The Three Financial Security Issues in “One Belt and One Road Initiatives” Strategy Implementation
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Abstract. This paper analyzes the outstanding achievements of China’s “Belt and Road” on the background of “Belt and Road” strategy implementation. In the meanwhile, the paper also analyzes the three major financial security issues, that is, the excessive foreign exchange reserves, the currency fluctuation of RMB, the abnormal flow of capital and other issues. The three issues are the challenges of China’s economic development and international economic cooperation. The three are important and we need to do a proper quantitative analysis. Effective policies should be taken to deal with the three major financial security issues.

1. Introduction

“The Belt and Road Initiatives” strategy stretches across Asia and Europe, aiming at developing economic cooperative partnership with the countries along the route, to create the interests community, the fate community and the responsibility community of political mutual trust, economic integration and cultural inclusion. In “the Belt and Road Initiatives” strategy implementation, China hopes to solve the problems of overcapacity and unreasonable economic structure during the post-crisis period by active economic and trade cooperation with the countries along the route, and then to broaden our country’s strategic space, promote regional stability and prosperity, and motivate global economic development.

China and the participating countries of “the Belt and Road Initiatives” have actively promoted trade and investment facilitation, and have continuously improved the business environment. The customs clearance time of mere Kazakhstan and other Central Asian countries to reach the Chinese market has been reduced by 90%. From 2014 to 2016, the total trade volume of China and the countries along the route was more than 3 trillion US dollars. The accumulative total investment for China to the countries along the route has been more than 50 billion US dollars. China’s corporations have built 56 economic and trade cooperation zones in more than 20 countries, creating nearly $1.1 billion tax revenues and 180,000 jobs for the countries concerned. Financing bottlenecks are the prominent challenges in achieving interconnection. China and the participating countries of “the Belt and Road Initiatives” have carried out various forms of financial cooperation. Asia Infrastructure Investment Bank has provided $1.7 billion in loans to nine projects in the participating countries of “the Belt and Road Initiatives” construction, the investment of “Silk Road Funds” has reached $4 billion, and China’s “16 + 1” financial holding company between China and the Central Asian countries was formally established. These new financial mechanisms and the traditional multilateral financial institutions such as the World Bank each have their own emphasis and complement each other, forming a clear and nascent “the Belt and Road Initiatives” financial cooperation network. The “the Belt and Road Initiatives” international cooperation summit forum was further planned held in May 2017 in Beijing. China will provide 60 billion yuan to assist to developing countries and international organizations involved in the “the Belt and Road Initiatives” construction in the next three years, and will found more Minsheng projects. We will provide 20 billion yuan of emergency food aid to developing countries along the route participated in the “the Belt and Road Initiatives”, to raise $1 billion to the South-South Cooperation Assistance Fund, to implement 100 “happy homes”, 100 “loving aiding for the poor”, 100 “rehabilitation counseling” and other projects for the countries along the route. We will provide $1 billion to the relevant
international organizations to put a number of cooperation projects that benefit the countries along the route into practice.

With the deepening of cooperation with the countries along the route, financial security problems are facing a severe test. Financial security is the core content of a country’s economic security. With the development of financial activities and the deepening of financial functions, the reaction of finance to economy will become more and more obvious. In the event of a financial crisis, the whole region and even the global economic finance may be affected. It is urgently to be paid attention to and to be solved to improve our ability to resist financial risks and to maintain our financial security in “the Belt and Road Initiatives” strategy.

2. Foreign exchange reserves size moderation in “the Belt and Road Initiatives” strategy should be ensured.

There are two main foreign exchange reserves functions. The first one is that the focus of foreign exchange reserves has been deviated from “actual payment” to “maintaining confidence”. The second one is that the form of foreign exchange reserves, whether banknotes or metal currencies, they are the independent embodiment and manifestation of the social nature of wealth[1]. The essence of foreign exchange reserves is a country’s social wealth, but this kind of social wealth is not the more the better, much more foreign exchange reserves will devaluate or appreciate due to a variety of factors, and the opportunity cost will be too much. While the foreign exchange reserves are too few, it will be impossible to fully play the functions of foreign exchange reserves. The size of foreign exchange reserves is closely related to the use of foreign exchange. From the main asset forms of foreign exchange reserves, mainly including convertible foreign currency, foreign currency deposits and securities. Foreign currency and foreign exchange deposits are the money form, and implement international monetary functions. Securities can be converted into the valuable assets of foreign currencies at any time, is a holding foreign exchange reserves form of hedging and appreciation. The international currency function of foreign exchange reserves is the direct cause of holding foreign exchange reserves, that is, the international measure values, the international means of purchase, the medium of international payment and the socialization function of wealth of the international currency have a decisive effect on the monetary mechanism and scale of the foreign exchange reserves. At present, China is facing the problem of the excessive foreign exchange reserves.

<table>
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<tr>
<th>Year</th>
<th>Foreign Exchange Reserves (in $100 million)</th>
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<tbody>
<tr>
<td>1997</td>
<td>1398.9</td>
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<tr>
<td>1998</td>
<td>1449.6</td>
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<td>1999</td>
<td>1546.8</td>
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<td>2000</td>
<td>1655.7</td>
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<td>2001</td>
<td>2121.7</td>
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<td>2002</td>
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<td>2003</td>
<td>4032.5</td>
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<td>2004</td>
<td>6099.3</td>
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<td>2005</td>
<td>8188.7</td>
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<td>2006</td>
<td>10663</td>
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Data sources: State Administration of Foreign Exchange
From the above data we can see that China’s foreign exchange reserves has been increasing since 1997, up to 38213 billion US dollars in 2013, and it reached a historic high of $384.3 billion in 2014. From the latter half of 2014, China’s foreign exchange reserves have began to decline. In 2015, it decreased by $52.656 billion. Since the second half of 2016, China’s foreign exchange reserves fell for several months, and in February 2017, it ended the 7 months of continuous decline. At the end of March 2017, the balance of foreign exchange reserves recovered to $3,090.9 billion, continuing to increase $3.96 billion. The moderate reduction of foreign exchange reserves can reduce the opportunity cost of holding huge foreign exchange reserves.

Some people will much concern about the decline of foreign exchange reserves, be afraid of the reduction of foreign exchange reserves affecting the stability of China’s currency. While, objectively speaking, China’s foreign exchange reserves, whether the rapid growth at one time, or the decline in recent years, are the normal phenomenon adapted to China’s economic development stage, because China is changing from the trade great power to investment abroad big country. The implementation of “going out” and “the Belt and Road Initiatives” of Chinese enterprises and the foreign investment process have been accelerated, and domestic residents also have a real demand for foreign asset allocation, which is the reasons of the decline of foreign exchange reserves quantities since 2014.

At present, China’s foreign exchange reserves are mainly invested in the United States treasury bonds, the dollar occupies an absolute dominant position in China’s foreign exchange reserves, accounting for about 66.7%. China will allocate a considerable part of the foreign exchange reserves into the US treasury bonds, because it is the only big enough market that can accommodate China’s huge investment, while, the dollar is the main external payment currency. The value of China’s foreign exchange reserves is closely related to the US economy. An important reason for China’s proposal to establish Asia Investment Bank is to solve the problem of excess foreign exchange reserves in China. In the chance of “the Belt and Road Initiatives” strategy implementation, we will obtain a win-win situation if China applies the foreign exchange reserves to the construction of overseas infrastructure, and then pulls the export of the remaining domestic infrastructure construction materials. But in this process, foreign exchange reserves can not be too much, China’s international balance of payments is always double surplus, current account surplus and capital account surplus coexist. Therefore, a large increase in China’s foreign exchange reserves is mainly caused by two factors: the first one is the current surplus including import and export trade, the second one is the capital account surplus of a large influx of international capital. Foreign exchange reserves can not be fully invested in the Asian investment bank to prevent the occurrence of financial crisis, and the value of RMB changes, there is no money can be operated in the financial market. The range of “the Belt and Road Initiatives” cooperation involves is too broad, and it is initially mainly focused on infrastructure construction and energy.

3. The stability of the RMB currency value should be maintained in “the Belt and Road Initiatives” strategy

The countries along the route hope that international settlement can be carried out through RMB when they trade and invest with China and then exclude the exchange rate risk of use of the dollar. There is a big problem in the trade between countries in “the Belt and Road Initiatives” strategy, that is, the monetary settlement in trade is not uniform, which also enhances the voice of the internationalization of RMB. As a regional currency and even the international currency, there needs a condition, namely, the currency stability, what is the currency stability, that is, the stability of the exchange rate. The nature of the exchange rate is the ratio of the international value quality decided by the international community necessary labor time which is represented by the different national currencies. In other words, the exchange rate is essentially the relative price ratio of goods in different countries. Goods, services and technological interchanges in the international market and international capital flows need currency exchanges, and currency exchanges generate exchange rate. The currency value reflected by exchange rate is the ratio of the international value included in goods, services, technology and capitals of international market circulation[^1]. But the
continuous enlarging application range of RMB will impact the dollar’s international currency status, affecting the interests of the United States, so the big currency game will affect the RMB currency value. The voice of RMB’s depreciation has been growing since 2015, the voice that China manipulates the exchange rate before 2014 has also always been there, and the devaluation of the RMB is also a regress. But the talks that RMB will continue to devalue are filled with the mistrust of RMB. This is also a political means. China should improve the decision basis and the formation mechanism of RMB exchange rate to maintain the stability of the RMB currency value, and the fluctuations of RMB currency value also should be controlled within a certain range.

The implementation of RMB internationalization in “the Belt and Road Initiatives” strategy is an effective way to solve the fluctuation of RMB currency. As China’s economic strength continuous increasing, foreign economic exchanges become more and more frequent, China’s influence in regional economic affairs is improving, and RMB internationalization will become an inevitable trend. In particular, with the construction of “the Belt and Road Initiatives” and the establishment of the Asian Investment Bank, the scope and scale of RMB in the regional trade, investment and financing are continuously extending, RMB trade area and RMB currency area relying on “the Belt and Road Initiatives” and Asian Investment Bank will be gradually on the right track.

“The Belt and Road Initiatives” and Asian Investment Bank have brought new challenges to the internationalization of RMB. Firstly, the broader market may lead to a greater fluctuation risk of financial market. The countries along “the Belt and Road Initiatives” except China, India, Russia, Turkey, such larger emerging economies, there are more small countries with low level of economic development, instable currency, weak ability to resist risk, these countries are easy to generate monetary and financial risks, and the potential credit default risk in these countries is easily transmitted to China through Asian Investment Bank. When RMB is widely used in these countries, the possibility of the impact of RMB currency has also increased, thus increasing the possibility that domestic economy and the financial system are suffered by external shocks. If there is a sudden situation of dump of RMB, or the backflow of a large number of RMB to China, it will cause serious domestic inflation and will have a serious negative impact. Secondly, with the improvement of the internationalization of RMB, RMB will also face the “Triffin problem”, that is, in the process of providing settlement and reserve means to the reserve countries by trade deficit, it will appear the conflict between the pressure of currency devaluation and maintaining the stability of currency value. In order to provide sufficient liquidity as a medium of trade, China needs to issue RMB as much as possible. However, overdue issuance will cause the devaluation of RMB and shake other countries and regions’ confidence of RMB. The way of grasping the circulation of money will test the wisdom of China’s monetary policy makers in the future.\[^3\]

4. **The capital flow should be paid attention to in “the Belt and Road Initiatives” strategy**

The capital international flow not only reflects the requirement of production internationalization, but is also decided by the nature of capital’s pursuit of surplus value. According to Marx, the credit system and the banking system force all monetary capitals to serve for the production, that is, the entire currencies convert into capitals, but when the credit is shaken, all the real wealth must be suddenly transformed into money, form a credit crisis and evolve into economic crisis. While the existence of international credit makes all countries easily (few exceptions) to be involved in the crisis, because the international commercial credit and international capital credit give rise to false prosperity at the international level, prompting all countries are on the cards to over-import and export, resulting in overproduction \[^4\]. As long as a country has a credit crisis, chasing the currency, the country concerned will also have a credit crisis and then requires cash payments, when all countries require cash payments, the international trade under the support of original credit system will immediately stop, and then produces the surplus, so the credit crisis will sweep over the major countries. The two-way investment between China and the countries along “the Belt and Road Initiatives” presents a growth trend. However, it should be noted that our country has to accept the investment from the countries along “the Belt and Road Initiatives” when China invests in the countries along the route. The regulation of capital flow will
be more difficult. At the same time, China is in part of control of capital. The strength of capital flow depends on the capital control of a country and the profitability of international capital. There is always a difference in profit among different countries. China’s capital account is not fully open, but China’s capital account reform process is accelerating, because the situation that capital account is convertible into RMB is the premise of RMB internationalization.

The acceleration of RMB capital flows to the Central Asian is conducive to expanding the output scale of the RMB in Central Asia. The infrastructure of the Central Asian countries is not complete, and the government has formulated the infrastructure development program, making a detailed plan for highway, railway, pipeline transport, water transport, telecommunication, electricity and other infrastructure transformations and constructions. For this reason, the chance of “the Belt and Road Initiatives” can be used to lend to the Central Asian countries for the infrastructure in virtue of Asia Investment Bank loan, in recent years, China is in excess production capacities, so they can be exported to the Central Asian countries, which can not only solve the problem of overcapacity in China, but also achieve the output of RMB to Central Asian countries, which has expanded the scope of use of RMB, improved the inertia of the use of RMB, used RMB overseas to invest for Chinese enterprises, and reduced exchange rate risk.[5]

5. Conclusion

“The Belt and Road Initiatives” strategic conception put forward by China’s government increases trades, investment and financial cooperation with the countries along the line, broadens and improves national space and external environment of China’s economic development. In order to preferably develop the important role of finance, we should pay attention to the three major financial security issues. The links between the three major financial security issues are also very close, so we can not separately look at the three major financial security issues. Maintaining a modest scale of foreign exchange reserves, can not only ensure the stability of RMB currency, but also reduce the opportunity cost of large-scale foreign exchange reserves while ensuring the safety, prevent the abnormal flow of RMB, establish RMB offshore market, and ensure that RMB funds can freely flow back to the country.

6. References