

# The Belt and Road Initiative and RMB Internalization

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# I. Introduction

- The Belt and Road Initiative provides historical opportunities to increase the international use of RMB; in return, the latter facilitates the implementation of the former.

- The RMB internationalization refers to the process in which the RMB performs its monetary function at the international stage and gradually becomes a major currency in international trade settlement and financial transaction and an international reserve currency.
- Significant progress has been made in this regard since 2009.

- In 2015, the RMB settlement for cross-border trade amounted to RMB7.23 trillion.
- the RMB cross-border direct investment settlement hit RMB2.32 trillion, including RMB 0.74 trillion of overseas direct investment and RMB1.59 trillion of foreign direct investment in China.

- By the end of 2015, the People's Bank of China has signed the currency swap agreement with currency authorities in 33 countries and regions and the European Central Bank, with RMB3.3 trillion involved.
- The RMB offshore market keeps expanding, and the global RMB settlement system has taken shape.

# Requirement for Internalization of a Currency

- Size of the economy
- Development of financial system
- Openness of trade
- Risks

## II. Effect of the Belt and Road on RMB Internationalization

- Trade Channel
- The bilateral trade volume between these countries and China hit about USD1 trillion, accounting for 1/4 in China's total foreign trade. The volume of trade between China and related countries increased by about 17% each year on average from 2005 to 2014.

- Investment Channel
- Severe lack of fundamental infrastructure and poor intra-regional interconnectivity have become the bottleneck for economic development of countries along the Belt and Road.
- If the proportion of China's investment in countries along the Belt and Road increases from 13% to 30%, the investment in the decade to come will total USD2 trillion.



- Currency Reserve Channel
- The RMB became more and more important as an international reserve currency. Countries like South Africa, Angola, Nigeria, Tanzania, Ghana and Kenya have included the RMB into their foreign exchange reserves.

# III. Estimated Effects of the Belt and Road Initiative on RMB Internationalization

- The RMB settlement for trade is expected to increase by RMB6,000 billion from 2016 to 2020 thanks to the Belt and Road Initiative.
- The overseas investment RMB settlement increase incurred from the Belt and Road Initiative will amount to about RMB 550-1,150 billion from 2016 to 2020. The Belt and Road Initiative will bring along the RMB settlement for foreign investment in China RMB340-900 billion in all from 2016 to 2020.

- The fluctuation of RMB exchange rate had some negative impacts on RMB internationalization. But there is no basis for a continual depreciation in the long run.

## IV. Impetus of RMB

### Internationalization for Bilateral Trade

- This research analyzes the effects of RMB internationalization on bilateral trade through a gravity model.
- The estimation result shows that the swap impose significant positive effects on the trade volume.

# V. Policy Recommendations

- Both planning and management should be more specific and detailed, to avoid over-generalization.
- More importance should be attached to insurance, so that insurance can play a bigger role in risk management and control; all forms of corruption should be combatted; and legislations concerning export and overseas investment insurance should be improved.

- The Belt and Road Initiative and RMB internationalization should be fully capitalized on to deepen reforms of domestic financial and trade systems.
- The RMB internationalization can proceed in an orderly way, be understood and supported by all countries in the world and contribute to the establishment of a fair and inclusive new world order.