economic, political, and ethnic conflicts in countries and regions along the Belt and Road Initiative.

(4)Speeding up the Construction of RMB Offshore Financial Market and Infrastructure. The development of the RMB offshore market will provide investors in countries and regions along the "Belt and Road Initiative" route with legal, convenient and expeditious channels for holding renminbi-denominated assets, and enhance the attractiveness and willingness of foreign investors to hold renminbi. Promoting the expansion of investment and financing scale of RMB international credit

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