

# ***Analysis of the Impact of RMB Internationalisation in the Context of "One Belt, One Road"***

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**Abstract:** Over the past eight years, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as the core, China has integrated the planning of promoting high-quality development, constructing a new development pattern and building the "OBOR", adhered to the principle of common cause and common sharing, and pushed forward the high-quality development of the "OBOR". The development of "Belt and Road" policy brings unprecedented challenges and opportunities for RMB internationalisation. This paper introduces the current development situation of "Belt and Road" and RMB internationalisation, it is believed that China should actively grasp the opportunities brought by the Belt and Road, and analyses the development of "Belt and Road" policy in the countries along the route, and the difficulties brought by the development of the "Belt and Road" policy in the countries along the route and the internationalisation of the RMB, and puts forward two suggestions and related thoughts. Hope to provide ideas and insights for the development of related fields.

**Keywords:** Belt and Road, RMB internationalisation, current development, opportunities and challenges

## **1. Introduction**

The internationalisation of currencies has always been a popular topic for scholars to study. Some scholars put forward the viewpoint from the perspective of currency function, Bain and Cohen [1] pointed out that whether in the domestic market or foreign market, the function of a country's currency is the same, only its circulation and use of the scope of the change, from the currency issuing country to the world, the basic sign of currency internationalisation is the circulation and use of the currency in the foreign market, Hartmann [2] similarly believes that international currency in different uses reflect its different functions, for example, when a country's local currency in exchange for equivalent goods abroad as a settlement instrument, its transaction payment and he also believes that international currencies have different functions in different uses, for example, when the local currency of a certain country is exchanged for equivalent commodities abroad and used as a settlement instrument, its function of transaction and payment is embodied. Jiang Bock et al. [3] suggest that currency internationalisation is the result of market choice, and therefore China actively promotes the construction of RMB internationalisation.

Zhao Haikuan [4] points out that strong economic power, high international credit rating and a modern banking system are necessary conditions for the RMB to become one of the international

currencies, and Mundell [5] also puts forward a corresponding point of view, arguing that the internationalisation of currencies is not a one-step process, and that a country's currency needs to be able to play its monetary function in other countries gradually and then be widely recognised worldwide, without countries imposing restrictions on exchange and movement, and eventually become a widely accepted and universally recognised international currency. Mundell [5] also argues that the internationalisation of a currency is not a one-step process; a country's currency needs to be able to function as a currency in other countries gradually, and then to be widely recognised around the world, with no country placing restrictions on its conversion, exchange and movement, so that it can eventually become a widely accepted and recognised international currency. They all agree that it is necessary to ensure the level of trust of other countries in the RMB in order to promote the internationalisation of the RMB to a higher degree. Gao Haihong et al. [6] provide insights from three aspects according to the conditions of RMB internationalisation: firstly, the degree of currency convertibility should be concerned, which should be mutually promoted with currency internationalisation; secondly, the degree of development of the financial market, where a free market interest rate determination mechanism is more conducive to the internationalisation of the RMB; and thirdly, the existence of flexibility in the exchange rate, which places emphasis on flexible exchange rate regimes. Chen Jianqi [7] puts forward, today's international monetary system under the sovereign credit currencies can be stable as international reserves under the condition that the real economic growth of the international reserve currency issuing countries is not less than the sum of the inflation rate and the international reserve currency earnings.

## **2. RMB Internationalisation under the Development of the "Belt and Road" Policy**

The issue of RMB internationalisation in the context of the "OBOR" has been closely watched by scholars, and Cao Qiuju [8] points out that the internationalisation of the RMB can be improved through the use and storage of the RMB in the countries and regions along the "OBOR" and the increase in the frequency of the use of the RMB as a settlement currency. Ding Yibing and Shen Qianwen [9] also put forward their viewpoints from the perspective of trade along the "OBOR", and they believe that the RMB settlement function can be played out through the export of highly differentiated capital goods and components to countries and regions along the route. The "OBOR" is an important opportunity for the RMB to become internationalised, and China should break through the geographical limitations through the OBOR, so that the RMB can be widely accepted and recognised outside mainland China, and the trust of other countries in the RMB can be enhanced, thus promoting the internationalisation of the RMB.

China faces many challenges in promoting the internationalisation of the RMB in the process of promoting the development of the "OBOR" strategy. Ren Zhihong [10] points out that the "OBOR" initiative has brought difficulties and conflicts while bringing opportunities for RMB internationalisation, with cultural and political conflicts being the most obvious examples. This has resulted in problems such as low acceptance of the RMB in countries along the route. Zhou Tianyun [11] used an econometric model to analyse the impact of the OBOR Initiative on the internationalisation of the RMB, in which the instability of the value of the currency and trade deficits will have a negative impact on the internationalisation of the RMB.

As for the influencing factors of RMB internationalisation, a number of scholars have put forward relevant suggestions. Li Daokui and Liu Linlin [12] studied the three aspects of international bonds, trade settlement and foreign exchange reserves, and concluded that a country's economic strength, inflation level, interest rates, exchange rates and other significant impact on the degree of internationalisation of its currency. Lin Lefen, Wang Shaonan [13] established a GMM model in this regard by counting the currency data of eighteen countries from 2001 to 2013, pointing out that the economic strength of each country, the stability of its currency, the openness of its financial market,

the level of trade and investment, the inertia of its currency, and other factors can have a significant impact on the internationalisation of its currency. Wu Tingting et al. [14]) compared the economic development of the United States, Japan and Germany and pointed out that open financial markets will play a role in promoting currency internationalisation. Liu Qingjie et al. [15] suggest that China's ODI is not only beneficial to the economic growth of the countries along the route, but also promotes the internationalisation of the RMB.

Summarising the above relevant literature, we can see that many scholars have put forward relevant thoughts and suggestions on RMB internationalization based on the "OBOR" policy, and have summarized them. At the same time, currency internationalisation as a hot issue in the current academic world, and "OBOR" as one of China's important economic strategies, there is still a big gap in the in-depth investigation of the relationship between the two influences at home and abroad, this paper combines the two, uses qualitative research methods, and explores the relationship between RMB internationalisation and "OBOR" by combining the latest data in related fields. This paper combines the two, uses qualitative research methods, combines the latest data in relevant fields to investigate the development status of RMB internationalisation and "OBOR", and combs through the relevant results of scholars at home and abroad, and finally conducts an in-depth investigation of the relationship between the two. It is hoped to provide certain theoretical basis for the research in related fields.

### **3. Current Development of "OBOR" and RMB Internationalisation**

The "One Belt, One Road" ("OBOR") policy has further enhanced the impact of China's overseas investment on the international financial market by effectively combining with the strategies of "opening up the coasts" and "developing the west", etc., and the international financial market must also make corresponding changes with the changes in China's "OBOR" overseas investment. As the scale of the investment continues to increase, the international financial market must also change accordingly with the changes in China's "OBOR" overseas investment in order to adapt to its new trend of overseas investment and financing. The "OBOR" strategy strengthens the regional economic exchanges between countries along the Asia-Europe continent, the Pacific Ocean and the Indian Ocean, and promotes the economic development of the countries along the route as well as China's comprehensive reform and opening-up, and the countries along the route will win the sustainable development due to the "OBOR" policy. The countries along the OBOR policy will win a sustainable future.

From the data, China's trade with the countries along the routes has grown considerably. For example, comparing the trade data between China and the five Central Asian countries from 1992 to 2012, China and the five Central Asian countries started to establish diplomatic relations in 1992, and at this time the trade volume between the two sides was only 460 million US dollars, and thanks to the implementation of the "OBOR" policy, the trade volume between China and the five countries in East Asia reached 45.94 billion US dollars in 2012. Thanks to the implementation of the "OBOR" policy, China's trade volume with the five East Asian countries had reached \$45.94 billion by 2012, with China accounting for 4 per cent of Tajikistan's total import and export volume, 56 per cent of Kazakhstan's total import and export volume, 11 per cent of Kyrgyzstan's total import and export volume, 23 per cent of Shikmenistan's total import and export volume and 6 per cent of Uzbekistan's total import and export volume. The "OBOR" policy has also played an important role in the economic development of neighbouring countries, so that This shows that the "OBOR" policy has also had a significant impact on the economic development of neighbouring countries, giving both sides broader prospects for development.

With the development of the "OBOR" policy, the RMB's position in the international financial payment system is also increasing. According to the Society for Worldwide Interbank Financial

Telecommunication (SWIFT), the RMB's share of international payments and receipts increased to 2.7 per cent in December 2021, it can be found that from 2016 to the first quarter of 2022, the RMB's share of global foreign exchange reserves reached 2.88 per cent, an increase of 1.8 percentage points, and was the fifth among the world's major reserve currencies, and in May of the same year, the International Monetary Fund (IMF) placed the RMB in the In May of the same year, the International Monetary Fund (IMF) raised the weight of the RMB in the Special Drawing Rights (SDR) from 10.92 per cent to 12.28 per cent, with the "OBOR" policy playing a significant role in promoting it.

#### **4. Opportunities and Challenges in Promoting RMB Direct Markets**

With the development of the "OBOR" policy, the trend of RMB internationalisation is gradually increasing, the internationalisation of RMB has stepped up to a new level, and the payment function of RMB has been continuously enhanced. The development of RMB internationalisation can promote the continuous deepening of bilateral monetary cooperation, further eliminate the difficulties in using RMB outside China, and enable China to participate in the international economic affairs better, reduce the exchange rate risk of foreign trade, and better form the RMB exchange rate mechanism. The development of RMB internationalisation can promote the deepening of bilateral currency cooperation, further eliminate the difficulty of using RMB abroad, and enable China to better participate in international economic affairs, reduce the exchange rate risk of foreign trade, and better form the exchange rate mechanism of RMB.

##### **4.1. Opportunities**

The development of the "OBOR" policy provides a broad development prospect for the RMB direct trading market, which is conducive to the transition of the RMB from regional internationalisation to global internationalisation, and the acceptance and recognition of the RMB by a wider range of countries, which will enable our country to free itself from the dependence on international hegemonic currencies, and provide strong support for the participation of our country in international trade. The RMB can provide strong support for China's participation in international trade and facilitate enterprises to better carry out foreign co-operation.

In 2019, the amount of RMB cross-border payments and receipts with countries along the "OBOR" exceeded RMB 2.73 trillion yuan, a year-on-year increase of 32 per cent, of which RMB 732.5 billion yuan was received and paid under trade in goods, a year-on-year increase of 19 per cent, and RMB 252.4 billion yuan was received and paid under direct investment, a year-on-year increase of 12.5 per cent. And with a number of "OBOR" along the line of countries to achieve direct transactions, and with the Cambodian riel and three other national currencies to achieve the regional transactions, and to build a "OBOR" policy of high-quality high-level development, so that the use of the RMB in the market and acceptance of the degree continues to increase! The high-quality and high-level development of the "OBOR" policy has led to the increasing use and acceptance of the RMB in the market, providing a strong impetus for the internationalisation of the RMB. China has begun to use the RMB in energy transactions with Russia, Saudi Arabia and the United Arab Emirates, further promoting the trend of using the RMB as a currency for direct transactions and breaking the hegemonic monopoly of currencies.

##### **4.2. Challenges**

The "OBOR" initiative has brought difficulties and conflicts along with opportunities for the internationalisation of the RMB, with cultural and political conflicts being the most obvious examples, most notably when Chinese investment projects in Sri Lanka were forced to stop only because of a presidential election. Western-sponsored anti-China groups outside the region have curbed the

development of the "OBOR" policy for a variety of reasons, which has had a negative impact on China's investment projects. At the same time, the development of the "OBOR" policy is also subject to interference by terrorist organisations and extremist religious forces, which has caused great damage to China's overseas collective interests in the "OBOR" policy.

When using the econometric model to analyse the impact of the OBOR Initiative on the internationalisation of the RMB, currency instability and trade deficits will have a negative impact on the internationalisation of the RMB.

## 5. Conclusion

The "OBOR" policy is a long-term development project, and while embracing the opportunities, it should also take into account the national cultures and religious traditions of the countries and regions along the route, and need to be adjusted by the countries along the route in order to mitigate the interference of external factors, promote the development of regional integration, and thus promote the frequency of the RMB as a settlement currency, and contribute to the deepening of the internationalisation of the RMB. The internationalisation of RMB will be deepened.

Based on this this paper puts forward two relevant suggestions. One is to promote the development of economic transformation, 2020, the world is facing the economic pressure brought about by the new crown epidemic, at this time the sustained development of the economy is to maintain the world's confidence in the yuan, willing to store the basis of our country should continue to promote the opening up of the footsteps of the world, and the world together to seek how to better development.

Secondly, the level of RMB internationalisation in the countries along the "OBOR" should be continued and deepened, and regulatory methods should be used to keep the RMB exchange rate stable and to keep a good outlook on risks, so that the internationalisation of the RMB can develop in tandem with the development of China's foreign trade.

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