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RMB Internationalization Under the BRI——A Challenge of Currency Internationalization Model

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ABSTRACT
The article examines the internationalization of the RMB within the framework of the Belt and Road Initiative (BRI), highlighting its potential to reshape global currency dynamics. It addresses the economic, infrastructural, and geopolitical challenges impeding the RMB's progress as an international currency. The analysis focuses on the BRI's role in fostering cross-border settlements, enhancing financial infrastructure, and developing RMB pricing mechanisms, especially for commodities. Despite significant strides, the RMB's global acceptance remains uneven, necessitating strategic reforms in financial systems and policies. Recommendations include bolstering regional demand, improving pricing functions, and fostering onshore-offshore market integration to strengthen RMB's status as a global currency.

KEYWORDS
RMB internationalization; Belt and Road Initiative; cross-border settlement; financial infrastructure; global currency dynamics; RMB pricing; economic reform; currency valuation; geopolitical strategy; financial markets

1 Introduction

The Belt and Road Initiative(BRI) is an unique model of regional cooperation advocated by China. It is a geostrategy for China to expand trade and investment and an essential measure for win-win cooperation to promote joint economic development and prosperity. BRI has created opportunities for the internationalization of the RMB, which will promote the economic development of China and other countries and regions along the Belt and Road and add impetus to world development. According to the Chinese government's original plan, BRI will promote the yuan's internationalization. However, the exogenous shock of the COVID-19 pandemic in early 2020 disrupted the original plan. It prompted China and partner countries to think more deeply about the relationship between cross-border knowledge management and financial risk governance. In addition, to effectively respond to global risks and enable BRI to play a harmonious role in RMB internationalization, it is necessary to establish an effective cross-border financial management mechanism systematically. That is, to consolidate the foundation needed for further RMB internationalization innovatively.

The old trade settlement plus offshore market model is not sustainable for RMB internationalization needs. This paper sugggests how to promote RMB internationalization combined with the construction policies of BRI. First of all, the paper summarizes the main progress of RMB internationalization along the Belt and Road from the aspects of cross-border settlement, financial infrastructure, and RMB pricing. Furthermore, it is found that the overall level of RMB internationalization is not high, the development of different regions is not balanced, and the development of different functions is not coordinated along with the BRI. Finally, the feasible path of RMB internationalization development in the future is proposed. For example, by giving full play to the role of RMB in investment and financing, strengthening RMB pricing for bulk commodities, and gradually opening up the onshore financial market, the BRI construction will promote the internationalization of RMB.

2 Conditions for Currency Internationalization

International currency is the product of economic development to a particular stage. When a country's currency can perform its monetary functions globally due to some specific factors, it becomes an international currency. International money has three main functions: unit of account, payment function, and store of value.

First, to become a settlement currency, the issuing country must have a solid, comprehensive economic strength, a stable currency value, and a large scale of use. On the one hand, a country's economic strength is the credit basis of its currency. The stronger the economic strength is, the stronger the implicit credit guarantee ability that the government can provide for its currency is, and the smaller the sovereign currency credit risk it will face when using the currency. On the other hand, stronger economies are less vulnerable to external shocks, and their currencies are more stable and more acceptable to traders. At the same time, the larger the currency transaction scale, the lower the transaction cost, and the financial market is generally more sophisticated and convenient for providing financial services for international transactions.

Second, to become a pricing currency requires the issuing country to have international solid trade competitiveness, closely related to traders' historical inertia and the degree of product differentiation. Suppose traders are more competitive in import and export markets. In that case, they will be more able to become price makers and choose to price in local currency to reduce the impact of exchange rate fluctuations on profits. In addition, the experience of international currency development shows that there is always path dependence in currency internationalization. On the one hand, market participants will not frequently change the accounting currency due to the long-term usage habits that are not easy to change. On the other hand, product differentiation degree can also influence the choice of currency. Generally, the greater the degree of differentiation of the product, the smaller the demand price elasticity and elasticity of substitution, determines its has more substantial market competitiveness and gives out the greater bargaining power to avoid exchange rate risk selection denominated in local currency.

Third, to become a reserve currency, the currency-issuing country must have high capital account convertibility and a developed financial market. The reason is that the freely convertible currency improves the convenience of payment and settlement through the financial system for investors in international trade, international investment, and other economic activities, reduces the risk and cost of currency holding, and improves the willingness of market participants to hold. At the same time, currencies with large trading volumes in the financial market generally have lower transaction costs. They are more conducive to risk control, making them more attractive to investors.

Currency internationalization is a part or all of the functions of currency, which extends from one country or original use region to neighboring countries, regions, and even the world, and eventually evolves into regional currency and even global common currency. In 2009, In response to international market demand, China started the process of RMB internationalization. In the past decade, the development of RMB internationalization has shown an overall trend of improvement. The status of RMB in the global currency system has been continuously consolidated and becoming more stable. But at the same time, the international status of the RMB is still lower than China's share in the world economy and trade, its pricing and value storage functions are minimal, and the reform of the financial system still needs to be continued. Reviewing the process and conditions of currency internationalization in developed countries may enlighten the stage, law, and path of RMB internationalization.

3 International Cases and Features

The pound, dollar, euro, and yen are the major international currencies globally, and their currency internationalization has its personalized development model.

3.1 U.K.

The internationalization of the pound sterling is attributed to the solid political and economic foundation laid for Britain by the First Industrial Revolution, which was mainly characterized by replacing manual work with machines, and the foreign trade, investment, and financial cooperation carried out by Britain through colonial expansion. The comprehensive solid economic strength of the UK and the long-term stability of the pound's value are the basis for becoming an international currency. After the two World Wars, Britain's economic strength declined sharply, leading to the decline of the sterling's internationalization. However, the Sterling is still a virtual currency for international valuation and settlement with its developed financial market and long-formed trading habits.

3.2 U.S.

There is a unique historical background for the US dollar to become an international currency. Bretton Woods established an international monetary system anchored by the US dollar. The US dollar becomes the sole international monetary unit for global trade, and it is used exclusively for international payments and international reserves under this international monetary system. As Bretton Woods fell apart, the dollar continued to act as an international currency, taking advantage of the stocks accumulated in the early stages.

3.3 E.U.

The internationalization of the euro is the result of regional monetary integration. In other words, the euro was born as a natural international currency. In forming regional currency, eurozone economies give up independent monetary policies and transfer the right to use their currencies to form regional communities. The core currency (the Deutschmark) plays a leading role.

3.4 Japan

Yen internationalization started with aid loans. With the help of the financial market, actively issue yen bonds to promote the full internationalization of the yen. However, due to the domestic economic recession, the failure of industrial structure upgrading and transformation, and the insufficient development of the financial market, the internationalization process of the yen has been regressive.

The process of currency internationalization in the above cases shows common characteristics. First, economic strength is the foundation of currency internationalization. Sterling and the dollar went out into the world when Britain and the US-dominated the world with a share of global GDP and economic power that no other economy could match. After the World War II, Japan's economy developed rapidly, and its rapidly accumulated economic strength enabled it to rank among the top in the world. The international status of the Japanese yen was also rising, and it became a primary international currency. The euro is a new product of international economic and trade cooperation. Combining solid countries in the eurozone enables it to gain a place in the international monetary system quickly.

4 Major Progress in RMB Internationalization Along BRI Route

The internationalization of a country's currency often occurs via settlement currency, valuation currency, and reserve currency. These correspond to the functions of the international currency exchange medium, the unit of account, and the store of value. RMB settlement functions develop rapidly along the Belt and Road, while valuation functions develop tentatively, and reserve functions develop relatively slowly. At present, the cross-border settlement, financial infrastructure, and pricing functions offer insight into RMB internationalization's progress and achievements.

4.1 The BRI has made steady progress in settling RMB cross-border disputes

From cross-border trade to cross-border investment, cross-border RMB settlement has advanced rapidly from pilot to promotion since 2009. The RMB was settled across 242 countries and regions by March 2018, involving 386 banks and 349,000 enterprises. The BRI is essential for promoting cross-border RMB settlement. Southeast Asia, Northeast Asia, and other surrounding regions already have a good foundation for RMB circulation. Along the Belt and Road, the cross-border RMB settlement is gradually taking shape. According to data from the People's Bank of China, China received and paid a total of 2.07 trillion yuan in cross-border RMB transfers with countries along the Belt and Road in 2018, representing 13.1% of all transactions between the two countries. In addition to goods transactions of 613.4 billion yuan, there has also been a direct investment of 224.4 billion yuan, other investments of 333.1 billion yuan, and cross-border financing of 313.2 billion yuan.

In addition, the acceptance of RMB along the BRI has also increased. According to the White Paper on RMB Internationalization released by the Bank of China in 2015, among 3, 468 global customer enterprises surveyed, companies along the Belt and Road are more willing to use RMB than those in other regions. The proportion of enterprises planning to expand RMB use in the future reached 80%, 8% higher than the sample from other regions.

4.2 The internationalization of RMB has been supported by a continuous improvement of the financial infrastructure

The construction of financial infrastructure cannot be separated from the cross-border circulation and use of RMB. As a result of years of development, a clearing network has emerged along the Belt and Road, which consists of the RMB clearing hub, banks, and other institutions. Specifically include:

Firstly, cross-border RMB payments. CIPS, officially launched in 2015, is a service that provides financial services to domestic and foreign financial institutions for the purpose of clearing and settling cross-border payments in RMB. CIPS Phase II was implemented in 2018. CIPS currently has 31 direct participants and 847 indirect participants globally. For countries along the Belt and Road, CIPS is essential for RMB cross-border settlements. The CIPS network, which covers 41 countries and regions, included 661 banks and financial institutions as of March 2019.

Secondly, the clearing bank for RMB. Clearing banks for RMB can help countries along the Belt and Road conduct RMB transactions. A report from the People's Bank of China indicates that 25 countries and regions have signed RMB clearing agreements, including eight countries along the Belt and Road.

Third, branches of financial institutions. The number of Chinese bank branches in countries along the Belt and Road has steadily increased. So far, nine Chinese banks have set up 67 first-level branches, including subsidiaries, branches, and representative offices, in 24 countries along the Belt and Road. In addition, According to the Belt and Road Big Data Report (2018), China UnionPay cards can be used in 57 Belt and Road countries, with more than 25 million cards issued, covering more than 5.4 million merchants and 680,000 ATMs.

4.3 The RMB pricing function along the Belt and Road has been preliminarily developed

Currency internationalization relies heavily on the valuation function. The RMB pricing function has been gradually introduced to countries alongside the Belt and Road Initiative and the two-way opening of China's financial market in recent years.

The Belt and Road region is increasingly adopting RMB pricing for cross-border trade and investment to avoid exchange rate risks. Among the sample enterprises in the Bank of China's "White Paper on RMB Internationalization" survey in 2017, 19% favored RMB pricing when exchange rates fluctuated, up 1% year over year and for five consecutive years. Approximately 70 percent of surveyed companies said foreign counterparties could accept RMB-denominated and RMB-settled contracts in 2018.

Accordingly, countries along the Belt and Road are increasingly conducting investment and financing activities on their own domestic financial markets. Qualified Foreign Institutional Investors (RQFII) quotas have been allocated to 33 Belt and Road countries. Specifically, comprising 16.5% of the total quota, Singapore accounted for 10 million RMB, Hungary, Malaysia, the United Arab Emirates, Thailand accounted for 5 million RMB, and Qatar accounted for 3 million RMB. The RQFII program allows quota holders to participate in the domestic interbank bond market, buy RMB financial assets, and issue panda bonds. Hungary, the United Arab Emirates, and the Philippines are among the countries along the Belt and Road that have issued panda bonds denominated in RMB since 2016. The WIND report shows that 18.2 billion yuan worth of panda bonds have been issued from countries and regions along the Belt and Road, including 9.46 billion yuan worth of sovereign bonds, 5 billion yuan worth of financial bonds, and 3.74 billion yuan worth of corporate bonds. The interest rate on panda bonds is currently between 3% and 5%, and the majority of the bonds are of AAA quality. Malaysia, Russia, Saudi Arabia, the United Arab Emirates, Turkey, Poland, Hungary, and Thailand directly engage with RMB currency implementation in the inter-bank foreign exchange market to reduce the cost of exchange and avoid exposure to exchange rate risk.

Furthermore, RMB-denominated products outside of China have also grown. WIND data indicates that of the 143 offshore RMB bonds (also known as "dim sum bonds") issued in Hong Kong, Singapore, and other offshore markets as of July 2019, 159.632 billion yuan was issued mostly by the Chinese government and financial institutions. China is also actively issuing RMB financial assets in countries along the Belt and Road. The Kazakh Stock Exchange began trading yuan in 2014. Malaysia issued its first RMB bond of the 21st Century Maritime Silk Road in 2015 through China Construction Bank. With the yuan gaining greater international recognition, many countries along the Belt and Road are issuing offshore yuan bonds. Dim sum bonds issued by OCBC Bank Singapore and Maybank of Singapore in Hong Kong were 500 million yuan and 2.5 billion yuan, respectively, in 2014and 2019. Mongolia and Hungary issued offshore RMB bonds worth 1 billion yuan in 2015 and 2016, respectively.

Internationalization of the RMB along the Belt and Road is mostly focused on cross-border settlements. Besides the increased willingness to use RMB, the financial infrastructure supporting cross-border settlement has improved steadily, and currency swap cooperation has continued due to cross-border trade and investment. RMB financial asset products in the BRI have gradually increased in size and type, and the investment and financing functions of RMB are gradually advancing. While the development of RMB as a reserve currency has progressed slower than those of settlement and valuation, it has still made some progress compared to those of settlement and valuation. More and more countries are taking RMB as reserves after the BRI proposal and SDR inclusion.

5 Problems and Obstacles

The Belt and Road trade and investment demand do not match the cross-border use of RMB. The Belt and Road initiative has proliferated recently in terms of trade and investment with China. The trade between China and countries along the Belt and Road increased from 6.92 trillion yuan in 2014 to 8.42 trillion yuan in 2018. From 2015 to 2018, China's trade in goods and services with the Belt and Road routes increased by 25.44% and topped out at 27.59%. As soon as the BRI was launched in 2013, direct investments in the Belt and Road experienced rapid growth, especially in 2015, when direct investments reached 18.929 billion dollars, an increase of 38.61% over the previous year, a 12.99% growth rate. A total of $17.89 billion in direct investments occurred along the routes in 2018, representing 12.51% of the total. There is, however, a limit to how much RMB can currently be used to settle cross-border trade and investment in countries along the Belt and Road. Cross-border trade settlements between China and other countries along the Belt and Road actually amounted to 778.6 billion yuan in 2016; this represents only 13.9% of China's total trade with these countries, which is lower than the global average of 25% of total trade in RMB. Therefore, cross-border RMB settlements are still low in most Belt and Road countries relative to trade and investment demands.

Secondly, the pace of RMB internationalization varies across the Belt and Road. The RMB circulates and is accepted differently in countries along the Belt and Road. According to the Belt and Road Initiative, only seven countries accounted for more than 10% of cross-border RMB settlements in 2016, with the remaining two accounting for 5%-10%. Fewer than 5% of the 55 countries along the Belt and Road accepted RMB settlement, showing that settlement in RMB was not widely accepted.

Specifically, the use and acceptance of RMB in southeast Asia and other neighboring countries are relatively high. China has actively promoted the use of the RMB in neighboring countries. In the 1990s, in order to meet the needs of border trade and small trade settlement, RMB was initially circulated among the people in the form of domestic banks and cash settlement. In 1993, China signed the Agreement on Settlement and Cooperation with the Central Bank of Vietnam, allowing the two countries to use the bilateral currency for border trade settlement. Later, Myanmar, Cambodia, Laos and other countries have launched RMB settlement business. At present, RMB is widely accepted in ASEAN countries such as Vietnam and Singapore, as well as neighboring countries such as Mongolia, and has become the main settlement and transaction currency in border trade. The RMB accounted for about 30% of Singapore's trade payments with China and Hong Kong in 2012 and about 25% in Thailand in 2015, according to SWIFT. In addition, southeast Asia and other neighboring countries are ahead of other regions in terms of currency swap cooperation, financial infrastructure construction and development of RMB financial products.

In West Asia, Qatar and the United Arab Emirates have developed economies, complete financial systems and high degree of financial openness. China set up RMB clearing banks in Qatar in 2014 and the United Arab Emirates in 2016. According to SWIFT statistics, RMB settlement accounted for

60% and 74% of transactions between Qatar and the United Arab Emirates with Mainland China and Hong Kong in 2015, playing an important role in RMB cross-border settlement and clearing. The rest of the world, however, has little RMB business.

The level of RMB internationalization in South Africa, Central and Eastern Europe and other regions develops slowly and is still in the initial stage. Among South Asian countries, India remains one of the least receptive to the RMB in Asia. In 2012, Indian enterprises conducted cross-border trade settlement business in RMB for the first time. According to SWIFT statistics, only 3.8% of trade and investment business between China and India were settled in RMB in April 2016. Pakistan approved RMB as the settlement currency for bilateral trade and started RMB settlement business in 2018. The circulation scale of RMB in Central Asia and Central and Eastern Europe is still relatively small, but with the progress of infrastructure construction and energy cooperation in the Belt and Road initiative, the cross-border settlement of RMB in Central Asia has a good prospect.

Finally, the BRI doesn't coordinate the functional development of RMB. Scholars such as Hiroyuki Ito believe currencies can be valued better than they can be settled. Therefore, promoting the use of RMB as a valuation currency will help to internationalize it. Nevertheless, RMB valuation and reserve function development lag behind settlement functions in countries along the Belt and Road.

Most trade between Countries along the Belt and Road and China is denominated and settled in third-party currencies such as the US dollar and the euro. From January to September 2014, cross-border goods trade settled in RMB accounted for 15.6% of the total import and export of customs goods in the same period, while cross-border goods trade denominated in RMB accounted for only about 5%-6% of the total import and export of customs goods in the same period. In addition, investors' participation along the Belt and Road in the offshore and onshore RMB financial markets is still relatively low, and the channels and types of RMB financial assets available for investment are limited. The RQFII quota of the five Belt and Road countries only accounts for 16.5% of the total RQFII quota. According to WIND statistics, panda bonds issued by countries along the Belt and Road account for only 5.24 % of the total market size.

RMB remains a low proportion of reserve assets in countries along the Belt and Road. The improvement of the RMB reserve function is more of a natural consequence of the development of the RMB settlement and valuation functions. It takes time to achieve international reserve currency status. To complete the process, prudent and controllable domestic reforms must be prepared along with coordinated financial market policies, which are not priorities at present. RMB's status as an international reserve currency is unlikely to significantly enhance until its settlement and valuation functions are fully realized.

6 Feasible Solutions

Given the current practical problems, such as the low level of RMB use and unbalanced development along the Belt and Road, the relevant institutions can promote a new RMB internationalization process by combining the broad space and opportunities generated by the Belt and Road construction in the future. Specific expansion can be carried out along the following feasible paths:

6.1 Investigate the real demand for RMB along the Belt and Road, and examine the role the currency plays in investment and financing activities

The RMB internationalization process is consistently driven by market demand, policy direction, and market operation principles. RMB circulation abroad is primarily driven by the existence of actual demand. Utilizing the RMB in cross-border trade, investment, financing, infrastructure development, and energy cooperation aspects of multi-level demand to expand the use of RMB in countries and regions in accordance with the range and domain, increasing RMB usage. BRI has created a good opportunity for this model.

To begin with, relevant institutions must consolidate the basic transaction demand for RMB cross-border settlements in the current account. As a result of strong economic complementarity and robust economic and trade exchanges, China's trade with countries along the Belt and Road has potential for growth. Between 2013and 2018, China's shipments of goods to countries along the Belt and Road exceeded $6 trillion, growing by an average annual rate of 4%, greater than China's foreign trade growth rate in the same period. In the future, promoting the use of the RMB in cross-border trade settlements should be encouraged since its use in cross-border trade settlements is still relatively low. The RMB could also be used more in cross-border e-commerce in addition to physical trade. Cross-border e-commerce is an industry with comparative advantages in China, and e-commerce is a growing sector. According to the Cross-border E-commerce Development Report, China's customs approved 134.7 billion yuan worth of cross-border e-commerce imports and exports in 2018, an increase of 49.3%. Cross-border e-commerce can be developed through the Belt and Road Initiative. China's e-commerce websites and cross-border e-payment systems could adopt dollar-RMB double pricing in the future to promote RMB settlement and further enhance the recognition of RMB among people in countries along BRI. A convenient range of financial products such as letters of credit, guarantees, and overseas agent payments should be provided as part of the supporting infrastructure for cross-border RMB settlement. In order to meet the growing demand for transactions, bilateral swap agreements should be expanded continuously and financial infrastructure should be accelerated.

Second, strengthen the use of RMB in investment and financing activities under the capital account. Based on analyzing the failure of yen internationalization, Yin Jianfeng puts forward that RMB internationalization should adopt the mode of "capital export plus multinational corporation." As China's openness and the strength of its transnational operations have increased, this model has gradually taken hold in recent years. Industrial parks are one of the key models for this initiative. Chinese officials estimate that by the end of 2016, 56 industrial parks were constructed for economic and trade cooperation in 20 countries along the Belt and Road. These parks attracted total investments of $18.55 billion. China's multinational companies can "go global" through industrial parks and other investment models. Direct investment in Belt and Road countries and regions will increase the circulation and use of local RMB. The Belt and Road region also faces a funding gap in infrastructure construction and production capacity cooperation. The Belt and Road Infrastructure Connectivity Research group at the Development Research Center of the State Council estimates that the desirable investment demand in infrastructure in countries along the Belt and Road will be at least 10.6 trillion US dollars from 2016 to 2020. RMB internationalization is a good prospect because of the capital gap, which generates large investment and financing needs. In order to increase RMB settlements and valuation, Belt and Road construction can be financed through a variety of methods, including syndicated loans, Silk Road funds, industrial investment funds, bonds issued by international companies, and public-private partnerships. The government of China announced the addition of 100 billion yuan to the Silk Road Fund in May 2015, encouraging financial institutions to conduct overseas fund business with about 300 billion yuan.

6.2 Improve the RMB pricing function with a focus on bulk commodities

Currency internationalization requires that a currency be denominated in commodities. RMB pricing in bulk commodities may be promoted in the new round of RMB internationalization.

Resources such as oil, natural gas, minerals, and coal are abundant along the Belt and Road. Bulk commodities denominated in renminbi can be traded on both futures and spot markets in energy cooperation. Currently, RMB pricing and oil settlement are conducted in an orderly manner. China is the world's second-largest oil consumer and largest crude oil importer, while the Middle East, Central Asia, and Russia are significant oil producers. There are many advantages to both sides. The emergence of an oil-RMB mechanism is conducive to breaking the dollar's monopoly in commodity pricing and further internationalizing the RMB.

On the one hand, it actively promotes the spot market of bulk commodities denominated and settled in RMB. Among the economic and trade exchanges between China and countries along the Belt and Road are the trade of energy, raw materials, agricultural products, and other bulk commodities. The international status of RMB would be greatly enhanced if it can be used widely to trade bulk commodities. In the context of developing deep energy cooperation along the Belt and Road, improving RMB pricing and settlement of spot commodities will be useful for increasing the circulation of RMB outside of China and laying the foundation for a futures market for spot commodities. CNPC signed its first yuan-denominated oil export agreement with the Middle East in 2018 after part of China's oil imports from Russia were settled in RMB in October 2017. The establishment of RMB clearing banks in Central Asian and Middle Eastern countries, as well as Russia, will provide liquidity support for RMB pricing and settlement of bulk commodities, which will strengthen our currency swap cooperation.

The Shanghai International Energy Exchange(INE), a subsidiary of the Shanghai Futures Exchange, officially listed China crude oil futures in March 2018. Foreign investors can participate directly in the first yuan-denominated commodity in China. World Energy Development Report (2019) shows that as of August 2018, the INE crude oil futures market had grown to 10 trillion yuan, making it Asia's biggest and third-largest crude oil futures market. The Belt and Road construction requires better coordination with the construction of RMB oil return mechanisms since the majority of major importers of Chinese crude oil and the major oil-consuming countries around China are Belt and Road countries. For oil countries and other countries along the Belt and Road, promoting RMB settlement and pricing for cross-border trade and investment could lead to an "oil-RMB" mechanism that displaces the dollar-dominated international commodity pricing system. Additionally, China should continue to introduce RMB-denominated iron ore and natural gas futures products in the future. Promoting the opening of futures markets, encouraging overseas investors to invest in RMB-denominated futures products, and facilitating open RMB-price systems for bulk commodities are a few additional measures to be taken.

6.3 Strengthen the construction of financial infrastructure and promote the internationalization of RMB through positive interaction between onshore and offshore markets

Enhancing the valuation function of RMB in financial transactions is an important direction to promote a new round of RMB internationalization. This requires the broad participation of all types of developmental, policy, commercial, financial institutions, and central banks. To avoid exchange rate risks, it is necessary to constantly innovate and enrich financial products denominated in RMB, including RMB deposits, bonds, stocks, and funds, and RMB derivatives such as futures and options. More importantly, building a benign interactive platform between offshore and onshore RMB markets is necessary.

RMB offshore market is an essential platform for overseas RMB circulation, and the richness of RMB financial products cannot be separated from the support of the offshore market. In the past, the construction of the RMB offshore market was mainly based on mature international financial centers such as Hong Kong and London. With the further development of the Belt and Road Initiative, RMB is expected to be used for settlement and pricing in cross-border trade, investment, production capacity cooperation, and other activities. This will generate investment and financing needs for deposits, bonds, stocks, and other RMB financial assets. It is of practical necessity to develop the offshore market further and enrich RMB financial products. The offshore market can provide financial support for the Belt and Road Initiative. As trade and investment activities along the Belt and Road are subject to more significant political, operational, and environmental risks, the offshore market can provide special financing and risk management services for Belt and Road projects. In the future, we should focus on the layout of the RMB offshore market in places like UAE, Qatar, and Singapore along the "Belt and Road" and expand the scale of the offshore market. In addition, the construction of an offshore RMB market needs the support of laws and policies of the host country, the participation of various domestic and foreign financial institutions and the improvement of financial infrastructure, and the continuous innovation of financial products denominated in RMB such as bonds, stocks, loans, and foreign exchange.

The two-way opening of the RMB onshore market is the key to the perfect RMB backflow mechanism. Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, and bond Connect mechanisms have been established in recent years. Quotas were gradually lifted, increasing the link between the mainland and Hong Kong stock and bond markets. In 2018, China's A-shares were included in the MSCI Emerging Markets Index, and China's bond market was included in the Bloomberg Barclays Global Composite Index 2018. These progress measures are conducive to attracting Many foreign investors, reflecting the gradual opening trend of China's onshore financial market. The two-way opening of the financial market in the future will be carried out in an orderly manner by gradually relaxing restrictions on foreign investors, strengthening the connectivity between China and foreign capital markets, enriching the variety of renminbi-denominated financial assets, and enhancing the recognition of China's financial market in the international market. Combined with the prospect of RMB regionalization brought by the Belt and Road construction, the two-way opening policy of the financial market can be tilted towards the Belt and Road. For example, the relevant institutions could increase the scope and quota of RQFII for countries along the Belt and Road, restart QDLP and QDIE, and strengthen market connectivity with Qatar, Dubai, and other international financial centers. The gradual opening of the onshore market will help increase the proportion of institutional investors, improve domestic investors' investment philosophy and behavior, and promote the positive interaction of the onshore and offshore RMB market. Form a smooth RMB outflow and return mechanism to attract more oil RMB and other offshore RMB return investments along the Belt and Road. Ultimately enhance the status of RMB as a financial valuation currency.

Moderated financial infrastructure is an important starting point to enhance the function of RMB valuation. The cross-border settlement of RMB and the development of the RMB denominated financial market needs the support of multi-level and all-round financial infrastructure, which is also the basis for establishing the "onshore and offshore" market mechanism. In the future, relevant institutions should further expand the distribution of the RMB cross-border settlement system (CIPS) along the Belt and Road and increase the establishment of RMB clearing banks in ABU Dhabi and other financially developed regions. China's government and relevant institutions will encourage Chinese banks, securities, funds, insurance, and other financial institutions to "go global" and promote the internationalization and standardization of credit investigation and rating agencies. Attract extensive participation of international financial institutions, overseas central banks, commercial banks, and other financial institutions, and strengthen the interconnection of financial markets in different regions.

7 Conclusion

The internationalization of RMB is the result of the country's relatively strong economic strength. In the long term, the internationalization of other currencies is gradually realized by enhancing a country's comprehensive strength in the economy, science, and technology, such as sterling, dollar, euro, and yen. In the short term, the main reason RMB internationalization started after the 2008 international financial crisis is that the US economy was in recession at that time, while China's economic growth was relatively strong. The RMB value was stable, providing enterprises and residents with a good exchange rate hedging tool. At the same time, with the enhancement of economic and technological strength, it is inevitable to produce a large number of large transnational enterprises with high scientific and technological levels, promising brand value, and a central link in the international industrial chain. The emergence and development of these enterprises, to some extent, determine the scope of cross-border use of local currency. However, RMB internationalization is still in its initial stage. The overall strength and international status of Chinese enterprises are relatively low, which restricts RMB internationalization to a certain extent.

At first, the pace of RMB internationalization was in reverse movement with the change in the exchange rate. But with the two-way opening of financial markets, cross-border capital flows will play a leading role in RMB internationalization. During the RMB appreciation period from 2008 to September 2015, the RMB internationalization process was fast. Subsequently, RMB internationalization slowed down until the devaluation of the RMB at the end of 2016. In 2017, the internationalization of RMB began to accelerate again. During this period, the RMB exchange rate rose and fell, but the overall process of RMB internationalization accelerated. This is mainly due to the clear recovery trend of the RMB cross-border settlement amount. However, the amount of RMB cross-border trade settlement was stable because overseas customers' trade settlements had a strong dependence on the US dollar. The proportion of RMB used in regular trade was still low. More cross-border settlement is the removal of cross-border trade settlement due to the RMB's two-way opening of financial markets. This fully shows that capital account opening plays a leading role in RMB internationalization when the accurate trade settlement scale is stable.

The RMB internationalization is still in the early stage, and the characteristics of regionalization are remarkable(not mature enough to obtain the international level). Although the role of RMB as payment, investment, and reserve currency has been shown, there is still a significant gap between its share and that of mainstream international currencies such as the dollar and euro. For example, the proportion of overseas investment in RMB assets is still low in terms of investment. In particular, in terms of the role of reserve currency, according to IMF statistics, the US dollar is still the world's leading foreign exchange reserve currency, accounting for more than 60 times the proportion of allocated funds as RMB. In addition, the distribution of RMB usage is significantly uneven, and it is highly accepted in Asia, especially Southeast Asia. At the same time, it is rarely used in Africa, the Middle East, and other regions.

The road ahead is still long and changeable, and institutional supply needs to keep up. At the present stage, the internationalization of the RMB is still affected by capital outflow, exchange rate depreciation, monetary policy, and other aspects. Also, the reform process in the financial field is a relatively lengthy process, which determines the overall trend of RMB internationalization, showing twists and turns. Relevant institutions should further optimize cross-border RMB payment, investment, and financing business processes, refine reform measures such as financial cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area and expansion of the Free Trade Area, improve the operability of the system, promote the two-way opening of the financial market, and promote the internationalization of the RMB. At the same time, the future national policies are expected to further improve the pricing function of RMB through strengthening commodity pricing negotiation, bilateral currency swap, developing commodity futures market, strengthening cooperation and interaction with the global futures market to launch offshore RMB commodity futures contract, etc. Financial institutions should make full use of financial attributes to strive for the pricing power of bulk commodities to enhance the pricing function of RMB in bulk commodity transactions. Guide commodity spot trading enterprises to use their financial attributes to carry out hedging transactions and control the risk of commodity price fluctuations. Financial institutions participate in investment and financing with commodities as the subject and enhance their ability to use commodities for asset preservation and hedging.

The internationalization of the RMB is primarily a reflection of China's comprehensive power. In order to move forward, China must develop its economic and financial infrastructure, make its debt sustainable, open its financial markets, expand its depth and breadth and establish a flexible exchange rate system. The internationalization of RMB encompasses all of these aspects. Even if China's economy continues to develop and its comprehensive national strength continues to improve, the process of RMB internationalization will likely be fast and slow, but it does have a broad outlook and a clear trend toward internationalization.

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