

Research on the Prospect and Path of Development of RMB as an International Reserve Currency

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ABSTRACT

Along with the global financial crisis and the weakening of the US dollar, the internationalization of the RMB has ushered in an important opportunity, and the promotion of the RMB as an international reserve currency not only promotes the internationalization of the RMB, but also has a great impact on China and even the world economy. At present, there are different views on the development prospect of RMB as an international reserve currency in China. This paper clarifies the development situation of RMB internationalization through in-depth investigation of the current development situation of RMB internationalization and the existing risk problems, and puts forward the relevant development path to promote RMB as an international reserve currency on the basis of this. On this basis, it proposes a development path to promote the RMB to become an international reserve currency, which will provide thinking and reference for the RMB to realize internationalization from peripheralization to regionalization, and eventually become an international reserve currency.

KEYWORDS

RMB Internationalization, International Reserve Currency, Prospect Prediction, Path Selection

1. INTRODUCTION

As China is an indispensable part of world trade, the internationalization of RMB is inevitable. The rapid economic development has made the RMB play an increasing role in the world economy and international trade, which in turn has created certain conditions for the internationalization of RMB. But at the same time there are still certain shortcomings. Internally, the development of China's financial and currency markets is still imperfect, and the relevant institutions and mechanisms are still in the stage of exploration and development. Externally, in the world, the hegemony of the dollar is obvious, and all countries are seeking the establishment of a new world monetary system. This paper analyzes the internationalization of the world currency and the conditions that should be met to become an international reserve currency, summarizes the advantages and shortcomings of the RMB as an international reserve currency, analyzes the internationalization of the RMB as well as the development prospects of the RMB as an international reserve currency according to China's specific national conditions, and then puts forward the corresponding strategies to promote the RMB as an international reserve currency, so as to provide the RMB with the ideas and useful reference for the RMB to become an international reserve currency.

At the end of November 2015, the International Monetary Fund (IMF) officially announced that the RMB will be included in the Special Drawing Rights (SDR) basket from October 1, 2016, becoming one of its constituent currencies. The inclusion of the RMB in the SDR basket is an important milestone for China's economy to become an indispensable part of the world economy, reflecting China's long-lasting development and major breakthroughs in the monetary and financial fields. It

will facilitate China's better integration into the international monetary and financial system, which in turn will help stabilize and promote the common prosperity of China and the world economy. Special Drawing Right (SDR) is the currency unit used within the International Monetary Fund, and is also the main international reserve currencies, which are the US dollar, the euro, the British pound and the Japanese yen. The inclusion of the RMB in the SDR basket as one of its constituent currencies has naturally triggered discussions on the RMB as an international reserve currency.

2. ADVANTAGES AND SHORTCOMINGS OF RMB AS AN INTERNATIONAL RESERVE CURRENCY

At present, the advantages and shortcomings of RMB as an international reserve currency coexist. In terms of advantages, Li Shikai and Yang Gongqi believe that China's economic strength has laid a certain foundation for the internationalization of RMB [1]. Liu Shuguang further clarifies that in addition to the economic situation, China's political and military power and international influence have created good conditions for the internationalization of the RMB to be realized [2]. Zhao Xijun and Song Xiaoling point out that in addition to the factor of comprehensive national power, China, as the largest creditor of the United States, there are practical elements for the realization of the internationalization of the RMB [3]. Nowadays, the U.S. has been implementing the strategy of dollar hegemony, pricing global strategic resources in dollars, so as to realize the purpose of dollar hegemony, and obtaining a steady stream of economic and political benefits from it. Promoting the RMB to become an international reserve currency can effectively counter the impact of dollar hegemony. Therefore, some Chinese scholars believe that if the RMB becomes an international reserve currency, the threat and influence of US dollar hegemony will be greatly weakened. Huang Yiping believes that the implementation of the internationalization of the RMB is of great significance to the development of China's economy and trade, which can not only promote the expansion and deepening of the scope of the regionalization of the RMB, and the continuous deepening of the reform of the economic system and the financial market, but also enhance the reputation of the RMB, improve the foreign exchange management system, and promote the long-term stability of the RMB currency value [4]. At present, the international monetary system is in a stage of change, so the RMB should seize the opportunity to seek the way to become an international reserve currency in the change.

Although most scholars are optimistic about the prospect of the RMB becoming an international reserve currency, there are still some scholars who hold a different view and believe that the RMB still faces many shortcomings and challenges in becoming an international reserve currency. According to Wang Yuanlong, only from the point of view of economic aggregate, China has already possessed the foundation of becoming an international reserve currency, but China's financial system is not perfect and the development of financial market is still not mature enough, so it is not enough to support the large-scale internationalization of RMB [5]. Li Jianjun, Zhen Feng et al. point out that the core of currency internationalization is the reserve function of the country's currency [6]. Accordingly, they measured the degree of internationalization of the RMB's reserve function and compared it with the world's major reserve currencies. The results of the study show that the weight of the RMB as an official foreign exchange reserve currency is negligible. At the same time, the current modern international monetary system is still seriously flawed by the influence of the dollar. Li Liang and Sheng Wenwen believe that although the current internationalization of the RMB has accelerated, and the reserve function has made initial development, the proportion in the world's official foreign exchange reserves is still low [7]. The dollar, as the world's most important reserve currency, has a serious impact on China's economic trade with the rest of the world through the huge spillover effect formed by the exchange rate changes of the dollar. This is also a huge obstacle on the road to the RMB becoming an international reserve currency.

3. RESEARCH ON THE CONDITIONS FOR RMB TO BECOME AN INTERNATIONAL RESERVE CURRENCY

Scholars have put forward relevant research conclusions on the conditions for the RMB to become an international reserve currency. According to Bi Yingjuan, strong economic strength, stable macro environment, sufficient foreign exchange reserves, complete financial facilities (payment and clearing system) and foreign exchange system are the necessary conditions for the RMB to realize the internationalization of reserves [8]. Li Daokui, after analyzing the reserve currencies and composition of central banks, found that national economic strength has the most significant impact on becoming an international reserve currency [9]. At the same time, the increase in the international reserve share of the currency indicates that the stability of the currency is strong, and has a huge appreciation potential. Therefore, to promote the strengthening of currency stability and enhance the appreciation potential of the currency is also an important way to promote the internationalization of currency reserves. Gao Haihong and Yu Yongding, through the study of international reserve currencies, found that a country's currency to become an international reserve currency is not only related to the exchange rate system and the structure of foreign debt, but also related to the strength of the degree of development of a country's financial market [10]. The three important factors considered by Wang Qingde et al. in examining the issue of reserve currency selection are the country's economic strength, the level of exchange rate and interest rate, while the country's economic strength is the most important factor among the three [11].

4. THE DEVELOPMENT PATH OF RMB BECOMING AN INTERNATIONAL RESERVE CURRENCY

In response to a series of problems encountered in the process of RMB becoming an international reserve currency, relevant scholars have put forward suggestions on its development path. Hu Yifan proposed a "three-step" strategy to promote the RMB as an international reserve currency [12]. First, in the short term, the exchange rate channel of China's economic policy must be retained, and the capital account should be opened prudently and gradually. Second, in the medium term, the exchange rate channel will be neutralized as the RMB serves as a commodity pricing and settlement currency, spreads to the region, and promotes the development of the service industry, non-traded commodities, high-tech and high-quality products. Third, in the long run, the abolition of foreign exchange intervention will be accompanied by the free flow of capital, which requires systematic policy preparations to mitigate the negative impact of destabilizing capital flows. Liu Hui and Ba Shusong argued the realistic choice of RMB internationalization through the game model, i.e., through currency competition, gradually achieve the substitution of the US dollar and other currencies and regionalization, and then gradually promote the process of RMB internationalization, and then become the international reserve currency on this basis [13].

While promoting the internationalization of RMB, it also lays a solid foundation for RMB as an international reserve currency. In this regard, the development path of RMB as an international reserve currency can be explored from six aspects. First, from the aspect of trade and investment, through cross-border trade, international trade settlement and overseas investment and other cross-border business to improve the international influence of the RMB. Effectively promote the development of RMB capital account convertibility. At the same time, it actively strengthens direct investment and trade with neighboring countries or regions, so that the RMB's settlement volume continues to rise and the circulation range continues to expand. Gradually promote the RMB from regionalization to internationalization. Secondly, seizing the opportunity of RMB's accession to the SDR basket, actively integrating into the global financial market, participating in the division of labor and cooperation in the global financial market, and striving to play a more important role are of strategic significance to the internationalization of RMB as well as becoming an international reserve

currency. Not only will the international community's recognition and acceptance of the RMB be greatly enhanced, but the RMB's voice and influence in the international financial arena will also be strengthened. Thirdly, the construction of domestic financial market and institutional management system should be improved, the construction of financial institutions and business system should be strengthened, while the opening up of financial service industry should be steadily pushed forward, and the planning of financial service facilities and layout should be continuously improved. As for interest rates, the marketization of interest rates has been actively promoted. The foreign exchange management system is in urgent need of reform, the managed floating exchange rate system for the development of the financial market is gradually weakening the role of the system should be gradually transitioned to a free floating exchange rate system, so as to allow the market to better play the role of regulating the exchange rate, release the potential for economic development, so that the exchange rate response to the market demand for more accurate and effective. Fourth, improve the capital market structure. Promote the development of the stock market should also promote the balanced development of the bond market. The financial derivatives market and the foreign exchange market are also important financial markets, which should be cultivated and developed, with the ultimate goal of establishing a sound domestic financial market. Fifth, strengthen the construction of international financial center. Shanghai as China's financial center, the world-renowned financial center. Should vigorously build a developed, multi-functional, multi-level financial market system. On the basis of maintaining the stability of the domestic economy and financial market, promote the opening of capital projects and deepening of the financial market, and promote the continuous improvement of the relevant trading mechanism. It is also necessary to strengthen the steady development of the stock market, bond market and inter-bank money market, expand the scope of financial services and enrich trading varieties. Full use should be made of the hub status of shipping, trade and financial center to expand foreign trade and improve international competitiveness. Ultimately, a strong, convenient and efficient RMB financial circulation hub core should be constructed. Sixth, the construction of offshore financial markets should be emphasized. In the process of RMB internationalization, Hong Kong, as an excellent offshore financial market for the internationalization of RMB, its relatively isolated financial system, flexible transaction characteristics, and relatively loose capital control can meet the demand for risk avoidance in the process of RMB internationalization as far as possible, which has created a strong attraction for financial investors. At the same time, Hong Kong, as an important clearing place and source of return of RMB retained abroad, along with the establishment of RMB clearing channels with the mainland, provides a convenient and efficient window for RMB internationalization, further boosting the process of RMB internationalization.

5. CONCLUSION

Becoming a major international reserve currency is the ultimate goal of RMB internationalization. Once this goal is achieved, China can not only reduce the scale of foreign exchange reserves, reduce the burden of foreign exchange management, but also increase currency issuance to gain international purchasing power, and in response to the economic and financial crisis, there will be more control means to mitigate the impact of the crisis. In addition to this, it is also conducive to the improvement of China's international status and promote a series of domestic reforms, to a certain extent, can better solve the contradictions in China's development. At the same time, the renminbi in the process of becoming an international reserve currency will force China's financial markets to open up, promote the development of the financial system, and put forward higher requirements for monetary policy. Although the RMB still faces many challenges in becoming an international reserve currency, with the rapid development of China's economy and China's increasing role on the world stage, the future of the RMB from internationalization to becoming an international reserve currency remains bright.

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