
Issues and Suggestions on RMB Internationalization

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Abstract – Renminbi (RMB) is the official currency of China, issued and controlled by the People's Bank of China (PBOC). This study analyzes the current problems of RMB internationalization and puts forward suggestions through the status statement of RMB internationalization. This study finds that RMB internationalization has issues of a low level of internationalization, an underdeveloped financial system, and a need for supporting policies for RMB internationalization. In response to the above problems, the research suggests improving China's financial market and increasing openness, increasing policy support to promote RMB internationalization, and developing RMB internationalization cooperation projects.

Keywords: “RMB Internationalization”, “Influencing Factors”, “Internationalization Level”, “Financial Market”, “Supporting Policies”.

1. Introduction

1.1 Research Background

The International Monetary Fund (IMF) defines currency internationalisation as a process, and holds that it describes the process by which a currency transcends national boundaries, is capable of unrestricted exchange, trade, and circulation, and ultimately develops into an international currency. Currency internationalisation is the process by which a nation's currency, based on the functions of its currency, flows abroad through current accounts, capital accounts, and the free exchange of foreign currencies in conjunction with the expansion of domestic goods and services in foreign markets, gradually taking on the

responsibilities of other nations. the process of going from the national currency to the regional currency and ultimately to the international money, which is the currency's monetary purpose. Since both definitions start from the perspective of currency functions, the IMF's concept of currency internationalisation is essentially the same as Cohen's (1971), the first researcher to begin studying currency internationalisation.

Currency internationalization plays an important role in promoting the economic development of a country or region. Studies have shown that RMB internationalization positively affects the country's international economic and trade behaviour, which can reduce trade costs and transaction risks (Wang, 2003). The study also found that using RMB for settlement in international transactions can improve transaction convenience, reduce transaction costs, and expand trade scale (Wang, 2006).

The Chinese government has decided to start the RMB's internationalization process because of the many advantages it will offer. RMB began to become more widely used abroad in 2009. The Chinese government introduced an RMB settlement pilot programme for international trade in 2009. As of 2022, RMB internationalization has been carried out for 14 years. In this process, the internationalization of RMB has made remarkable achievements, but at the same time, many problems need to be solved. This study will summarize the current situation and problems of RMB internationalization and make suggestions for future RMB internationalization work.

1.2. Current Situation of RMB Internationalization

The RMB cross-border transaction amount has maintained a strong growth rate from 2021, according to statistics from the People's Bank of China's RMB Internationalisation Report 2022. Among these, the amount of cross-border RMB receipts and payments by banks in 2021 set a new high, with a total transaction amount of RMB 36.61 trillion, a 29.0% rise over the previous year. The cumulative net inflow of RMB cross-border receipts and payments for the year was RMB 404.470 billion, roughly in line with previous periods. According to the most recent information provided by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in 2022, the proportion of RMB used in international payments will rise to 2.7% in December 2021, passing the Japanese yen to become the fourth payment currency in the world, and then further rise to 3.2% in January 2022, reaching the highest level in history. The percentage of RMB in the world's foreign exchange reserves, which ranks fifth among reserve currencies, increased by 1.8 percentage points from the first quarter of 2016 to the first quarter of 2022, according to data from the International Monetary Fund (IMF)'s 2022 Official Foreign Exchange Reserve Currency Composition (COFER) report. The International Monetary Fund increased the weight of the RMB in Special Drawing Rights from 10.92% to 12.28% in May 2022. This behaviour demonstrates that the RMB's level of freedom has been further enhanced. As of 2021, foreign investors' holdings of domestic RMB financial assets, including equities, bonds, loans, and deposits, totalled RMB 10.83 trillion by the end of 2021, a 20.5 per cent rise over the same period in history. This figure shows that the size of RMB transactions in the offshore RMB market has grown, and RMB trading behaviour has

become more common. RMB deposits in major offshore markets were close to RMB 1.50 trillion at the end of 2021 (Source: PBOC RMB Internationalisation Report 2022).

The level of RMB internationalization has been greatly improved. According to the 2022 "RMB Internationalization Report" data, the RMB Internationalization Index RII has increased from 2.26 since the statistics were available to the latest data of 5.02. It can be seen that RII has grown from the lowest 2.26 at the end of 2016 to the highest 5.02 at the end of 2020, with an average year-on-year growth rate of 22.08%. The growth rate is relatively fast, and the overall growth trend is noticeable. In addition, the RMB global index RGI and the offshore RMB index ORI, which have similar effects to the RII index, also show similar trends (Yan, 2022). The International Monetary Fund (IMF) stated in November 2015 that the RMB would be included in the IMF's Special Drawing Rights (SDR) currency basket, with the decision taking effect on October 1, 2016. The IMF's Executive Board completed the Special Drawing Rights (SDR) fixing review, which is conducted every five years, on May 11, 2022, and maintained the currency composition of the existing SDR basket unchanged, i.e., it still consists of the US dollar, the euro, the renminbi, the Japanese yen, and the British pound sterling, and adjusted the weight of the renminbi upwards from 10.92% to 12.28%. According to the analysis of the above data, the proportion of RMB in the SDR of the International Monetary Fund has increased significantly during the period of RMB accession to the SDR of the International Monetary Fund, indicating that RMB international influence has increased and the level of RMB internationalisation has significantly improved.

Furthermore, the scale and scope of renminbi use have grown. To improve the internationalisation of the RMB and expand the scope and scale of its international use, the Chinese government has continuously increased the scale of currency swaps with Asian countries (regions) and signed currency swap agreements with several countries (regions), through which the international use of the RMB can be promoted. Since 2009, China has negotiated currency swap agreements with Hong Kong, Singapore, Russia, and other countries, significantly increasing international RMB swaps. Additionally, the internationalisation of the RMB has advanced with the implementation of China's "Belt and Road" programme. China has entered into many currency swap agreements with nations along the "Belt and Road," and the amount of cross-border RMB settlement with policy-relevant nations has reached RMB 3.6 trillion yuan since the start of China's "Belt and Road" policy to the present. China has also signed bilateral local currency swap agreements with 21 policy-relevant nations and established RMB clearing arrangements with seven policy-relevant nations. China has established RMB clearance procedures with seven policy-related countries and signed bilateral local currency swap agreements with 21 countries (Cai, 2021). On November 15, 2020, China, ASEAN, and other countries officially signed the RCEP agreement, which deepened economic and trade exchanges with various countries. Among them, various cooperative economic and trade zones, duty-free zones, free trade zones and other new-era cooperation achievements have been established. Further, enhance the development level of RMB internationalization and promote the pace of RMB internationalization (Li et al., 2021). The share of RMB in international payments will rise to 2.7% in December 2021, overtaking the Japanese yen to become the fourth payment currency in the world. It will increase to 3.2% in January 2022,

a record new high, according to 2022 data from the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

2. Literature Review

2.1 Level of RMB Internationalization

Regarding the research on the measurement indicators of the RMB internationalization level, there has yet to be an official standard in academic research. However, in previous studies, the primary measurement indicators of the RMB internationalization level are as follows.

In measuring the RMB internationalization level by International Monetary Research, the following indicators of official organizations are mainly popular—the International Monetary Fund's measure of the level of RMB internationalization. The International Monetary Fund (IMF) measures the internationalization level of various currencies in the international market by counting the first few currencies that account for the most significant proportion of the foreign exchange reserves of various countries in the world, including the measurement of the internationalization level of the RMB (Tu, 2014). The Society for Worldwide Interbank Financial Telecommunication (SWIFT) released its monthly report "Renminbi Tracker" in September 2011, measuring the degree of RMB internationalization by its share in the international payment market. The Standard Chartered RMB Globalisation Index RGI (Renminbi Globalisation Index), which encompasses three important RMB offshore markets, including Hong Kong, London, and Singapore, was introduced by Standard Chartered Bank in November 2012.

Among Chinese researchers, there are also several leading commonly used indicators to measure the internationalization level of RMB. The People's Bank of China's RMB Internationalisation Group chose some metrics in 2006 to create a set of indicators to track RMB internationalization (Lin & Wang, 2015). The Bank of China published the RMB Cross-Border Index in 2013 to track the cross-border use of RMB. The index primarily tracks the RMB use level in the cross-border circulation process, including cross-border outflow, overseas circulation, and cross-border return, which reflects RMB's active use in cross-border and international transactions. The index consists of three parts: cross, transfer, and return, and tracks current account, capital account, and overseas transfer using multiple categories of capital flows (Peng & Tan, 2017). In 2015, the Renminbi Internationalization Index RII was created by Renmin University of China based on the function of international currency and emphasizing the real economy transaction function of currency (Zhao & An, 2014).

2.2 Influencing Factors of RMB Internationalization

In the research on the influencing factors of RMB internationalization, the previous research results mainly include the following research directions: China's internal influencing factors, international environmental influencing factors, and research literature analyzed from qualitative and quantitative perspectives.

Sha, Qian, Cheng, and Zhang(2020) discovered that a country's economic strength, the size of its financial market, the stability of its financial market, and its real currency rate of return all affect the internationalization of that country's currency. Both degrees have a significant positive effect; the instability of the currency's internal and external value will impede the process of currency internationalization, the opening of the capital market is helpful for this process; military might and political stability are additional factors that support a country's currency. Enhanced international standing (Fu, 2020).

In studying external factors affecting RMB internationalization, He & Lu (2022) found that the political situation is turbulent, the economic level and legal system are relatively backward, and there are complicated ethnic and religious issues through studying the "Belt and Road" project countries. Especially under the impact of the new crown epidemic, these factors have limited the internationalization of the RMB in neighbouring countries (Wang & Zhang, 2020).

In the literature on factors affecting RMB internationalization, quantitative research mainly focuses on the following aspects. Bai & Deng (2013) adopted the GMM model, selected the share of international reserves, share of international bonds and share of foreign exchange transactions as indicators to measure the degree of internationalization of a country's currency, and found that economic and foreign trade strength, A sound financial market and stable currency value are the only way for currency internationalization (Lin & Wang, 2016).

2.3 Supporting Measures for RMB Internationalization

In the research on the support measures for RMB internationalization, the current focus is on supporting projects at the government policy level, establishing overseas currency trading centres and advanced currency trading systems.

The Chinese government is actively pursuing policy initiatives to facilitate the globalization of the RMB. For the Chinese government to encourage RMB internationalization, these measures actively issue bonds and sign currency exchange arrangements with nearby nations. In terms of capital projects, ODI and FDI RMB settlement pilots have begun one after another since 2010; in 2009, China formally proposed to promote RMB cross-border settlement and created a number of RMB cross-border settlement towns in China. Businesses, including international RMB lending, international capital markets, and international financing, have increasingly become more liberalized since 2013(Ding & Zhou, 2020). In addition, the Chinese government has also strengthened economic cooperation with other countries through regional economic cooperation organizations. Promote the internationalization of RMB (He & Lu, 2022; Li & Sun, 2023; Yao & Sheng, 2023), such as launching the "Belt and Road" project and joining the RCEP Economic Cooperation Organization of ASEAN countries (Wu & Liu, 2023; Liu & Fu, 2021).

The Chinese government has also worked to make RMB transactions easier and less expensive. The Chinese government formally introduced the RMB Cross-Border Payment System (CIPS) in 2015. The CIPS system, which covers 94 nations and areas on six continents, had 33 direct participants as of the end of 2019 and 903 indirect participants. In reality, the CIPS system did business with more than 3,000 banking institutions across 167

different nations and regions (Ding & Zhou, 2020). In addition, to improve the efficiency and liquidity of RMB overseas transactions and reduce the risk of investors using RMB for overseas payments, the Chinese government has established offshore RMB trading centres worldwide since 2014 (Ding, 2022; Tian, 2018).

3. Problems in Rmb Internationalization

3.1 Low Level of RMB Internationalization

First, although the level of RMB internationalization has shown a positive trend, the level of RMB internationalization still needs to be higher. The analysis of the aforementioned data reveals that, despite the RMB's weight in Special Drawing Rights (SDRs) of the International Monetary Fund (IMF) increasing from 10.92% to 12.28%, the proportion of traditional developed country currencies in the global monetary market is still at a low level.

Table 1 Share of Major Currencies in the SDR

Currency	USD	EUR	RMB	JPY	GBP	Effective Date
2015	41.73%	30.93%	10.92%	8.33%	8.09%	October 2016
2022	43.38%	29.31%	12.28%	7.59%	7.44%	Aug 2022

(Data source: International Monetary Fund)

As can be seen from the table above, the RMB SDR share currently stands at 12.28%, ranking third, but still a far cry from the USD 43.88% and the EUR 29.31%, with the USD share more than three times that of the RMB and the EUR reaching more than twice that of the RMB (Source: 2022 IMF).

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) released its monthly report and statistics on the RMB for January 2023. In January 2023, the RMB maintained its position as the world's fifth most active currency in the ranking of global payment currencies based on value statistics, with a share of 1.91%. Compared to 2.15 per cent in December 2022, RMB payments decreased by 12.79 per cent overall in value.

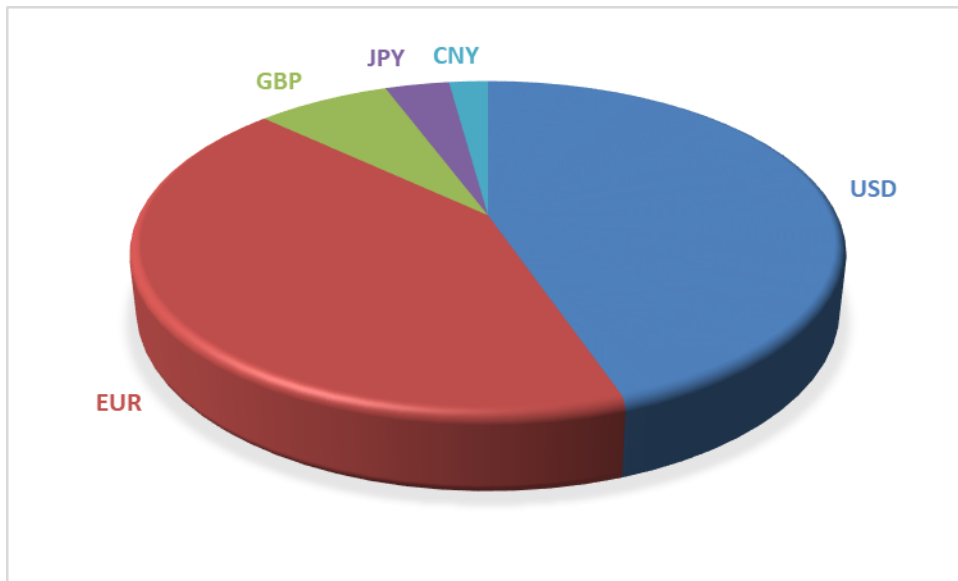


Figure 1 Proportion of Global Payment Currencies (Data Source: SWIFT)

From the analysis of the above chart, we can find that in the data published by SWIFT on the percentage of global payment currency ranking, there is still a big gap between RMB and USD, EUR, GBP and JPY, especially the gap with USD and EUR is very big. The US dollar accounts for 40.12% and the euro for 37.88%, while the RMB only accounts for 1.91%, a considerable gap (Source: SWIFT January 2023 RTI Report).

3.2 China's Financial System is Immaturely Developed

In promoting the internationalisation of the RMB, the development of China's financial and financial systems is immature. Firstly, within China, although China's economic reform efforts have been deepening and the financial market has achieved long-term development, forming a financial market system including the stock market, bond market and futures market, the development of the breadth, depth and flexibility of the financial market is still insufficient (Song, 2021; Zhang, 2021). There is still a considerable gap between the scale of financial market transactions, the variety of financial instruments and trading varieties, and the degree of development of secondary markets and price regulation mechanisms compared to the financial systems of developed countries in Europe and the US. For example, the limited internationalisation and management of the domestic banking system and the imperfect two-way circulation mechanism of RMB between offshore and onshore are insufficient to support RMB internationalisation's development requirements (Jiang & Zhang, 2021).

3.3 Insufficient Supporting Policies for RMB Internationalisation

There are still several software and hardware construction issues that need to be addressed for RMB transactions (Lin, 2021). Since 2009, the Chinese government has been pushing the development of RMB cross-border business by opening up the domestic financial

market, and the People's Bank of China (PBOC) has been continuously enhancing the RMB clearing mechanism and increasing the network of RMB clearing banks. However, studies have indicated that, in terms of international settlement and currency transaction networks, the RMB clearing bank network needs to be stronger and complete when compared to clearing networks of major world currencies such as the US dollar (Ding & Zhou, 2020). Concerning the 27 existing overseas RMB clearing banks, only JP-Morgan Chase Bank and Mitsubishi UFJ are foreign; the other 25 institutions are all overseas subsidiaries of the five Chinese state-owned banks. Furthermore, when seen from the clearing banks' coverage angle, the network coverage of RMB clearing institutions still needs to be improved when compared to the number of RMB transactions worldwide and the range of nations where RMB is used cross-border. Only Bank of China (Hong Kong) Limited and Bank of China Macau Branch, out of the 27 offshore RMB clearing banks, currently have direct access to the PBOC large-value payment system; the other 25 clearing organisations must still complete clearing through their domestic parent banks (Lin, 2021)..

4. Conclusion and Discussion

Based on the above analysis, the following two conclusions can be drawn: firstly, the current level of RMB internationalisation is still low; secondly, changes need to be made in the Chinese financial market in terms of policy support for RMB internationalisation.

Firstly, the RMB internationalisation level is still low compared to the international currencies of the world's major countries. A side-by-side comparison shows that although the RMB has improved in terms of internationalisation, there is still a significant gap compared to the USD and EUR. The level of internationalisation of the RMB is relatively modest, according to statistics from Special Drawing Rights (SDR) of the International Monetary Fund (IMF) and data from the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Secondly, the Chinese financial markets need to make changes in promoting RMB internationalisation. Although the Chinese financial markets have made efforts to cope with the internationalisation of the RMB, there is still a significant gap between the level of financial market openness and the development of financial products and programmes compared to developed countries, especially the US.

Finally, there needs to be more supportive policies for the RMB internationalisation. Although the Chinese government has implemented policies such as the RMB offshore trading centre and cross-border trade settlement in RMB around the world, there is still a significant gap compared to developed countries in terms of the breadth and depth of the network of RMB international settlement systems, for example.

5. Recommendations of Study

Based on the above discussion, it can be seen that since the official launch of the internationalisation of the RMB in 2009, the internationalisation of the RMB has achieved

some results. However, there is still huge potential for development. From the development experience of major international currencies worldwide, the growth and development of any global currency require a combination of good domestic conditions and an external development environment, and time is even more necessary. Therefore, this study makes the following recommendations on how to improve the internationalisation of the RMB and expand the scale and scope of its use around the world.

First of all, we should improve China's financial market as soon as possible and accelerate its reform. Further, promote the market-oriented reform of exchange rates and interest rates, improve the market-oriented mechanism of exchange rates, give full play to the macroeconomic, regulatory role of exchange rates and interest rates, and provide a stable exchange rate and interest rate foundation for the internationalisation of the RMB. Increase the volume and variety of goods available on the Chinese financial market and encourage the exchange of securities and derivatives. Further, open the supervision of capital accounts and ensure the free flow of funds to avoid systemic financial problems (Jiang & Zhang, 2021).

Secondly, increase policy support to promote further the optimisation and development of cross-border RMB settlement business. Given the current situation in which the software and hardware in RMB international settlement cannot meet the requirements, the Chinese government should actively promote the optimisation of RMB cross-border settlement policies—for example, further simplifying the RMB cross-border settlement process, reducing the RMB settlement cost, and providing convenient conditions for cross-border RMB settlement business. Optimise the business and regional distribution structure of cross-border RMB settlement. Issue relevant policies to continuously increase the proportion of cross-border RMB usage, and fully adjust and balance regional differences in cross-border RMB settlement business (Fu, 2020).

Finally, strongly encourage the development of global currency swap agreements and global monetary cooperation. Through the monetary cooperation agreements of countries along "the Belt and Road," the Chinese government can encourage the usage of RMB in nations associated with this initiative. For instance, currency exchange agreements may be signed with pertinent nations to expand the scope of RMB settlement abroad and foster its internationalisation. Secondly, the government can also promote the international flow of RMB through international cooperation in bulk products or large-scale projects. Promote the use of RMB by purchasing bulk products and contracting international large-scale projects. The government can also encourage enterprises and other groups to use RMB for settlement in import and export trade and foreign investment, thereby enhancing the international influence of the RMB (Lin, 2021).

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