

Policy recommendations on promoting RMB internationalization through foreign exchange reserve management

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Abstract: This paper discusses the advantages and disadvantages of foreign exchange reserves on the internationalization of RMB from the perspective of the manifestation and supporting factors of RMB internationalization, and finally puts forward the use of foreign exchange reserve management period to accelerate the pace of RMB internationalization. Foreign exchange reserves can promote the free convertibility of RMB, improve the ability to attract foreign investment and external financing, enhance the ability to intervene in the foreign exchange market, and enhance the ability to adjust international payments. The scale of foreign exchange reserves is not the bigger the better. Excessive foreign exchange reserves will aggravate the phenomenon of nationwide distribution and bottom-hunting overseas, as well as the frequency of enterprises' overseas investment. Therefore, the management of foreign exchange reserves should maintain the basic stability of RMB exchange rate, ensure the reasonable and moderate scale of foreign exchange reserves, and at the same time, support the stable and open economic and financial environment to achieve the purpose of promoting the internationalization of RMB.

1. Introduction

To meet international payments, a country's reserve assets include gold reserves, Special Drawing Rights (SDRS) in the international monetary fund and reserve positions, in addition to foreign exchange reserves held by central Banks and other government agencies. Since October 1, 2016, the RMB has officially joined the international monetary fund (IMF) Special Drawing Rights (SDR) currency basket, becoming the fifth currency after the us dollar, euro, Japanese yen and British pound. The RMB accounts for 10.92 per cent of the SDR basket. The official inclusion of the RMB into the SDR basket is an important milestone in the internationalization of the RMB, which means that foreign exchange reserves will have a far-reaching impact on the internationalization of the RMB.

From the strategic perspective of national foreign exchange reserve management, RMB internationalization is a long-term strategy worthy of serious consideration by the management. How to make effective use of China's existing foreign exchange reserve resources, promote the integration of RMB into the international reserve currency system, break the current reserve currency pattern dominated by the us dollar and the euro, and establish a multi-polar reserve currency system is a problem that needs serious consideration. At the same time, how to rely on the process of RMB internationalization, optimize China's foreign exchange reserve management system, change China's huge foreign exchange reserves, the structure of a single disease and return to the appropriate scale, our government and scholars need to think deeply.

RMB internationalization and foreign exchange reserve interact and influence each other. A moderate scale of foreign exchange reserves can support and guarantee the internationalization of RMB, but excessive foreign exchange reserves may also have a negative effect on the internationalization of RMB. The further development of RMB internationalization can alleviate the risk of external imbalance and foreign exchange reserve fluctuation. In view of this, for a considerable period of time, China should maintain appropriate and sufficient foreign exchange reserves to promote the basic stability of the RMB exchange rate and provide good support for the internationalization of the RMB.

Having sufficient foreign exchange reserve is an important condition for RMB internationalization. We should see the opportunities and challenges in the process of RMB internationalization, accelerate

the establishment and improvement of foreign exchange reserve management policies and measures conducive to RMB internationalization, and promote the development of RMB internationalization.

2. Manifestation and supporting factors of RMB internationalization

The internationalization of RMB refers to the process that RMB can cross national boundaries, circulate freely outside the country and become the internationally recognized valuation, settlement and reserve currency. Although the current circulation of RMB outside the territory is not the same as the internationalization of RMB, the expansion of the circulation of RMB outside the territory will inevitably enhance the influence of RMB in the international market, thus making the RMB become a world currency and eventually complete the internationalization process in a real sense.

In the form of RMB internationalization, it mainly includes the successful accession of RMB to the SDR currency basket, the realization of free cross-border trade settlement of RMB, the use of RMB in international financial market transactions, RMB investment and currency swap agreements, and the increase of the proportion of RMB in global foreign exchange reserves. The international development of a country's currency needs strong and stable policy support from its own country. From the successful operation of the RMB cross-border payment system to the establishment of the AIIB, all these show the Chinese government's positive attitude and unremitting efforts in promoting the internationalization of RMB.

RMB is now the third largest trading currency in the world, which is an important progress in the process of RMB internationalization. Under the guidance of the country's active policies, the internationalization of RMB has not only faced arduous challenges, but also encountered unprecedented opportunities. Comprehensive analysis of the specific conditions for the realization of RMB internationalization, can be summarized to achieve RMB internationalization may need several major factors, specifically can be divided into: strong comprehensive national strength and international credibility; Open and stable financial environment; International investment and trade in a good currency cycle and so on.

3. Influence of foreign exchange reserves on the internationalization of RMB

In the current international environment, foreign exchange reserves play an increasingly important role in China's response to external shocks and debt risks and deepening the internationalization of RMB. Our country has the largest foreign exchange reserve in the world.

Since 2009, the internationalization of RMB has been advancing rapidly. On October 1, 2016, RMB was officially included in the SDR currency basket, which opened up space for RMB to play the role of reserve currency. By the end of 2016, 56 foreign central Banks or monetary authorities had included the RMB in their foreign exchange reserves. According to the IMF data at the end of 2017, the proportion of RMB in the global foreign exchange reserve currency is 1.2%, which means the further rise of RMB in the international reserve currency status. The value storage function is based on valuation and transaction functions, and becoming a reserve currency represents the advanced stage of currency internationalization. Taking the proportion of international reserves as the basis of internationalization, this paper discusses the issue of RMB internationalization and expands the research ideas of RMB internationalization, which deserves further attention. In the process of RMB internationalization, sufficient foreign exchange reserve actually serves as the issuing reserve function of overseas RMB and is the strategic force to promote RMB internationalization.

3.1 The positive role of foreign exchange reserves in the internationalization of RMB

First, promote free convertibility of the RMB. Sufficient foreign exchange reserves provide strong conditions for RMB to go global and realize free convertibility. The convertibility between foreign exchange reserve and currency can also be seen in the development of China's foreign exchange control. The rapid growth of foreign exchange reserves has not only laid a solid foundation for the free convertibility of RMB, but also gradually promoted the opening of capital account. At the same time,

with the adjustment of the foreign exchange market, the free convertibility of RMB has gradually increased the demand for RMB in the international monetary market, thus promoting the process of RMB internationalization.

Second, we will improve our ability to attract foreign investment and raise external financing. In China's export trade, trade in goods accounts for a large proportion, which to a certain extent led to China's export trade vulnerable to changes in the international market demand. The high amount of foreign exchange reserves can not only well meet the gap of international trade, but also help improve the international reputation and international status of RMB, so as to improve the demand of attracting foreign investment and external financing. At the same time, the scale of foreign exchange reserves is also a symbol of China's economic strength. By increasing the scale of foreign exchange reserves, the international community can enhance confidence in China's economic strength, promote the stable development of the financial market, and then promote the process of RMB internationalization.

Third, enhance the ability to intervene in the foreign exchange market. A large amount of foreign exchange reserves can not only maintain the balance of international payments, pay off international debts, maintain the stability of the domestic exchange rate, but also show the symbol of China's strong economic strength. Sufficient foreign exchange reserves enhance the ability to intervene in the foreign exchange market, guarantee the stability of assets in international trade transactions, improve the status of RMB in the international financial market, and thus promote the pace of RMB internationalization.

Fourth, we need to strengthen our ability to adjust international payments. When the balance of payments appears short-term deficit and other situations, sufficient foreign exchange reserves can play a buffer role, so that China's domestic economy from the changes in the balance of payments brought about by the impact. In recent years, the continuous growth of China's foreign exchange reserves not only helps to enhance the coordination of international payments, but also shows the ability of China's stable economic growth, providing a good prerequisite for the internationalization of the RMB.

3.2 Negative effects of foreign exchange reserves on RMB internationalization

First, the phenomenon of nationwide distribution and overseas bottom - hunting is too serious. Considering that most of China's foreign exchange reserves are in the form of assets denominated in us dollars or euros, this leads to that most of China's foreign exchange reserves are used for national distribution. But in theory, just because the people's bank of China holds the country's foreign-exchange reserves does not mean it can liquidate them. Therefore, it is incorrect to regard foreign exchange reserves as distributable wealth, which to some extent affects or hinders the internationalization of RMB. It is the same with the phenomenon of bottom-hunting overseas. The substantial depreciation of foreign exchange assets will also aggravate the financial shock and bring negative impact on China's economic environment.

Second, the frequency of overseas investment. Enterprises make overseas investment too frequently. Although they can get visible economic benefits in the short term, whether they can get long-term benefits in the long term is open to question. In the context of global financial turbulence, foreign exchange reserves are also an investment approach by investing in overseas energy, mining and other manufacturing industries. However, its risks cannot be estimated. Frequent overseas investment will not only bring unstable factors to the national economy, but also affect the long-term development of enterprises. In addition, it is a serious misunderstanding about how to make rational use of foreign exchange reserves. Therefore, appropriate investment should be made to make better use of foreign exchange reserves so as to accelerate the process of RMB internationalization.

Third, weaken the stability of the value of reserve assets. Japan's excessive proportion of foreign exchange reserves has a significant negative impact on the internationalization of the yen, which is also an important reason for the low degree of internationalization of the yen. Excessive foreign exchange reserves may lead to excessive reliance on the credit of the issuing countries of the major reserve currencies for the credit support of their sovereign currencies. At the same time, under the influence of exchange rate fluctuations, inflation and other factors, the value of reserve assets will increase or decrease significantly, which is highly unstable. This will affect the international reputation of a country, making it difficult to give confidence to international market participants in a long-term and continuous

manner, leading to the decline in the holding and use frequency of domestic currency in the international market, and making it difficult to play the role of international currency, that is, the degree of domestic currency internationalization. Although it is uncertain whether this conclusion is of general significance, it is still of great significance for China, which, like Japan, has a high proportion of foreign exchange reserves.

4. Policy Suggestions on using foreign exchange reserve management to promote RMB internationalization

At present, China has huge foreign exchange reserves. This is not only the impact of China's economic system, but also the consequences of China's economic development needs. A sufficient scale of foreign exchange is conducive to maintaining the relative stability of the RMB exchange rate, and a very important condition for a country's currency to become an international currency is the stability of its value. Therefore, adequate foreign exchange reserves are a powerful tool for the state to regulate the foreign exchange market to maintain the stability of the value of its currency. However, the scale of China's foreign exchange reserves began to decline gradually after reaching the peak of nearly 4 trillion us dollars in 2014. Especially after the "8.11" exchange rate reform in 2015, with the increase of RMB depreciation pressure, the foreign exchange reserves decreased by nearly 500 billion us dollars in less than a year. The moderate scale of foreign exchange reserves has once again become a research hotspot. By 2018, Chinese foreign exchange reserve scale basic maintain a relatively stable state, but since March 2018, the Sino-US trade friction escalated, the external environment continued to deteriorate, the yuan's nominal exchange rate against the dollar from a low of 6.28 last value to 6.80 in April, again raise concern about China's foreign exchange reserve adequacy. In the process of RMB internationalization, sufficient foreign exchange reserve actually serves as the issuance reserve function of overseas RMB and is an important strategic force to promote RMB internationalization. Therefore, we should establish and improve relevant foreign exchange reserve management policies and put forward corresponding foreign exchange reserve management Suggestions, so as to boost the process of RMB internationalization.

4.1 The management of foreign exchange reserves shall ensure the basic stability of RMB exchange rate

Safety and liquidity are the fundamental principles of foreign exchange reserve management, followed by earnings. Therefore, foreign exchange reserves should not be used excessively for foreign direct investment. The use of part of foreign exchange reserves for capital export and outbound investment is conducive to diversification of foreign exchange reserves investment and increase investment returns, but the scale should be controlled within a certain limit and excessive foreign exchange reserves should not be used for such investment. At present, China's foreign exchange reserves seem to be quite large, but from the perspective of maintaining exchange rate stability and coping with the impact of cross-border capital flows, it is necessary to maintain an appropriate and sufficient scale of foreign exchange reserves to hold sufficient liquid assets. In addition, the operating environment of many overseas countries is complex, and the political environment of many countries is extremely unstable. It is difficult to fully guarantee the investment income, let alone some investment projects with the intention of support and help, which is obviously inappropriate for the management of foreign exchange reserves with high security requirements. Therefore, an appropriate and reasonable foreign exchange reserve should be maintained for overseas investment, mainly to play the role of foreign exchange reserve in "leveraging" other types of funds, and mainly to play the main role of foreign exchange reserve in ensuring the stability of RMB exchange rate and supporting the internationalization of RMB.

4.2 The management of foreign exchange reserves shall follow the principle of appropriate scale

Moderate scale of foreign exchange reserves is a dynamic process of measurement, not only between different countries due to the size, strength, resources endowment and have significant differences, and

even the same countries in different periods due to the development stage, openness, international environment, policy goal difference, the demand for foreign exchange reserves will also be different.

In the process of RMB internationalization, the issue of the size of foreign exchange reserve management is not only a matter of holding costs, but also should not be limited to dealing with external shocks, but should be regarded as an important strategic reserve in the process of RMB internationalization. Therefore, the high foreign exchange reserves have another level of rationality, which is also equivalent to "moderate" at another level of meaning. The use of huge foreign exchange reserves can make it a strong support for the internationalization of the RMB.

First of all, by accelerating the opening of the capital account, encouraging overseas holdings of RMB assets, and exporting a large amount of RMB to overseas, thereby increasing the amount of foreign currency holdings, reducing the pressure on RMB inflation and appreciation, and promoting the reform and development of the financial industry. Furthermore, it is possible to establish foreign exchange parity funds to buy and sell foreign exchange in the foreign exchange market, thereby stabilizing the exchange rate, changing the formation mechanism of foreign exchange reserves, creating a sound financial environment, providing stable exchange rate guarantee for the internationalization of the RMB and improving the international credit of the RMB. Finally, by adjusting the currency structure of foreign exchange reserves, the currency structure will be rationalized step by step, the exchange rate risk of foreign exchange reserves will be reduced, the yield of foreign exchange reserve assets will be increased, and the internationalization of the RMB will be promoted.

4.3 Foreign exchange reserve management shall create an external environment conducive to promoting the process of RMB internationalization

Using foreign exchange reserves is the best way to promote the internationalization of RMB. This is not only because China's economy is developing well, but also because the world economic turmoil has intensified, making China's economy regarded as the best safe haven from the financial crisis. Using foreign exchange reserves to promote the internationalization of RMB needs to establish a favorable economic environment.

First of all, it is necessary to strengthen the reform of foreign trade system, establish RMB capital market integrating domestic and foreign aspects, constantly promote China's economic status in the world, and gradually relax the control on imports. At the same time, the policy measures of anti-dumping should be applied to achieve the goal of maintaining balance of international payments. In addition, the mode of economic growth should be gradually transformed to cultivate more internationally competitive financial entities, so as to maintain stable economic development and improve China's international status.

4. Conclusion

This paper starts with the analysis of the manifestation and supporting factors of RMB internationalization, and discusses the influence of foreign exchange reserves on RMB internationalization step by step, so as to carry out further research. With the continuous rapid development of China's social economy and the continuous improvement of its international status, the increase of foreign exchange reserves has a positive impact on the process of RMB internationalization. Although there are some misunderstandings and negative effects in the utilization of foreign exchange reserves in China, in general, the best use of the huge official foreign exchange reserves is to promote the internationalization of RMB. At the same time, RMB internationalization is also the best way to solve the excess foreign exchange reserves and management difficulties. With the construction of the economic environment, the improvement and promotion of relevant policies and measures and international trade cooperation, the RMB is bound to shine in the process of internationalization, with more possibilities.

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