The Basis and Path Choice of Internationalization of RMB

Xiaoling Xu¹,a, Yunqin Zou²,b

¹Jiangxi Normal University Business College, China, 330022
²Jiangxi Normal University Education College, China
Xiaoling Xu, Vice Professor, 707477684@qq.com

Keywords: RMB; internationalization; foundation; path

Abstract: With the strengthening of China's comprehensive national strength and the deepening of the degree of participation in the world economy, the degree of internationalization of the RMB is steadily advancing. The international use of the RMB continues to develop rapidly, the further development of the offshore RMB market, the deepening of international cooperation in the RMB. But at the same time, the internationalization of the RMB also for China's economy brought some uncertain factors, such as regulation level in China to be promotion, onshore and offshore investment still need to broaden the way, financial market transparency should be increased and so on. To this end, China should take appropriate measures to deal with all kinds of financial risks, and orderly arrangements for the financial and monetary policy, in order to promote the smooth completion of the internationalization of the RMB.

1. Introduction

International currency is a relatively strong economic strength of the country's currency in the realization of free convertibility, accepted by other countries, as a state of international payment instruments. Since the 2009 July cross-border trade RMB settlement pilot, cross-border RMB business from scratch, from small to large scale, greatly enhance the international reputation of RMB, residents of the neighboring countries and regions gradually recognized and acceptance of the RMB as a trading currency and means of international settlement, a large number of RMB circulation abroad RMB internationalization trend fade.

2. The basis of the RMB internationalization

The international status of the RMB continues to improve. In 2015, China's GDP was equivalent to $10 trillion and 420 billion, becoming the second country after the United States to enter the 10 trillion GDP. Despite a slight depreciation of the RMB exchange rate in 2015, but the per capita GDP is still more than 8000 U.S. dollars, or about $8016. This means that in 12th Five-Year, China has entered the ranks of high-income countries. 45 period, if the economic growth rate reached 6.5% more and the exchange rate to remain stable, then to 2020 and 2021, per capita GDP will reach $1.2 million, that is, to become high-income countries. The role of trade in Chinese economic rise and development is also irreplaceable. By 2015 China remained goods trade to GDP topped the world the status, export market share reached 13%, these data suggest that, China's comprehensive national strength significantly enhanced.

RMB is accepted by many countries. In January 2011, in order to cooperate with Chinese enterprises "going out" strategy, the Chinese government promulgated the "foreign direct investment in RMB clearing pilot management approach", lift restrictions on foreign direct investment in RMB. RMB cross-border use from trade to investment, and then to allow foreign investors to hold Chinese assets, including foreign central bank holdings of RMB assets as foreign exchange reserves. As of June 2015, the internationalization of the RMB has made a series of important progress. Foreign trade has more than 1/5 to use the RMB settlement. Signed a bilateral currency swap agreements with 33 foreign central banks, the cumulative amount of 3 trillion and 300 billion. More than $500 billion in international bonds issued in RMB. Foreigners hold RMB assets, in the territory of 4 trillion and 400 billion, there are nearly 2 trillion in the offshore market.
The RMB has also become a reserve currency in other countries, with 38 countries reporting on its international reserves in October 2015.

**Asia Investment Bank was established to boost the internationalization of the RMB.** With the Asian investment banking operation, economic ties between Chinese and ASEAN countries will be more and more close, the Asian investment bank through the financial support, guide enterprises to increase the "China Belt and Road Initiative along national and regional investment. At present, China has been associated with "The Belt and Road" countries or organizations signed a series of agreements. For example, the promotion and protection of investment agreements signed between China and multinational countries, and India, Bangladesh and other Asia Pacific trade agreements signed. This will increase the RMB in international reserves of Asian countries share, and finally with the dynamic of RMB in the worldwide international reserve status rise.

**RMB as an international reserve currency has been recognized.** In November 30, 2015, the International Monetary Fund has agreed to include the RMB in the special drawing rights (SDR) currency basket. The SDR currency basket, which entered into force in October 2016, will consist of 5 currencies, including the RMB. RMB become the SDR currency basket, is the first developing country currencies to adding a new identity into, which represents the international community on China's economic rise, structural reform measures and the RMB recognized as an international reserve currency. At the same time, this initiative also increased the confidence of China, and promote further reform, to provide structural support for China's asset value. New reform measures such as the expansion of offshore RMB market, as well as by expanding the amount of investment and the stock connection program to further open the domestic capital markets will be easier to implement, and the implementation of faster.

3. **Constraints on the internationalization of RMB**

**Financial market development is not perfect.** Money can circulate freely in the international market, and achieve the balance of input and output, realize the marketization of interest rate and exchange rate, which all need a perfect financial market environment. China's multinational banks in the international financial market operation, the lack of risk prevention and control, the development of the bond market is relatively backward, and thus the size of the entire financial market is relatively small, lack of competitiveness.

**Increase the difficulty of macro control.** The internationalization of the RMB, with the increasing size of the international financial market, the circulation of RMB, on the central bank's monetary policy to regulate and control the interference is greater, the people's Bank of China, the central bank must have excellent on internal and external dual control ability, affected by both inside and outside the country of RMB supply volume, the RMB credit scale and structure, the RMB interest rate, and the RMB exchange rate of effective regulation and control, to remain at a reasonable level.

**Capital account is not fully liberalized.** Currency internationalization is an important indicator would be to achieve the free convertibility of capital projects, is not freely convertible currency will increase the cost and risk of the holders of money, not by the international community generally accepted and due to its free exchange is not a high degree of will to money to have the liquidity, it brings a lot of inconvenience. RMB capital project is still relatively high degree of control. Although the RMB is convertible under current accounts, many aspects of the capital account are still subject to regulation, which is mainly on the regulation of securities, capital and short-term capital flows. In China, in addition to the free flow of FDI, open and Shanghai and Tong, other capital transactions, especially short-term capital flows, are still under control. In addition, capital flows are equal, the domestic capital control means that the control of the international flow of the RMB, the RMB convertibility status of the acquisition is bound to the capital account liberalization as the premise.

**Interest rates and exchange rates have not yet realized the market.** October 23, 2015, the RMB deposit and loan interest rates are fully liberalized, the role of market mechanisms in the interest rate formation is significantly enhanced. But the market rate is still affected by the central bank's monetary policy, especially the impact of the benchmark interest rate changes. At the same time, the
RMB exchange rate is still relatively lack of flexibility. Although China to expand the floating range of exchange rate, improve the central parity of RMB formation mechanism, but the volatility of the RMB exchange rate is still relatively small, smaller the elasticity of exchange rate will not only reduce RMB price discovery ability, and will increase of RMB equilibrium exchange rate deviation, increase the money price distortions.

4. The choice of the path of RMB internationalization

To achieve the steady development of the national economy. The degree of participation of a country's currency in the world economic activities, its stability and its impact on the world market determines whether or not it will be widely recognized by the international community. And, as an international currency, the currency's value must remain relatively stable, a national economies of scale is larger, stronger economic strength, its value only stable foundation, can give foreign holdings of the international currency traders confidence. In addition, the size of the large scale economic entities in international transactions are often large, transaction costs will be reduced, the greater the income to the currency users.

RMB capital account convertibility. According to the actual situation in China, in the promotion of capital inflows, for foreign direct investment can be gradually implemented foreign direct investment liberalization of exchange, gradually relax foreign investors to invest in China's financial market, increase the inflow of capital securities. For example, through cross-border investment channels, improve the Shanghai and Hong Kong and launched the "Shenzhen Tong", to allow non residents in the territory issue in addition to the derivative financial products, improve the convenience of foreign institutional investors to invest in China's capital market. In terms of treatment of capital outflow, should fully relax the restrictions on domestic residents, institutions of overseas investment.

Expand the scope of RMB settlement. Further development with the surrounding countries and regions in RMB denominated trade, investment and financial transactions. Including the signing of bilateral payment and settlement agreement, to expand the role of the RMB in the border trade settlement, increase in border trade preferential measures, to further promote the development of border trade. Can be in the Asian investment bank and the Silk Road Fund priority to encourage the use of the RMB, promote the use of RMB internationalization methods can be including under the Asian investment bank and the Silk Road Fund set up RMB special fund, and issuing RMB syndicated loans and loans to by the two institutions etc.

To speed up the construction of international financial market. On the one hand, continue to expand the size of the financial market at the same time, continue to enhance the function of the financial market. Deepen market segments, expand the depth and breadth of the market, to increase innovation and research and development efforts, and constantly enrich the financial market products and tools to promote the accelerated development of stocks and bonds based financial products. On the other hand, to accelerate the construction of the international financial center and offshore financial center. Accelerate the development of offshore financial center of Hong Kong and improve the Shanghai Information Port construction.

5 Conclusions

With the rise of China's economic strength, the RMB exchange rate formation of market, the RMB internationalization and capital account opening is inevitable trend, China's current situation, already has a promoting the basic conditions of the process. The RMB has become the international currency, which can not only gain huge economic benefits, but also enhance the influence of China in international affairs and the right to speak, and improve the international status of China. China will want to compete in the global financial resources and occupy a place in the game, it is necessary to join the competition in the internationalization of the currency.
References


