

## Research on the Path of RMB Internationalization under the Background of "the Belt and Road"

Jianwei Lu<sup>1, a</sup>, Zejiang Zhou<sup>2, b, \*</sup>

<sup>1</sup> School of Finance, Anhui University of Finance and Economics, Bengbu, Anhui 233030, China

<sup>2</sup> School of Economics, Anhui University of Finance and Economics, Bengbu, Anhui 233030, China

<sup>a</sup>1990925564@qq.com, <sup>b, \*</sup>aczzj123456@163.com

### Abstract

The "the Belt and Road" is a win-win cooperation road to promote common development and achieve common prosperity, and a peaceful friendship road to enhance understanding and trust and strengthen all-round exchanges. This article first explores the current development status of RMB nationalization and analyzes the current process of RMB internationalization from multiple perspectives. Then, it analyzes the impact of "the Belt and Road" initiative on RMB internationalization from both opportunities and challenges. Finally, it proposes suggestions and specific implementation paths for RMB internationalization in the context of the "the Belt and Road". Under the "the Belt and Road" initiative, China's RMB internationalization should adhere to the real economy orientation and promote the steady development of RMB internationalization; Build a multi-level cooperation mechanism and create a favorable international environment; Efforts will be made to promote Chinese standards and the use of the RMB in infrastructure construction.

### Keywords

"The Belt and Road" Strategy; Internationalization of RMB; Implementation Path.

### 1. Introduction

In 2009, China launched a pilot program for RMB cross-border trade settlement. In January 2015, the People's Bank of China officially proposed "RMB internationalization" for the first time. In 2013, Chinese President Xi Jinping put forward the cooperation initiatives of "New Silk Road Economic Belt" and "21st Century Maritime Silk Road" respectively. The proposal of "One Belt and One Road" injected fresh blood into the internationalization of RMB, which stepped into a new stage of development. In the context of globalization and economic integration, the competition for international currency status has become one of the focal points of competition among countries. As the world's second largest economy, while promoting the "the Belt and Road" initiative, China has also begun to promote the internationalization of the RMB. The internationalization of the RMB is not only a necessity for China's economic development, but also an effort to reshape and reform the global financial system.

With the continuous growth of China's economic strength, China has become the world's second-largest economy, which is crucial to the global economy. Many economists believe that actively promoting the internationalization of the RMB on a global scale is an inevitable step. Exploring the path of RMB internationalization in the context of the "the Belt and Road" can effectively analyze the opportunities and challenges of RMB internationalization brought by the "the Belt and Road" initiative, and maximize the role of "the Belt and Road" in accelerating the process of RMB internationalization.

The "the Belt and Road" strategy, as an important part of Xi Jinping's socialism with Chinese characteristics in the new era, has great theoretical and practical value. It not only depicts the magnificent prospect of China's reform and opening up in the new era, but also has great significance for today's economic globalization and world development. Over the past 40 years of reform and opening up, with the continuous enhancement of China's economic strength, the call for the internationalization of the RMB has been increasing. The internationalization of the RMB is not only a necessary requirement for China to accelerate economic transformation and actively participate in international economic affairs, but also an objective requirement for China's international economic development. The "the Belt and Road" strategy and the RMB internationalization strategy, as two important development strategies in China's international trade, are of great significance to China's and even the world's trade and economic development. In the context of the "the Belt and Road", the RMB internationalization path exploration can effectively link the two, and play a huge role in promoting their mutual promotion and common development.

This paper summarizes and analyzes the literature related to RMB internationalization and the Belt and Road Initiative, including academic journals, government reports, research reports of economic research institutions, etc. Key words for literature search include "the Belt and Road", "RMB internationalization", "international finance", "international monetary system", etc. This paper aims to explore the path of RMB internationalization in the context of the the Belt and Road, and analyze the significance and prospects of this process. Through a review and analysis of relevant literature, we will delve into China's strategies, potential challenges, and possible solutions to promote the internationalization of the RMB, in order to provide theoretical and practical guidance for policy makers and researchers.

Since January 2015, when the People's Bank of China officially clarified the concept of "RMB internationalization" for the first time, China has been attaching great importance to the development of RMB internationalization. In a practical sense, taking the "the Belt and Road" strategy as the background, exploring the development path of RMB internationalization is of great significance to the development of the "the Belt and Road", enhancing national self-confidence, and accelerating the process of RMB internationalization. This paper first summarizes the previous research results of domestic and foreign scholars on RMB internationalization through literature summary, and describes the current situation of RMB internationalization development and the implementation of the "the Belt and Road" strategy in China through theoretical basis, laying a solid foundation for formulating a reasonable development path. Subsequently, it analyzed the impact of "the Belt and Road" initiative on RMB internationalization from both opportunities and challenges. At present, the internationalization of the RMB has achieved important results in functional areas such as cross-border settlement and payment, investment and financing, international reserves, and bilateral currency swaps. However, it also faces many difficulties, such as political risks, operational risks, and environmental risks from countries along the route. Finally, based on the scale of China's trade and the level of economic development, propose countermeasures and suggestions that are suitable for oneself, thereby promoting China's economic development.

## **2. Current Situation of "the Belt and Road" and RMB Internationalization**

### **2.1. Implementation Status of the "the Belt and Road" Strategy**

#### **2.1.1. China Attaches Importance to the High-quality Development and Implementation of the "the Belt and Road" Strategy**

November 24, 2023, the leading group for promoting the construction of the Belt and Road released the "Vision and Action of Firmly Promoting the Quality Development of the Belt and Road -- the Development Outlook of the Belt and Road in the Next Ten Years", and the report

proposed the vision ideas and practical action measures for the high-quality construction of the Belt and Road in the next ten years. The main contents of the report are the achievements and enlightenment of the joint construction of the "the Belt and Road" in the past ten years, the overall concept of the joint construction of the "the Belt and Road" in the next ten years, the key areas and directions of the development in the next ten years, the path and measures of the development in the next ten years, and prospects.

On January 17, 2024, the Party Group of the National Development and Reform Commission wrote an article in the People's Daily, pointing out the need to vigorously implement and do a good job in this year's economic work. One is to expand high-level opening-up to the outside world. The second is to promote stable scale and optimized structure of foreign trade, expand intermediate goods trade, service trade, digital trade, and cross-border e-commerce exports. Thirdly, we will deepen the implementation of the strategy to enhance the pilot free trade zone and promote the granting of more autonomy to the pilot free trade zone, Hainan Free Trade Port, and other areas. Fourthly, stabilize and expand the scale of foreign investment utilization, and continuously improve the quality and level of overseas investment. Fifthly, we should focus on the implementation of the eight actions to support high-quality joint construction of the "the Belt and Road".

### **2.1.2. China's "the Belt and Road" Construction has Made Remarkable Achievements**

In October 2023, the third "the Belt and Road" International Cooperation Summit Forum was successfully held in China. During this period, the General Administration of Customs released the trade index between China and the "the Belt and Road" countries, which rose from 100 in 2013 to 165.4 in 2022, fully demonstrating the achievements of China's trade with the countries jointly building the "the Belt and Road" in the past decade. Meanwhile, Wang Lingjun, Deputy Director of the General Administration of Customs, stated that China's trade with co built countries will continue to grow and maintain a good development momentum in 2023. In 2023, the import and export of China and the countries jointly building the "the Belt and Road" will reach 19.47 trillion yuan, an increase of 2.8% year on year, accounting for 46.6% of China's total foreign trade. Both the scale and proportion are the highest since the proposal was put forward. In addition, the China Europe freight train operated 17000 trains and sent 1.9 million TEUs of goods, an increase of 6% and 18% year-on-year, respectively; The Western Land Sea New Channel freight train transported 860000 TEUs of goods, an increase of 14%; The customs supervised and released 4.218 million tons of goods imported and exported by the China Laos Railway, an increase of 94.9%. The effect of the China Laos Railway, a "golden channel" for logistics between China and Southeast Asia, is increasingly apparent. Through trade cooperation, the needs of people from all countries for a better life are better met. China has imported fruits and dairy products, exported clothing, shoes and hats, and actively assisted in the development of the manufacturing and infrastructure sectors of the co built countries. In 2023, it exported 86.1 billion yuan to the co built countries through foreign contracting projects, an increase of nearly 30%.

## **2.2. Current Status of RMB Internationalization Process**

With the continuous growth of the Chinese economy and the increasing international influence, the internationalization process of the RMB is also accelerating. The following is a brief overview of the current situation of RMB internationalization.

### **2.2.1. The Rise of the International Payment and Reserve Currency Status of the RMB**

In recent years, the position of the RMB in international payments and reserve currencies has gradually risen. According to data from the Bank for International Settlements, the share of the RMB in international payments has continued to grow in the past few years and has become the fifth largest payment currency in the world. Meanwhile, some countries have begun to

include the RMB in their foreign exchange reserves, demonstrating their trust and recognition of the RMB.

### **2.2.2. Increased Support for RMB Internationalization Policies**

The Chinese government has been actively promoting the internationalization process of the RMB. For example, China has signed currency swap agreements with multiple countries and regions, which helps to expand the scope of use of the RMB. According to data from the Society for Worldwide Banking and Telecommunications (SWIFT), in October 2016, the Chinese yuan had a market share of 2.8% in the global payment currency market, rising to fifth place, surpassing the Canadian and Australian dollars. In addition, the launch of initiatives such as the "the Belt and Road" has provided more opportunities for the internationalization of RMB.

### **2.2.3. The Offshore Market of RMB is Developing Rapidly**

The offshore market of RMB is an important component of RMB internationalization. In recent years, the mechanism for forming the RMB exchange rate has been increasingly improved, the scope of cross-border use of the RMB has been expanding, and the offshore RMB market has gradually matured, especially in financial centers such as Hong Kong and London. These offshore markets provide more RMB products and investment opportunities for overseas investors, further promoting the internationalization process of the RMB.

### **2.2.4. The Opening up of the Financial Market to the Outside World is Steadily Advancing.**

Taking the Shanghai Hong Kong Stock Connect and the Shenzhen Hong Kong Stock Connect as examples, since their launch in 2014, the two interconnection mechanisms have been operating well. As of November 27, 2023, the cumulative transaction amount has reached 1.08 trillion US dollars and 471.6 billion US dollars, respectively. The degree of opening up of China's financial market to the outside world is constantly increasing, and the channels for foreign investors to invest in China's financial market are gradually expanding, which is conducive to enhancing the international status of the RMB.

### **2.2.5. The Internationalization of the RMB Still Faces Challenges**

Although the internationalization of the RMB has made some progress, it still faces some challenges. For example, restrictions on Chinese capital controls, insufficient openness of financial markets, and exchange rate fluctuations may all affect the internationalization process of the RMB. In addition, global economic instability and uncertainty may also pose risks and challenges to the internationalization of the RMB. In summary, the internationalization of the RMB has made some progress, but still faces many challenges and opportunities. In the future, China needs to continue to deepen financial reform, promote the opening of financial markets, strengthen economic cooperation with other countries and regions, in order to further promote the internationalization process of the RMB.

## **3. The Impact of "the Belt and Road" strategy on RMB Internationalization**

### **3.1. Opportunities Brought by the "the Belt and Road" for RMB Internationalization**

#### **3.1.1. "The Belt and Road" Provides a Good Environment for RMB Internationalization**

The implementation of the "the Belt and Road" initiative has enabled cultural exchanges between countries, developed tourism, and created a good circulation environment for RMB. During the implementation of the "the Belt and Road", the AIIB, based on stable financial support, is conducive to the smooth and complete completion of infrastructure in the strategic implementation. As the initiator of the "the Belt and Road" initiative, China uses its strategic advantages to make RMB a trading medium and create a good economic environment for RMB

internationalization. The "the Belt and Road" includes countries and regions with rich resources. The excellent investment environment is conducive to creating a good RMB international investment and financing environment.

### **3.1.2. "The Belt and Road" has Increased the Recognition and Demand for RMB**

At present, in order to provide more financial support to countries along the Belt and Road, China's outward investment quota has further increased, and its outward investment flow ranks third in the world. With the gradual implementation of the "the Belt and Road" and the establishment of the Asian Investment Bank, the demand for cross-border capital will continue to rise, which is conducive to the "going global" of RMB as a transaction payment currency and increases the overseas circulation of RMB. The core of the "the Belt and Road Initiative" is the "five links", which are the interconnection of policies, roads, trade, currencies and people's hearts. The practice of these five links requires the support of financial currencies. In this process, the acceptance and recognition of the RMB will be enhanced.

### **3.1.3. "The Belt and Road" has Made RMB the Key Currency for Infrastructure Financing**

The "the Belt and Road" connects the Asia Pacific Economic Circle in the east and the European Economic Circle in the west, covering many countries on the Eurasian continent. Many countries along the "the Belt and Road" have large funding gaps in infrastructure, and the infrastructure is imperfect. As a successful case of poverty alleviation, China has made remarkable achievements in various fields of traditional and emerging infrastructure, such as "Tiegongji", "Tiandian Network", land, sea and air, human-computer interaction, and the Internet of Everything. Taking this opportunity to invest in infrastructure in countries along the "the Belt and Road" can not only effectively promote the proportion of RMB in foreign investment, but also highlight the charm of China's development model. This enhances the frequency and scale of overseas use of the RMB, which is conducive to the development of RMB internationalization.

### **3.1.4. "The Belt and Road" is Conducive to Promoting the Overseas Circulation of RMB.**

In China, there is structural overcapacity. In industries with excess capacity such as steel, cement, and glass, investment has not shown a significant decrease, while production is still expanding further. After the implementation of the "the Belt and Road" strategy, the countries along the Silk Road will generate capacity demand in the field of infrastructure driven by investment. This provides a rare opportunity for China to transfer low-end industries and reduce overcapacity, and also creates conditions for using the RMB as a means of payment. At the same time, the proposal of the "the Belt and Road" strategy, the layout of the Asian Investment Bank, the BRICS New Open Bank and domestic and foreign industrial funds accelerated the flow of domestic and foreign financial capital, which expanded the RMB capital circulation channels. This enhances the frequency and scale of overseas use of the RMB, which helps to internationalize the RMB.

## **3.2. Challenges Brought by the "the Belt and Road" to RMB Internationalization**

### **3.2.1. The Independence of China's Monetary Policy Weakens**

The implementation of the "the Belt and Road" is not conducive to our government's adjustment of monetary policy, and has an impact on the RMB exchange rate. When the "the Belt and Road" is deeply implemented, the demand for RMB will not only stay at home, but also international demand. At this point, the central bank needs to consider multiple factors when regulating the money supply and interest rates, which directly increases the difficulty of monetary regulation. The difficulty of policy regulation is not conducive to the promotion of RMB internationalization. With the deepening of the internationalization of the RMB, when formulating monetary policy and using the three major monetary policy tools in China, we not



only need to consider the impact of domestic currency supply and demand, but also be influenced by international currency demand, international policies, and other international situations. In order to maintain the stable development of global financial markets, China's monetary policy will be subject to restrictions on currency circulation by the International Monetary Fund and other organizations, which in turn will affect the central bank's formulation of monetary policy.

### **3.2.2. Nationalization of the RMB May Exacerbate Financial Instability**

Most of the countries along the "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 relatively close to the import and export level of other countries, and their currency values are vulnerable to economic fluctuations in other countries. At the same time, these countries have insufficient financial supervision of financial institutions and their own ability to avoid market risks is weak. Due to the contagion effect of economic crises, they have brought certain risks to financial markets. Moreover, China has provided a large amount of funds to countries along the "the Belt and Road" to support their infrastructure construction and export capacity to them. These countries have weak economic foundation, and there is a potential risk of capital default. Once a default occurs, it will have a great negative impact on China's economy.

### **3.2.3. Internationalization of the RMB Will Make the Situation of the RMB more Complex**

With the implementation of the "the Belt and Road" strategy, the RMB will become more and more important in the international arena from regionalization to internationalization. However, facing the complex global situation, the fluctuation of the RMB exchange rate will be influenced by more global economic, political and other factors, which poses great challenges to the reform of the RMB exchange rate. Meanwhile, for a long time, international trade and investment have mostly been priced and settled in developed countries such as the US dollar. Under the current international monetary system, the US dollar has already gained strong historical inertia. The internationalization path of the RMB will inevitably be constrained by the inertia of the US dollar, which is also a difficult and long process.

## **4. Suggestions**

### **4.1. Adhere to the Guidance of the Real Economy and Promote the Stable Development of RMB Internationalization**

Currently, China needs to maintain a clear understanding of the internationalization process of the RMB. Although financial transactions can achieve rapid growth in the internationalization index of the RMB in a relatively short period of time, the sustainability of this growth is poor and there are certain risks involved. In the long run, the reliable force supporting more international use of the RMB must and can only be the sustained demand for "Made in China" and "Created in China" in the global market. We should seize the historical opportunity of the "the Belt and Road" construction, consolidate and increase the share of RMB trade valuation and settlement, further expand the scale of RMB use in direct investment, trade financing and loan and bond issuance closely related to the real economy in the international market, and promote the steady development of RMB internationalization.

To this end, the following suggestions are proposed. Firstly, fully leverage the demonstrative effect of the policy based financial support system. Through the establishment of policy based financial support systems such as the Asian Infrastructure Investment Bank, the BRICS Development Bank, the Shanghai Cooperation Organization Development Bank and the the Silk Road Fund, leverage will be exerted to drive more social funds to invest in the construction of

the "the Belt and Road", and gradually shift from dollar denominated to RMB denominated. Secondly, further improve the domestic financial system. Build a multi-level, efficient, and diversified capital market as soon as possible, leverage the active role of intermediary institutions such as insurance, leasing, rating, and legal services, lower structural rates, and build a strong RMB investment and financing pipeline support. Thirdly, we should strive to improve the convenience and attractiveness of RMB use in countries along the "the Belt and Road". Continue to expand bilateral local currency swap arrangements with countries along the the Belt and Road, play the role of RMB offshore center, establish RMB clearing mechanisms in countries and regions with active investment and financing, and promote countries along the Belt and Road to use RMB for pricing and payment in trade and infrastructure investment.

#### **4.2. Building a Multi-level Cooperation Mechanism and Creating a Favorable International Environment**

"The Belt and Road" is a new model of regional cooperation advocated by China. China should have the responsibility of a major country, actively provide global public goods, and make due contributions to building a community with a shared future for countries along the Belt and Road. To implement the strategic goal of interconnectivity, it is urgent to build a multi-level cooperation mechanism.

At the national level, actively build a multilateral cooperation framework applicable to the region. Sign trade and investment agreements and comprehensive tax agreements as soon as possible, jointly establish legal dispute resolution mechanisms, information sharing mechanisms, and crisis resolution mechanisms, enhance policy coordination and regulatory consistency on major issues, and create a favorable institutional and legal environment for deepening regional economic, trade, and investment cooperation. At the international level, in the face of new problems and challenges arising from the construction of the "the Belt and Road", we will focus on creating an international platform for ideological confrontation, cultural exchange and policy communication. By leveraging mechanisms such as the Boao Forum for Asia and the China Arab Cooperation Forum to encourage non-governmental exchanges among universities, cultural organizations, and other organizations, we can fully exchange views, gather consensus, and explore effective directions and paths to solve practical difficulties. At the social level, adhere to the concept of open and inclusive development, and establish multilateral cooperation institutions. Follow the operation mode of the AIIB, welcome developed countries and countries outside the region to widely participate in the construction of the "the Belt and Road" with their own advantages and resources, fully absorb the outstanding achievements of different human civilizations, and especially learn from the experience and wisdom of developed countries in economic construction, risk management, regional cooperation and multilateral governance.

#### **4.3. Strive to Promote Chinese Standards and the Use of RMB in Infrastructure Construction**

As the leader of infrastructure construction in countries along the "the Belt and Road", China should make full use of infrastructure construction to promote Chinese standards and the use of RMB, and promote the process of RMB internationalization. The facilities of the "the Belt and Road" are connected to benefit the countries along the line. It is necessary to mobilize global financial resources for joint construction and sharing. Although China is a major supplier of funds, efforts should still be made to strengthen policy communication and support with other countries, and jointly innovate investment and financing cooperation mechanisms. At the same time, efforts should also be made to increase the participation of the RMB in the infrastructure construction and operation of countries along the Belt and Road, in response to the growing demand for RMB funds in these countries. Add RMB products to China's foreign aid, investment, and project loans (including policy and commercial loans), gradually increasing the utilization

rate of RMB in multilateral financial institutions such as the World Bank, Asian Development Bank, Asian Infrastructure Investment Bank, and BRICS Development Bank. Meanwhile, deepening currency swap cooperation is also necessary. Guide the exchange of RMB into the local credit system and increase funding sources for infrastructure construction in the host country.

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