

A Study on the Influential Factors of RMB Internationalization

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Abstract. The internationalization of the RMB is a major event that changes the pattern of the world's financial market, and the study of its influencing factors can enable RMB holders to have a clearer understanding of the process of RMB's internationalization and the international financial situation, so that they can make correct investment judgments. This paper studies and summarizes the previous literature and finds that the influencing factors of RMB internationalization are: China's economic strength, the degree of development financial market, the stability of the RMB's value, the convertibility of the RMB, the political stability of China and its neighboring countries, and the inertia in the use of existing international currencies. To promote the RMB's internationalization, China should firstly, actively promote the economic transformation to ensure the growth of economy, secondly, promote the construction of the financial market to narrow the gap with the financial markets of developed countries, thirdly, ensure the stability of RMB's value, fourthly, promote the construction of the RMB's freely convertible region, in addition, ensuring the political stability of itself and its neighboring countries, finally, seize the current trend of de-dollarization of the international financial market, to weaken the inertia of the use of the US dollar.

1 Introduction

China's economy has been growing steadily since the reform and opening up, and it is gradually integrating into economic globalization. In the last few years, under the influence of the turbulent international situation and the interest rate hike of the US dollar, countries are worried about the impact of the fluctuation of the US dollar on their own countries, and in order to get rid of the dependence on the US dollar, the international monetary system is likely to usher in a new round of changes. In recent years, the global financial system has been transformed into a more complex and diversified financial system, following the US dollar, the pound, the euro and the yen. Following the US dollar, the British pound, the euro and the Japanese yen, the renminbi is gradually becoming a new international currency. The internationalization of the renminbi is an important part of China's financial development, and the realization of the internationalization of the renminbi can help China get rid of the constraints of foreign exchange and further satisfy its needs for cross-border settlement. With the gradual expansion of the RMB's influence, China is able to form fair and win-win partnerships with other countries. On this basis, the internationalization of the RMB can promote the financial and monetary security of China and its trading partners, and alleviate the pressure brought by the US dollar and the intervention of other external factors. With the

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increasing breadth and depth of China's participation in international trade and capital exchanges, the internationalization of the RMB has already achieved certain results, and with it comes more and more influencing factors that should not be ignored, so in order to successfully realize the process of internationalization of the RMB, it is of great significance to study its influencing factors.

At present, there are more and more comprehensive research papers on the influencing factors of currency internationalization at home and abroad, but most of the domestic researchers realize that the current research on the influencing factors of RMB internationalization is based on the inductive inference of the internationalization process of the currencies that have already been internationalized, and that it is of little significance for the process of RMB internationalization to simply learn from the experience of the internationalization of these currencies without regard to China's national conditions, so they have conducted more in-depth and more targeted research on the influencing factors of RMB internationalization. Therefore, they have conducted more in-depth and targeted research on the influencing factors of RMB internationalization, and this paper will summarize the influencing factors in the process of RMB internationalization based on these researches.

2 Research on the influencing factors of RMB internationalization

2.1 Definition and measurement of RMB internationalization

For a currency to become an international currency, it should at least be able to provide domestic and foreign residents with the functions of value storage, medium of exchange and unit of account, it needs to satisfy the basic functions of money on an international scale. The current research on the internationalization measure of RMB mainly focuses on two aspects. One is, to measure the degree of RMB internationalization by directly selecting the relevant indexes of the factors that replace the basic functions of the currency; the other is, to measure the relevant indexes by constructing the RMB internationalization index system. Through the above indicators, the influencing factors of RMB internationalization can be further explored [1].

2.2 Key influences on the internationalization of the RMB

At present, the research on the influence factors of currency internationalization is more comprehensive, and the summary of the previous research concludes that the internationalization of the currency is mainly affected by the following factors: economic strength, the degree of development of the financial market, and the stability of the value of the currency.

2.2.1 The impact of economic power on currency internationalization

The economic strength of a country is an important reference factor for whether non-nationals are willing to hold its currency [2]. Developed economic strength will attract more non-nationals to hold the national currency, so that the stored value of the national currency is widely recognized in the foreign exchange market, thus enhancing the international status of the national currency. The primary determinant of whether a currency can become an international currency is the size of the economy and trade expressed in terms of GDP and the total volume of imports and exports [3]. In other words, the larger the scale of economy and trade, the more transactions in the international market, and the wider the circulation of the national currency as a medium of exchange in the international. China's economy has

grown rapidly since reform and opening up, making it the world's second largest economy, and China's economic strength has brought a positive impact on the internationalization process of RMB.

2.2.2 Impact of the degree of financial market development on currency internationalization

The level of development of a country's financial market can have a significant impact on the internationalization of its currency [2]. The more mature a country's financial market is, the lower the cost of converting the country's currency and the higher its liquidity. International capital is more willing to buy the country's financial assets, so that the country's currency in the world to have an impact. The opening of the financial market and its internationalization development can greatly improve the convenience of foreign investment in China [4]. For the RMB, the enhancement of the internationalization status will to a large extent be affected by the convenience of its own cross-border flow, if the level of cross-border flow of RMB financial assets is higher, it can provide more convenient conditions for investors from other countries to smoothly enter China's market to participate in the investment, which will provide important support for the diversification of the type of investment assets.

2.2.3 The impact of currency stability on currency internationalization

Currency stability is a necessary condition for the internationalization of a country's currency, which is reflected in price stability, internal currency stability is often reflected in the rate of inflation, and external currency is reflected in the currency's real exchange rate, the relative stability of the currency can reduce the risk of nationals and non-nationals to hold the country's currency, which has a facilitating effect on the internationalization of currencies. In a study by Tu Kaoer (2024), it is pointed out that in the long run, the steady growth of the value of the RMB currency has a greater positive effect on the internationalization of the RMB [5]. When the value of the RMB grows steadily, investors will feel more comfortable about holding the RMB, and more investors will be willing to hold the RMB because of its stability and security, which can have a positive impact on the internationalization of the RMB.

2.2.4 Currency is freely convertible

In order to realize the internationalization of the RMB, it is necessary to realize the free convertibility of the RMB, and the RMB has not yet achieved full convertibility, which means the elimination of currency exchange restrictions, and China is cautious about the free convertibility of the RMB because of the fear that after the free convertibility of the currency, the substitution of the RMB by the large influx of foreign currencies will increase dramatically, which prevents the RMB's international status from being further improved. According to Zhao Yanbo (2021), the conditions for the free convertibility of the currency are a stable macroeconomic situation, the effectiveness of the market adjustment mechanism, the ability of macro-control, active microeconomic agents and a sustainable balance of payments system. The current situation in China does not meet the conditions for full convertibility of the RMB, and if free convertibility is forced, there is a possibility of large fluctuations in the RMB exchange rate, an increase in debt risk, and the emergence of a run on the currency, among other problems. The current financial system needs to do is: further deepen the reform of the financial system and pilot, rectify and stabilize the order of the financial market, in order to clear the obstacles for the realization of the RMB convertibility to lay the foundation [6].

2.2.5 The impact of political stability on currency internationalization

Political stability is also an influential factor that cannot be ignored in the process of RMB internationalization, and political stability mainly affects the level of currency internationalization through the channels of financial market development and capital flows [7]. Currency holders are more willing to hold the currency of politically stable countries, and international capital is more inclined to flow into countries with a stable political environment, and an unstable political environment will have a negative impact on a country's level of financial market development and the degree of opening of the capital account. Political stability is also manifested in geopolitical stability, with instability and global geopolitical risks gradually increasing under the current international political situation, characterized by the rise of protectionism and unilateralism. Increased geopolitical risks significantly affect the volatility of the RMB exchange rate, while a stable exchange rate is the basis for good international economic transactions. Geopolitical risk significantly increases the volatility of exchange rate, and a 1% increase in the geopolitical risk index increases the volatility of exchange rate by 0.868% [8]. Global and Chinese geopolitical risks and Chinese economic policy uncertainty have a significant impact on RMB exchange rate volatility, while Chinese economic policy uncertainty is subject to significant spillover effects of international economic policy uncertainty affecting RMB internationalization and RMB exchange rate volatility, while there is a bi-directional spillover effect; global geopolitical risks and international economic policy uncertainty have a significant impact on Chinese geopolitical risks [9]. The political stability of China itself and its neighboring countries can provide investors with a safe investment environment and trade environment, which can consolidate the regional internationalization of the RMB and lay the foundation for the global internationalization of the RMB.

2.2.6 The impact of currency usage inertia on currency internationalization

Currency inertia refers to the fact that when a currency becomes an international currency, currency holders become dependent on it, and therefore holders are reluctant to give up the holding and use of this international currency. At present, the higher degree of internationalization of the currency has formed the use of inertia in the international currency market, compared with the lower degree of internationalization of the RMB, currency holders are more willing to hold the U.S. dollar, the pound, the euro, the yen and other international currencies. At present, the degree of internationalization of the RMB is still low and will not be able to surpass the euro and the dollar by 2025, but its growth path is exponential. [10]. The process of RMB internationalization is a rather long process, and it will take a long time for the inertia of RMB usage to be formed in the international arena.

3 Countermeasures and recommendations

Based on the above analysis; in order to promote the process of RMB internationalization, this paper puts forward several countermeasures.

3.1 Enhancing economic strength

First of all, at the level of economic strength, with the new round of changes in the global economy, China's current economic development has entered the "new normal", under the new normal, China's economy has been transformed from high-speed then growth to medium-high-speed growth, and the traditional dependence on the investment and export-driven growth model has been unsustainable, and the innovation-driven, domestic-demand-

driven growth has become the new The innovation-driven, domestic demand-driven has become the new growth point [11]. Under the “new normal”, in order to further enhance the economic strength, China should actively promote economic transformation, in order to accelerate the speed of economic growth and enhance the power of economic growth.

3.2 Develop the financial markets

China's financial system needs to further promote the reform and piloting of the financial system, establish a more stable order in the financial market, enhance the ability of macro-control, and further narrow the gap with the financial markets of developed countries, and, on this basis, take advantage of the trend of de-dollarization that has been presented in the international currency market, and enhance the influence of the renminbi in the international currency market while improving the financial system.

3.3 Ensuring the stability of RMB

In order to ensure the confidence of RMB holders in the RMB and a safe and stable investment environment, China should try to ensure a stable growth of the RMB exchange rate and refrain from adopting overly aggressive financial policies. To promote economic transformation and the construction of financial markets within a safe range, the pilot work of financial system reform is particularly important, using the pilot to find out the possible problems and solutions in the process of economic transformation, so that its adverse impact on the RMB exchange rate can be minimized in the process of implementation in the future.

3.4 Realization of the free conversion of RMB

In order to realize the free convertibility of RMB at an early date, China should first improve the foreign exchange regulatory system to carry out the necessary and reasonable supervision of foreign exchange transactions; second, it should promote the pilot projects in the free convertible regions to accumulate experience for the future free convertibility of RMB and to find out the possible risks after the free convertibility of RMB; and third, it should set up the inflation early warning mechanism to ensure the ability to cope with the inflation that may occur after the free convertibility of RMB. At last, an inflation early warning mechanism should be established to ensure the ability to cope with inflation that may occur after the free conversion of the RMB.

3.5 Ensure political stability in China as well as in its neighboring countries

With regard to political factors, China should be forward-looking with regard to international geopolitics and the policies of other countries, and take feasible preventive measures against possible incidents that may affect the stability of China's neighboring regions, such as further strengthening its military power to ensure that it has sufficient strength to maintain peace and tranquility in the neighboring regions, as well as political stability, so as to ensure that China can have a safe trading environment with its neighboring regions.

3.6 Breaking the current inertia in the use of international currencies

China needs to actively promote the use of RMB for payment and settlement with countries along the Belt and Road as well as other trading partners, so as to expand the influence of RMB, realize the internationalization of RMB in a wider region, seize the trend of de-

dollarization in the global financial market, weaken the inertia of the use of the US dollar and other international currencies, and make RMB go from regional internationalization to global internationalization.

4 Conclusion

By examining the existing literature, this paper finds that there are six factors influencing the internationalization of the RMB, which are: China's economic strength, the degree of development of China's financial market, the stability of the RMB's value, the convertibility of the RMB, the political stability of China and its neighboring countries, and the inertia of the current use of international currencies. The stronger China's economic power, the larger the scale of its economy and trade, the more it trades in the international market, the wider the circulation of the RMB as a medium of exchange in the international financial market, the greater the influence of the RMB, and the deeper its internationalization; the more mature China's financial market is, the higher the level of cross-border flow of RMB financial assets will be, the more convenience investors from other countries will be able to enjoy when they come to invest in China, and the smoother their investments will be within China's financial market, which will in turn guarantee and support the diversification of the types of investment assets; The more stable the value of the RMB, the safer the investment environment will be for RMB holders, and more investors will be willing to hold the RMB, thus increasing the level of internationalization of the RMB; In addition, the internationalization of the RMB can only be realized if the RMB is made freely convertible, so that the RMB can circulate more widely in the international financial market. China should ensure the political stability of itself and its neighboring countries, so that international investors and traders can have a safer investment and trade environment, thus attracting international capital to invest in China and promoting the internationalization of the RMB; China needs to actively promote the Belt and Road, and use the RMB for payment and settlement with the countries along the Belt and Road as well as with other trading partners, so as to expand the influence of the RMB, and realize the internationalization of the RMB in a wider region. China needs to actively promote the Belt and Road to use RMB for payment and settlement with countries along the Belt and Road and other trading partners, so as to expand the influence of RMB and realize the internationalization of RMB in a wider region. moreover, the opportunity of de-dollarization of the global financial market should be seized to weaken the inertia of the use of international currencies such as the US dollar, so as to make the RMB go from regional internationalization to global internationalization. The study of RMB internationalization in this paper only considers the influence of objective facts and external factors on the internationalization of RMB, and does not consider the influence of China's current policies on the internationalization process of RMB. Furthermore, the internationalization of RMB is a rather long process, which is divided into several different stages, and the challenges and disadvantages faced by the internationalization of RMB at each stage are very different. This paper only discusses the current stage of the internationalization process of RMB, and does not study the influencing factors of the internationalization process of RMB when it enters into the next stage, so the follow-up study on the internationalization process of RMB can be more comprehensive and can study the influencing factors of RMB at the current stage and in the future stages. A more comprehensive follow-up study on the process of RMB internationalization can start from the different stages of RMB internationalization, and study the different influencing factors of RMB internationalization at the current stage and in the future stages. A more comprehensive follow-up study on the internationalization of the RMB could start from the different stages of RMB internationalization and examine the different factors affecting the internationalization of the RMB at the current stage and in the future

stages, as well as the possible impact of China's current policies on the internationalization of the RMB.

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