Research On the Impact of The Belt and Road Initiative on RMB Cross-Border Settlement

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Abstract. With the continuous attention and deep participation of the "Belt and Road" (B&R) initiative in the world, RMB cross-border settlement (CBRBS) has not only ushered in an unprecedented period of historical opportunities, but also entered a critical period of coexistence of risks and opportunities. This paper extensively collected and comprehensively analyzed the latest research results in relevant fields at home and abroad, and thoroughly analyzed the operation logic, current development trend and multi-dimensional challenges faced by the CBRBS mechanism, including international financial market fluctuations, exchange rate risks, and legal compliance. The study clearly points out that the "Belt and Road" Initiative has opened up a broad international market space for CBRBS and significantly accelerated the pace of RMB internationalization. In view of the unavoidable risks and challenges in this process, this paper further puts forward forward-looking and operable policy suggestions, aiming at precise policies, optimizing the implementation path of CBRBS in the "Belt and Road" construction, and laying a solid foundation for its sustainable, healthy and stable development.

Keywords: Belt and Road; RMB cross-border settlement; RMB internationalization.

1. Introduction

"Belt and Road" (B&R) Initiative was first launched by China and holds great historical significance and far-reaching international impacts. It aims to achieve common prosperity and development between China and different regions and countries by strengthening trade exchanges, investment cooperation, and infrastructure construction with them. Its connotation is to borrow the historical symbols of the ancient Silk Road, hold high the banner of peaceful development, actively develop economic partnerships with the countries along the routes, and jointly create a community of shared interests, a community with a shared future, and a community of shared responsibilities that feature political mutual trust, economic integration, and cultural inclusiveness [1].

When General Secretary Xi Jinping visited Kazakhstan in 2013, he pointed out that efforts should be made to build the "Silk Road Economic Belt", vigorously support and encourage the countries along the routes to adopt spirit of inclusive sharing, openness, and inclusiveness, and, based on the "Five Connectivities" cooperation system, strive to build the largest economic cooperation corridor in the world with the largest development space. Cross border settlement of RMB refers to the use of RMB as a pricing and settlement currency in international trade. Entering the 21st century, due to the substantial development of the Chinese economy, the previous RMB exchange rate system with a single fixed exchange rate has gradually evolved towards a dual-track exchange rate system where the market exchange rate and the official exchange rate coexist, as well as an evolving managed floating exchange rate system [2].

At present, with the continuous promotion of the B&R initiative, the use of RMB for settlement of transactions between countries is becoming increasingly popular. It has gone through a long development process and has had a positive and far-reaching impact on the economic development of China and countries along the Belt and Road. At the same time, as one of the important links of RMB internationalization, CBRBS plays a prominent role in the construction of the the Belt and Road. Therefore, an in-depth study of the B&R initiative has important value significance on the impact of CBRBS. This paper aims to study the positive impact of the B&R initiative on CBRBS, analyze the risks and challenges faced by CBRBS under the current international situation, and put forward relevant suggestions.

2. Positive Impacts of B&R Initiative on the Cross-border Settlement of RMB

2.1. Expanding the Market Space for the Cross-border Settlement of RMB

2.1.1 Settlement demands arising from trade growth

Countries along the B&R are spread across many continents, and trade between countries is increasingly frequent. As the world's second largest economy, China's trade with countries along B&R is expanding. With the intensification of geopolitical conflicts, the international community's trade dependence on China, which advocates peace, stability, and development, continues to increase. More and more countries have begun to support the B&R initiative and the new development concept proposed by China. These countries believe that using RMB for cross-border settlement during the transaction process can reduce currency risks and transaction costs, and improve transaction efficiency. The abundant capital resources are an important advantage that cannot be ignored by countries along the Belt and Road, creating a favorable market for RMB financial products and further improving the offshore market.

2.1.2 Expansion of settlement channels through investment cooperation

The implementation of the "Belt and Road" Initiative has promoted cultural communication among countries, been conducive to the industrial development of various countries, increased the distribution destinations of the RMB, and made preliminary preparations for its circulation process [3]. From the perspective of cooperation, B&R Initiative has led to a continuous increase in the investments of Chinese enterprises in fields such as energy, transportation, and infrastructure, thus providing new channels for Cross border settlement of RMB. Since the Initiative was put forward, Chinese enterprises have used the RMB for settlement in energy investment projects in Central Asia. This has not only reduced the exchange rate risks of enterprises but also promoted the circulation and use of the RMB in the local area. The "Belt and Road" Initiative has also promoted regional economic cooperation. The economic and trade cooperation between these regions provides a rare mechanism for countries to use RMB for settlement, promoting the use of RMB within the region.

2.2. Promoting the Process of RMB Internationalization

First, the development of CBRBS is one of the important signs of RMB internationalization and has enhanced the international status of the RMB. With the progress of the "Belt and Road" Initiative, the recognition of the RMB in the countries along the line has been continuously increasing. This plays a key role in increasing the demand for the renminbi as an international reserve and promoting its international acceptance. Secondly, the development of CBRBS has enriched the international monetary system. For a long time, the international monetary system has been dominated by a few currencies such as the US dollar, which has brought many risks. The development of cross-border RMB settlement provides rich choices for the international monetary system, which helps to break the monopoly of the US dollar and promote the healthy development of the international monetary system. B&R initiative can form a larger market scale, a more professional international division of labor and a more interconnected factor market.This provides a foundation of market division and regional cooperation for the use of the RMB in trade with neighboring countries and even for the formation and development of the RMB trade circle [4].

2.3. Reduction of Exchange Rate Risk and Cost Cutting

Exchange rate fluctuations are one of the main risks faced by enterprises in the international trading market. Using RMB for cross-border settlement can reduce a company's reliance on other important international currencies, thereby mitigating the impact of exchange rate fluctuations. For Chinese enterprises, using the RMB for settlement can avoid the handling fees and exchange rate spreads arising from currency conversion, thus reducing their financial costs. For enterprises along the B&R, RMB settlement can reduce currency exchange costs. Therefore, the implementation of the B&R initiative can, to a large extent, stabilize China's pricing power over export commodities. At the same time, stabilizing regional financial markets, promoting stable implementation of domestic policies, and encouraging foreign enterprises to have confidence in using the Chinese yuan as a pricing and settlement currency in transactions.

3. Challenges Brought by the "Belt and Road" Initiative to the Cross-border Settlement of RMB

3.1. Political and Economic Risks

Firstly, there are a large number of countries along the "Belt and Road" construction, where geopolitical conflicts occur frequently, and the national political environments are complex and changeable. These factors may, to a certain extent, affect the stability of cross-border settlement of the RMB. Secondly, the economic development levels of the countries along the line vary greatly, with significant differences in the overall economic levels. Some South Asian and Southeast Asian countries have relatively low economic development levels and underdeveloped financial markets, which have brought certain difficulties to Cross border settlement of RMB. The circulation and use of the RMB in countries with weak economic foundations and imperfect financial systems are restricted. Thirdly, over the long term, under the influence of hegemony and power politics, global trade protectionism has been on the rise. Some countries restrict trade, which has a negative impact on trade cooperation between countries along the B&R, and even affects cross-border settlement of RMB. Since the intensification of trade frictions between China and the United States in 2018, the trade friction between China and the United States has continued to escalate. Sino US trade and China's trade with enterprises along the B&R were all affected by this incident.

3.2. Pressure of Currency Competition

The Chinese yuan faces challenges from international currencies such as the US dollar and the euro during the settlement process. The US dollar, as the world's major reserve and settlement currency, is the dominant player in the international financial market.The macroeconomic regulation and control of the US dollar by the Federal Reserve will largely affect the settlement exchange rates of various countries, offshore market transactions, etc. The euro also has a broad usage base in the European region and holds a dominant position among EU countries. Besides the US dollar and the euro, the currencies of some emerging market countries have also emerged in the international market. These currencies have a certain usage base in the countries along B&R and have formed a competitive relationship with the RMB to some extent. Facing numerous competitions and threats in the currency field, as the currency of a major emerging market country, the internationalization of the RMB will help promote China's dual circulation of the economy domestically and may become a key breakthrough point for China to deeply participate in global financial governance externally [5].

3.3. Imperfect Financial Infrastructure

3.3.1 Underdeveloped financial markets

The bond market and stock market of some countries related to the B&R are relatively small, unable to meet the investment demand of RMB funds. The underdevelopment of financial markets in these countries, with a lack of depth and breadth, this will hinder the return of RMB funds, making it impossible for the RMB to achieve sustainable development in the settlement process. In terms of clearing system, CIPS is a Chinese independently developed RMB clearing system. Although it can be used in collaboration with SWIF, the biggest drawback of this system is that it has not yet been integrated with BIS and is a relatively independent system.Therefore, it cannot conduct cross-border

RMB payment and settlement with the help of the BIS system, nor can it use this system to supervise cross-border RMB payment and settlement [6].

3.3.2 Imperfect credit rating system

The imperfect credit rating system is also an important factor affecting CBRBS. In 2021, the three major international rating giants accounted for 92.19% of the European bond rating market, becoming the de facto mainstream credit rating agencies. This is related to their long history of development, relatively mature and advanced rating technologies, strong comprehensive strength, and the current situation of the environment such as global financial market rules [7]. Some countries, due to their relatively late establishment, significant changes in the domestic political environment, and serious negative impacts of the social environment on the financial market, have not developed their financial markets well enough. These countries lack independent and objective credit rating agencies internally, as well as credit rating mechanisms and systems with high credibility. This makes it difficult to accurately assess the credit of some enterprises and projects, increases financial risks, and affects the implementation of CBRBS.

3.4. Legal and Regulatory Differences

Differences in legal systems among different countries have brought certain legal risks to Cross border settlement of RMB. In Central and Western Asia as well as Europe, the legal systems such as contract law and property law in some countries are different from those in China and even have significant discrepancies, which may lead to contract disputes and property rights controversies. In addition, the financial legal systems in some countries are imperfect, and the supervision of cross-border capital flows is relatively lax, which is more likely to trigger financial risks. Differences also exist in the financial regulatory policies of various countries, posing regulatory challenges to the cross-border settlement of RMB. The inflow of foreign capital requires very strict regulation for some countries, which forces the scope of settlement using RMB to be narrowed. Meanwhile, subject to the cooperative relationships among countries and the background of financial markets, there is a lack of effective coordination mechanisms among regulatory agencies of different countries, which also increases the difficulty of cross-border financial supervision.

3.5. Exchange Rate Risks and Risk Tolerance

In the long run, the exchange rates of countries along B&R" fluctuate frequently. Affected by factors such as a single economic structure and external economic shocks, the currencies of some emerging market countries are unstable in value. When RMB is used for settlement with the currencies of the above-mentioned countries, significant fluctuations in the exchange rate expose enterprises to the risk of increased conversion costs. During the cross-border settlement process, enterprises hold bond debts denominated in multiple currencies. Due to various influencing factors such as the time difference in settlement, foreign exchange exposures will gradually form. The construction period of B&R projects is long, the capital recovery is slow, and there are many influencing factors. Based on this, the exposure time of foreign exchange exposure risks faced by enterprises is also correspondingly and continuously extended. For enterprises, the degree of acceptance of risk is different for different enterprises. Sun Wenjie and Cui Wei's research pointed out that the volatile global market will have a drastic impact on the operating results and profitability of enterprises. These challenges are exacerbated against the backdrop of tense international tensions, volatile exchange rates and unpredictable international markets. These companies will be more inclined to use traditional settlement currencies with relatively stable exchange rates, and will be more cautious about the use of RMB [8]. For financial institutions, many influencing factors such as the political stability and economic development status of countries along B&R will be considered in the assessment of the risks of cross-border RMB settlement. Due to the impact of risk assessment by financial institutions on settlement, the use of RMB for settlement in some high-risk countries will be considered unreliable, which to some extent limits the scope of RMB settlement.

4. Conclusion

New development opportunities emerge with the construction of the B&R, expanding its market space for cross-border settlement and promoting the process of RMB internationalization. However, the construction of the B&R has also brought some challenges to CBRBS, such as political and economic risks, monetary competition pressure, imperfect financial infrastructure, and different legal systems.

To further promote the better development of the cross-border settlement of the RMB in B&R construction, China should engage in more political exchanges and economic trade with countries along B&R, and actively promote the "Belt and Road" construction, establish closer political relations with the countries along the line, and deepen political mutual trust. China should also enhance the international competitiveness of the RMB and improve the construction of financial infrastructure to provide more convenient conditions for the cross-border settlement of the RMB. It should strengthen legal and regulatory cooperation, enhance the stability and risk resistance ability of the RMB exchange rate, jointly prevent financial risks with the countries along the line, and maintain financial stability. At the same time, it is an important task for China to innovate "cross-border RMB settlement" modes, expand settlement modes and channels, and provide fresh and reliable financial services for the construction of B&R and the development of countries along the route.

From the research perspective, this paper mainly starts from the Chinese perspective, with insufficient analysis of the willingness, ability, and interest demands of the countries along the line to accept and use the RMB, lacking a comprehensive and balanced two-way analysis perspective. In addition, in terms of the feasibility of policy suggestions, restricted by various factors, the proposed policy suggestions may face numerous difficulties in implementation, and countries need to coordinate to overcome numerous problems such as differences in sovereignty, interests, and resource endowments. Since policies need to be continuously adjusted dynamically, the policy changes in this paper need to be continuously optimized and improved in combination with dynamic changes to enhance their flexibility and adaptability.

In the future, with the continuous promotion of the B&R, trade and investment liberalization and facilitation, strengthening regional economic cooperation, and improving the level of RMB internationalization will continue to move forward due to the development of CBRBS.

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