

# A Study on the Internationalization of RMB—Taking the Internationalization of Japanese Yen as a Reference

Jingyi Du

Guangzhou College of Technology and Business, Guangzhou, China

**Abstract:** With the rapid development of Chinese society and the process of economic globalization, an increasing number of people are concerned about the prominent issue of internationalizing the renminbi. China is continuously taking measures to promote the internationalization of the renminbi and elevate its currency to an international status. The internationalization of the renminbi is an inevitable trend resulting from the globalization of the Chinese economy and the significant historical developments in the international monetary system. Given the similarities between China and Japan in terms of society, culture, foreign trade, international status, and background in Asia, it is essential to draw lessons from the internationalization of the Japanese Yen as China studies the internationalization of the renminbi. We can learn from the successful efforts made by Japan to internationalize the yen while also avoiding the mistakes when implementing the internationalization of the renminbi. This thesis provides an overview of the internationalization of the Japanese yen, compares it to the internationalization of the renminbi, and proposes effective strategies for promoting the internationalization of the renminbi.

**Keywords:** Internationalization of RMB, Foreign Exchange Reserve, Internationalization of Japanese Yen, Financial Market, International Settlement

## 1. Exordium

### 1.1 Aim and objective

During the Asian financial crisis of 1997-98, China was praised for its responsible reaction to the region-wide currency depreciation and its ability to maintain a stable currency. China has had a significant influence in Asia, and the renminbi is considered to have the most potential to become an international currency among other Asian currencies. The aim of this thesis is to examine the necessity and feasibility of promoting the internationalization of the RMB. Additionally, this thesis will provide constructive suggestions on the internationalization of the RMB based on a comparison between the internationalization processes of the yen and the RMB[1].

Based on China's economic characteristics, scholars can adopt a progressive approach to internationalizing the RMB, particularly in neighboring countries. This implies that the initial focus should be on internationalizing the RMB in specific regions, aiming to establish it as a currency for border trade and eventually as an international settlement.

### 1.2 Necessity and importance

In order to strive for steady and rapid growth of GDP, China has accumulated huge reserves of foreign exchanges by the international trade and FDI, leading to a serious imbalance in external economy. The issue of RMB appreciation continues to be a pressing concern globally. On the eve of London G20 summit, Zhou Xiaochuan, Governor of Central Bank, proposed to establish an international currency to replace the USD, which has caused a very great international response and it appeals to reform the current International Financial System. In this context, such a proposal would create a favorable environment for the internationalization of the renminbi. Furthermore, China's consistent improvement in international political status, sustained rapid economic growth, and stable RMB exchange rate have resulted in years of balance of payment surpluses and high foreign exchange reserves. This indicates that the RMB has gained international presence and its internationalization has garnered global attention. From the "ruble settlement order" to the "RMB settlement order", from Russia's flip the table to China's layout of the internationalization of the RMB, we understand that the Russian-Ukrainian war is

not only a military war, but also a silent currency war against the hegemony of the US dollar.

The internationalization of the RMB is an inevitable outcome of China's long-term economic growth and increasing political strength. This is in line with our national development strategy. Consequently, China has put significant effort into making the renminbi an international currency in order to keep pace with China's rapid development. In the era of economic and financial globalization, owning an international currency is of great significance for a country's economic development. Throughout history, countries have placed emphasis on the internationalization of currency, which serves as an indicator of a country's economic standing in the global economic system. The internationalization of the RMB can bring seigniorage revenue, reduce exchange rate risk, and increase international influence, among other benefits. While the internationalization of the RMB may potentially have some impact on economic and monetary stability, the advantages outweigh the disadvantages. Therefore, measures should be taken to support the integration of the RMB into the global currency system[2]. Hence, it is crucial to facilitate the internationalization of the renminbi, given the right conditions.

## **2. Reasons of studying on the Internationalization of RMB**

### ***2.1 Requirement of developing the international currency system***

With the increasing pace of economic globalization and integration in China, the cost of being an powerful currency became lower and lower ,for its climbing currency competence against external impacts. At this point, the author thinks that renminbi will become one of the international currency that can exist in such mature situation. And many economists believe that the strengthened influence of the renminbi in the world will force it to become an Asian-renminbi; or to become the main form of Asian currency; even be an international currency in the future. At present, we should recognize the regulation of currency development that is “good currency deprive from bad currency”. That is to say, society is changing at every age, so does the currency. Currency will be developed into a new form by its country’s climbing economic power and international status .Therefore, to some extent, China should catch every opportunity to adopt some effective measures in driving RMB as an international currency.

### ***2.2 Requirement of the cooperation in East Asian monetary system***

After the East Asian financial crisis,there was a growing consensus on the need to establish a regional currency to mitigate financial risks in East Asia and promote currency exchange among East Asian countries. The Japanese Yen and the RMB have emerged as robust regional currencies, with significant implications for currency development in Asia. However, since the 1990s, the internationalization of the Japanese Yen has been hindered by a persistent recession. On April 25, 2024, the exchange rate of the Japanese yen against the US dollar in the Tokyo foreign exchange market once fell to about 155.40 yen per US dollar, marking a 34-year low. This significant decline in the exchange rate has raised concerns among economists about the failure of the internationalization of the Japanese Yen and its impact on its standing as a core competitive currency in East Asia. Meanwhile, as China's comprehensive national power has been raised, the international status will promote accordingly. In fact, the RMB has been touted as the East Asian "small dollar" currency in regional settlements, making it the preferred choice for monetary cooperation in East Asia. China aims to spearhead Asianalization-currency as a means to achieve both stable economic development in East Asia and sustainable economic development in the country. This approach will lay a solid regional foundation and establish a strategic platform for RMB internationalization.

### ***2.3 Requirement of the rising economic power***

Since the reform and opening up, China's rapid and healthy economic development especially the increasing economic strength and growing national power has made itself an overall open economic, mainly in the area of advanced foreign trade structure and relatively mature finance. Viewing the history of currency reform, it becomes evident that the national economic strength plays a crucial role in the internationalization of a currency. In other words, China's economic strength will further drive the internationalization of the renminbi.

It is undeniable that China is the world's third-largest economy both in terms of economic size and trade volume. Moreover, China is the largest trading partner for many Asian economies and has become an increasingly important player in financial transactions within the region[3].As economy continues to

grow rapidly and the restrictions on the financial international transactions are gradually liberalized, China's importance in the global economy and financial system will likely increase further. Naturally, this begs the question of what role the renminbi will play in the international trade and financial market, especially in the Asian region.

### **3. Reasons of taking the Internationalization of Japanese Yen as a reference**

#### ***3.1 The same conditions of internationalizing RMB and Yen***

In East Asia, Japan was the first to promote its currency as an international settlement currency. The renminbi and yen share many similarities, including social culture, foreign trade, and national status. Given the similar conditions between the internationalization of the renminbi and the internationalization of the yen, the renminbi is likely to develop rapidly by learning from the lessons of the yen's internationalization in East Asia. Therefore, on one hand, it's worth learning the efforts made by Japan to advance international Japanese Yen; on the other hand, we can absorb some lessons from the failures of internationalizing Japanese Yen when we carry out the Internationalization of RMB.

#### ***3.2 The significance of taking the Internationalization of Japanese Yen as a Reference***

The approach of internationalizing the yen, which relies more on the real economy and financial policies, is somewhat suitable for China's specific situation. In other words, China will primarily support the policy of internationalizing the renminbi. Currently, China views the internationalization of the Japanese yen as a reference not only to maintain a leading role in Asia but also to facilitate further financial reforms through the internationalization of the renminbi. There are several benefits to internationalizing the renminbi. Firstly, China can expand the use of RMB accounts in international trade settlements, capitalizing on the challenging circumstances faced by the US dollar, euro, and yen. This will address the issue of China being a "trading big country, currency small country." Secondly, internationalizing the currency can help mitigate risks for China's foreign trade enterprises.

It is important to note that the floating exchange rate needs to be adjusted after the mandatory exchange of foreign currency into RMB. Changes in the exchange rate can lead to deficits. To mitigate the risk of exchange rate fluctuations, China can promote the use of RMB as a direct settlement currency and learn from Japan's successful financial reform in addressing these challenges. Thirdly, given the solid foundation provided by international capital markets, China is well-positioned to enhance its economic structure, international financial system, and trade conditions. Japan's successful monetary market reforms serve as valuable references for China.

### **4. Comparisons between the Internationalization of Japanese Yen and the Internationalization of RMB**

#### ***4.1 The same conditions of internationalizing RMB and Yen***

Since China and Japan have some similarities in society, culture, foreign trade, the international status and background in Asia, it's significant to draw experiences and lessons from the internationalization of Japanese Yen when China study on the Internationalization of RMB. In addition, on the base of analysis on the comparisons of these two currencies, the form of internationalizing Japanese Yen is appropriate for China to pursue the Internationalization of RMB. That is to say, on one hand, it's worth learning the efforts made by Japan of advancing international Japanese Yen; on the other hand, we can absorb lessons from the failures of internationalizing Japanese Yen when we carry out the Internationalization of RMB.

##### ***4.1.1 Massive foreign exchange reserve***

China's foreign exchange reserves have consistently ranked among the largest in the world. This can be attributed to China's sustained economic growth, substantial trade surplus, and the increasing influence of the renminbi in the global market. China primarily utilizes its foreign exchange reserves to maintain balance in international payments, stabilize exchange rates, and facilitate economic development. China's possession of substantial foreign exchange reserves enables it to effectively manage fluctuations in the global financial market and maintain economic stability[4].

Japan's foreign exchange reserves are also substantial, primarily attributed to its persistent trade

surplus and expansion of foreign direct investment. Japan primarily employs its foreign exchange reserves for interventions in the foreign exchange market, ensuring stability in the yen exchange rate, and facilitating overseas economic activities. By focusing on long-term returns and risk control, Japan's foreign exchange reserve management strategy is relatively stable,

According to the inquiry of the China Billion financial network in December 2023 (Fig1& Fig2), China ranks as the world's largest holder of foreign exchange reserves, while Japan holds the second-largest position. The central bank's foreign exchange reserves, currently valued at approximately 3.2 trillion, significantly exceed the reserves of second-ranked Japan, which totals 1.2 trillion, with a substantially smaller yen stockpile. Japan's status as an export superpower is exemplified by its annual exports exceeding \$605 billion in Japanese-made goods, primarily denominated in dollars and euros.

China and Japan both benefit from their substantial foreign exchange reserves. Firstly, these reserves can offer robust support during fluctuations in the global financial market, ensuring stability in domestic currency. Secondly, foreign exchange reserves can serve as a form of national credit endorsement, bolstering international investors' confidence in the national economy. Moreover, these reserves can be utilized to reinforce national development strategies, foster economic restructuring, and facilitate industrial upgrading.

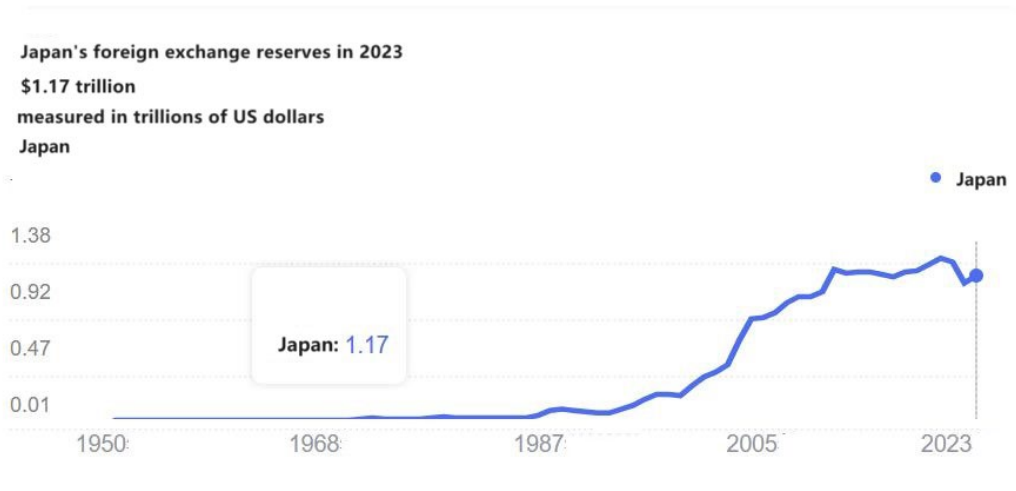


Figure 1: Japan's foreign exchange reserves from 1950 to 2023

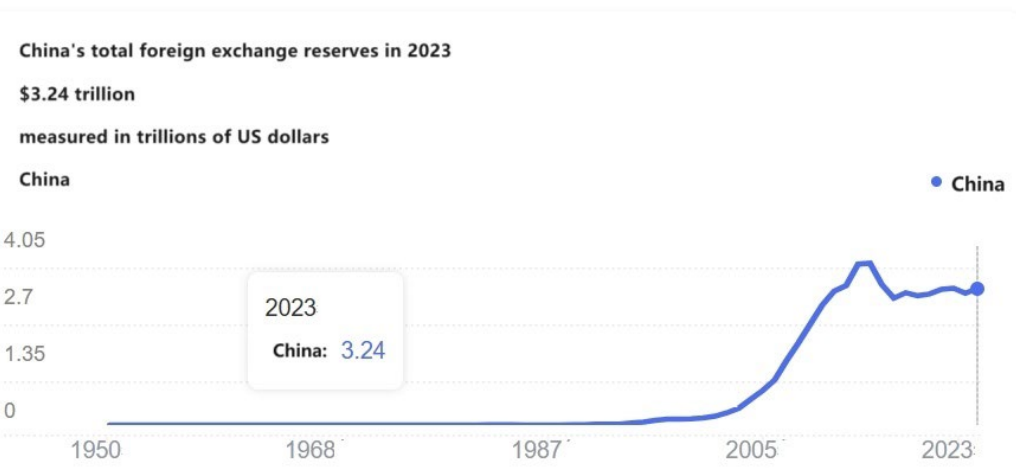


Figure 2: China's total foreign exchange reserves from 1950 to 2023

#### 4.1.2 Dual economic structure

The collapse of Japan's bubble economy exposed the disadvantages of its dual economic structure. On one side, the manufacturing industry's exported goods demonstrated strong international competitiveness, which was the main source of Japan's accumulated wealth. On the other side, the financial sector was less competitive due to excessive government protection, leading to a failure to provide financial services commensurate with Japan's economic scale and trade network. To mitigate the

negative effects of the dual economic structure, Japan pursued a change in its approach to internationalizing the Yen, aiming to increase international pressure for domestic financial system reform and financial cooperation in both Asian and regional contexts. However, it was proven that this method of internationalizing the Yen was not successful[5].

Similarly, China also experiences a dual structure in its international balance of payments. Economic development in urban and rural areas in China has diverged, resulting in widening income disparities. One of the main causes of this disparity is the imperfect income distribution system and the disadvantages of China's dual structure, which, in turn, affect the extent to which the RMB can be internationalized. Various macroeconomic policies have been implemented to address the challenging investment climate and unsustainability of businesses. However, many private entrepreneurs have been compelled to redirect funds to rapidly growing sectors, thus deepening the disparity between urban and rural areas. Therefore, China should take into account the drawbacks of Japan's dual economic structure when pursuing the internationalization of the RMB.

#### ***4.1.3 International balances of payments deficit***

In the 1980s, deficit first appeared in the America's international balance of payment, particularly in the trade to Japan. Due to the external economic surplus, Japanese yen was often considered as the international investment and speculation currency. Even Japan's economy was in recession, the Japanese Yen could appreciate easily when America's economy and the world's economy were disturbed. In fact, even in Asian area most of the foreign trades are using dollars as their foreign settlement currency. What's more, even though Japanese Yen will be appreciated according to the turbulence of foreign currency, residents in the domestic and Japanese companies can not gain any benefits from it. Therefore, since Japanese Yen lose the openness and energy in its financial market, Japan has become the typical "trade in the world's largest creditor nation, which has more American treasuries than any other countries.

According to the information collected by the economists, China is in the same situation in the balance of payments deficit. The balance of payments surplus and rising amounts of foreign exchange reserves can be the direct causes in the appreciation of Renminbi. Managing the international payment deficit is a protracted and intricate process necessitating collaboration among governments, enterprises, and various sectors of society. Similarly, variances in economic conditions and policy environments exist among countries and regions. In certain instances, a modest deficit can signify an open and dynamic economy, attract foreign investment, introduce advanced technology and management expertise, and drive economic transformation and upgrading. Consequently, the process of managing the international payment deficit necessitates a certain degree of flexibility and openness.

#### ***4.1.4 Relaxation of foreign exchange control***

Japan internationalize Yen by means of financial deepening, such as exchange, trade, capital projects, interest rates and financial market liberalization, with the purpose to make Yen as an international settlement currency in Asian trading area. In the beginning of the 1980s, Japan had a reform on the exchange rate settlement system of the capital account from the "principle of restriction" to the "principle of freedom" and decided to cancel the retribution of foreign exchange loans and foreign exchange for Japanese Yen, and these practices greatly promote Yen to become an international currency. What is more, with the aim to promote the Internationalization of RMB, China has gradually released the exchange restriction in the capital account.

The renminbi achieved a significant milestone in its internationalization on October 1, 2016, when it officially became part of the SDR currency basket. The International Monetary Fund (IMF) published the revised weights of the SDR basket on its website, positioning the renminbi at 10.92%, surpassing the Japanese yen and the British pound to secure the position of the third-largest reserve currency following the US dollar and the euro. The revised weights for the US dollar, the euro, the Japanese yen, and the British pound were announced as 41.73%, 30.93%, 8.33%, and 8.09%, respectively. On May 11, 2022, the IMF Board of Governors concluded the regular quinquennial valuation review of special drawing rights (SDR). This constituted the initial review subsequent to the inclusion of the renminbi in the SDR currency basket in 2016. The Board unanimously voted to maintain the current composition of the SDR currency basket, comprising the US dollar, the euro, the renminbi, the Japanese yen, and the British pound. Additionally, the weight of the renminbi was raised from 10.92% to 12.28%, while the weight of the US dollar was increased from 41.73% to 43.38%. In contrast, the weights of the euro, the Japanese yen, and the British pound were reduced to 29.31%, 7.59%, and 7.44%, respectively, from their prior values of 30.93%, 8.33%, and 8.09%. The renminbi retained its position as the third-heaviest currency in the SDR basket. The "Notice on Supporting Cross-border Renminbi Settlement for New Forms of Foreign Trade," released by the People's Bank of China, will officially take effect on July 21, 2022.

## **4.2 Different conditions of internationalizing RMB and Yen**

### **4.2.1 Original intention**

The yen to dollar exchange rate fluctuated twice as much as before in the Japanese economy recession. And this made the Japanese government realize that the excessive appreciation or devaluation of Japanese Yen could cause great fluctuation on Japan's economy. So, Japan tries to take some steps to internationalize Yen by revalue or devalue the Japanese Yen in order to make his economy stable. But there was no doubt that Japan internationalizes Yen just as a pawn of avoiding external pressure, promoting the economic restructure and reforming the financial system.

Let's take a review of the rapid development of China's economy in the near thirty years. With powerful economic entities and the overall national strength, China has gradually become the leader in economy development in East Asia. Chinese government has considered its own concrete conditions, economic development situation and the needs of the progressing era while choosing the way of internationalizing renminbi.

### **4.2.2 Trade dependence**

The trade dependent degree in Japan is high, so it is vulnerable to the external strikes. What is worse, Japan is a country who has poorer resource than other countries, which causes the result that many raw materials productions have to import from outside the country. But Japan usually use dollars as his national settlement currency when export products trade to the outside world .What is more, Japan's economy depends greatly on the American market. However, 80% of the American imports are using dollars as the real international settlement currency. Therefore, it is apparent to know that in Asia many countries have some trades exchange of dollars, to some extent, this implies that the function of Yen as an international settlement is limited .

Comparing with Japan, China's trade dependence on other countries is much lower than Japan. Aiming to maintain the leading place in the international trade, China tried its best to rely the economic development on the domestic consumption and trade investment. In 2022, China's foreign trade exhibits a growth trend, albeit at a substantially lower rate compared to global development. Furthermore, the proportion of China's foreign trade in the world has experienced a significant decline. The situation remains less optimistic as of January to April 2023, manifesting as a downward trend in total foreign trade. However, China's heightened economic reliance on foreign nations signifies a regression in economic development. Therefore, the researchers stressed that China should perfect its trade system as well as mainly count on domestic consumption and external demand to power sustainable and long-term economic development.

### **4.2.3 Openness of financial market**

Compared with European and American countries, Japan's domestic financial system and financial openness are incapable of meeting the requirements of an international currency, in terms of both market openness and international standards. Japan's economic structure has several disadvantages, such as the strict regulation of financial markets, cumbersome procedures in financial transactions, and high financial transaction costs. Moreover, Japan's bills, bonds, and foreign exchanges have been proven to be relatively outdated, resulting in a slow circulation of the Yen and an inconvenient investment environment. Furthermore, the efficiency of Japanese banks has been questioned by other countries due to the presence of significant negative assets and relatively restricted management. Consequently, the internationalization of the Yen has been significantly hindered.

In contrast, while China's capital market has expanded significantly in recent years, the level of openness in its financial capital market remains much lower compared to Japan. China's financial market exhibits lower total assets, trade scale, product variety, and aspects of financial product development when compared to Japan's financial market. Considering these limitations in China's financial situation and its level of economic development, China's financial market openness fails to meet the requirements for the RMB to become an international currency. Additionally, China's freedom of currency exchange remains limited. In recent years, China's financial system is still insufficiently open, advanced, diversified, beneficial, and secure to become a convertible currency.

### **4.2.4 Stability of economy**

In the 1980s, the United States government proposed that Japan can take the measures to internationalize yen and free its financial system. Instead of the aim to internationalize Yen, it helps the America access to the Japanese financial and capital market, to advance the economic restructure, and to

get rid of the economic depression. At the same time, the United State can also disturb the Japanese market by attacking Japan's economic and financial system. In fact, the Japanese government took a rash step when facing a Japanese Yen revolution and the pressure on the financial liberalization, which caused the economic initiation, the raised-and-fell of the bubble economy and the violent unrest rate. In other words, it's difficult to support the development of Japan's economy, financial policy and investment market, which can really weaken the Japanese international economy.

After 30 years of reform and opening up, China has established a comprehensive system of material production, achieving significant accomplishments in economic development. China's international standing has been continuously strengthening due to its rapid economic growth. This increasing prominence is contributing to the improvement of China's national strength, forming the foundation and background for the internationalization of the RMB. With its growing economic scale and increasing stability, China's international status is also on the rise, facilitating the gradual expansion of its influence among neighboring countries and creating favorable conditions for East Asian currency cooperation.

#### ***4.2.5 National conditions***

The way of internationalizing Japanese Yen is to deepen the international financial market and improve its economic development, by the foreign exchange liberalization, trade liberalization, current account liberalization, capital flowed liberalization, and the interest rates and financial market liberalization. Additionally, increasing the usage of the Yen in overseas markets, particularly in Europe, can expedite the development of Japan's domestic financial system through liberalization reforms. The internationalization of the Japanese Yen relies on Japan's economic strength and global influence. By implementing prudent fiscal and monetary policies, Japan has maintained favorable trade and current account balances in most years. Moreover, the significant reserves accumulated by Japan have provided a robust foundation for the international reputation of the Yen.

With the sustained economic development, China gradually become one of the strengthened country in the world, which has lead a solid material foundation to prefect China's socialist market economic structure , and deepened the degree on international trade and capital reform. To some extent, this environment has created external conditions for the financial services development.

The internationalization of the RMB can bring numerous benefits to China, such as acquiring international seigniorage, reducing foreign exchange reserves, lowering the cost of international trade, promoting the development of the financial industry, supporting international investments, and more. A stable economic environment is essential for creating favorable conditions for the internationalization of the RMB. The Chinese government has gained a high degree of responsibility and a good reputation during the Asian financial crisis, significantly enhancing the international prestige of the RMB, especially among neighboring countries. Moreover, the RMB has become an important settlement currency in foreign trade transactions with neighboring countries. However, the Chinese government needs to exercise caution when it comes to internationalizing the RMB, considering the challenges and issues that arise during the initial stages of currency internationalization.

## **5. Measures and ways of internationalizing RMB**

### ***5.1 Actively promote domestic financial system reform and improve the financial markets***

Currently, according to the information collected by economists, the disadvantages of China's financial system are over-banking and lack of mature capital market. If China wants to turn renminbi into an international currency, a widened and deepened financial market should be acquired to match the needs of the renminbi internationalization.

Moreover, due to the inadequacy of the monetary market in China, the interest rate policy of the PBOC (People's Bank of China) has limited influence on the whole interest rate structure of the economy. In other words, China's monetary authority cannot fully get benefits from the internationalization of renminbi which results in the quick adjustment of interest rates. From this point, China should reform domestic financial system and improve the financial markets.

Historical experiences show that a country's high openness and development can make this country's market become an international financial market and financial centre. There is no doubt that the procedure of internationalizing RMB promotes the international economic system, the financial system and financial market reform. To a large extent, the international process in internationalizing RMB depends on the developed level of China's economic and financial reform, which means that the

Internationalization of RMB is pace with the overall economic development and financial reform [6]. But now the large scale of pushing renminbi as an international currency is not efficient because of the unstable international process of the foundation. It was also because Japanese financial system and openness can not adapt to the international demand of an international currency.

In other words, the impact on the world economy of the Internationalization of Japanese yen does not match the rule that Japan played in the world. This is the main reason why Japanese Yen is not succeeding in transferring yen to an international currency. Therefore, when China is implementing the renminbi as an international currency, it should absorb the experience and lessons from Japan to improve domestic financial markets. China's accession to the World Trade Organization on a wider scope and in a greater extent in the process of economic globalization, trade and foreign economic exchanges should be further developed.

### ***5.2 Gradually improve the free convertible in internationalizing renminbi***

Given the fact that approach of regionalizing renminbi brings with elimination of individual currencies eventually, following this approach at the first step means that China should involve itself in a full-pledged monetary union in Asia and renminbi would be self-diminished and replaced by a new Asian single currency at a final stage. In recent decades, China has signed four bilateral currency swap agreements with its neighbors, which actually reduces the need for the existing multilateral agreement in the region. It seems that, to some extent, at certain stage of monetary cooperation, regional development has conflict with global strategy. However, as a matter of fact, the tough project of the renminbi internationalization is whether there is a road map feasible for China to encourage the renminbi to be used in Asia by way of both market need and policy motivation, and then, gradually, to have the renminbi to be used internationally.

China's accession to the World Trade Organization can help Chinese economic reach on a wider scope and a greater extent in the process of economic globalization. In addition, in order to accept the step of economic globalization, trade and foreign economic exchanges will be further developed, including the complex invoicing settlement, which requires renminbi to be an international settlement for free exchange. At present, with the help of "going global" strategy, renminbi increasingly flow to overseas; in other words, China has achieved the capital project for freely exchanging. Viewed of its imperfection, China still need to improve its current account convertibility, with a choice, and to loosen up on cross-border capital transactions, and the capital projects can be a gradual implementation of the RMB exchange.

In a mature and permitted condition, China should initiatively use renminbi in foreign economic exchanges, and the government should take some encouragement policies to popularize renminbi in international investment and international assistance. On one hand, as a currency to settle the international issues, renminbi is required to use as the settlement in dealing with foreign trades in banks for currency exchanged. On the other hand, China should encourage the use of the renminbi to the third countries on purchase goods, services and currency exchange.

### ***5.3 Make stability in renminbi and the exchange rate***

In the long term, as a large economy, China's economic growth cannot depend too much on external demand and at present, this mode of China's economic development has been constrained by the present resources and environment, which means that if China insists on this model, China will be at the bottleneck from the external resource and environment. In other words, if a currency wants to become an international settlement, its country's economy can not depend too much on external things. Japanese Yen is such a good example. The stability of renminbi results from the efficiency in domestic resources allocation, the justice in income distribution, and the status of renminbi in the international situation. The Chinese government, still grappling with a surge in a foreign speculative capital, has been tightening control over the influx of foreign capital in areas like real estate; and, increasing scrutiny on the procedures of currency conversion for foreign invested companies. Keeping renminbi stable can benefit China's economic recovery and development in order to improve China's financial market, the investment environment, and the exchange rate system[7].

### ***5.4 Promote domestic economic transformation***

In the reform and opening up, the stable economic growth and promotion of the international image



of the international community make people believe that the renminbi will be the international prospect currency. Every step in internationalizing RMB depends on domestic economic development. China's domestic economic structure is still trend to export, which caused the result that China relies too much on external environment. Nowadays, to some extent, China has some similarities in Japan, since both of them have much foreign exchange reserves, these two countries are always in trade surplus. However, this situation is not beneficial to the export of using renminbi, for current account often dig into trade deficit. What's worse, the structure of import and export is not conducive to promote the development in bulk of the international commodities.

### **5.5 Realize the "three-step" strategy**

According to the functions of currency, China insists the "three-step" policy: the renminbi currency of settlement; the renminbi currency of investment; the renminbi currency of reserves orientation. Firstly, it's logical to make renminbi as an international settlement. Secondly, gradually increase its market shares in the global settlement of international trade. Thirdly, enhance market shares of investment with the purpose to promote renminbi to become a leading international financial market in the currency. From what has been discussed above, renminbi will at last become a reserve currency.

It should be pointed out that the "three-step" in the various steps are not fragmenting each other. They all have importance to each other. In addition, each step is a very intricate process and China should establish the internationalization of RMB step by step. Therefore, on one hand, China can not internationalizes renminbi in a hurry just looking for the shorten profits, on the other hand, China should not just sit in waiting for opportunity. Instead, it's meaningful to promote RMB in a rational and orderly process in internationalizing renminbi.

### **5.6 Encourage the cross-border trade**

The next step cross-border trade is important in the development of the RMB settlement. Cross-border trade is a crucial component of the global economy, playing a significant role in promoting international trade cooperation, optimizing resource allocation, and driving economic growth. Governments can introduce relevant policies to provide convenience and support for cross-border trade. Strengthening international trade cooperation, promoting trade facilitation, reducing trade costs, and improving trade efficiency are all essential. Governments and enterprises should strengthen cooperation, establish comprehensive risk assessment and warning mechanisms, and promptly identify and respond to potential trade risks. Additionally, enhancing information sharing and communication, as well as improving trade transparency and traceability, can also help reduce trade risks

## **6. Conclusions**

The Internationalization of RMB is an inevitable trend as a result of the globalization in the Chinese economy and the most important history development of the international monetary system. What's more, it has much effectiveness on both China's society and global economy. Since China and Japan have some similarities in society, culture, foreign trade, the international status and background in Asia, it's important to draw experiences and lessons from the Internationalization of Japanese Yen when China study on the Internationalization of RMB. In addition, on the base of analysis on comparisons of these two currencies, the form of internationalizing Japanese Yen is appropriate for China to pursue RMB Internationalization. That is to say, on one hand, it's worth learning the efforts made by Japan to advance international Japanese Yen; on the other hand, we can absorb lessons from the failures of internationalizing Japanese Yen when we carry out the Internationalization of RMB. After making some summaries from the experience in Japanese Yen Internationalization and giving some comparisons between the Internationalization of RMB and the Internationalization of the Japanese Yen, China can sum up some effective ways to internationalize renminbi.

## **References**

- [1] Cui Yuming, Liu Lian, Peng Ke. *International competitiveness and currency internationalization: an application to RMB internationalization [J]. Journal of the Asia Pacific Economy. Volume 29, Issue 2. 2024. PP 588-611.*
- [2] Chen Ding. *Muhammad Gummi Umar: The role of RMB internationalization in China's petroleum*

*security: a causal analysis amidst global uncertainties [J]. Journal of Chinese Economic and Business Studies. Volume 22, Issue 2. 2024. PP 253-273.*

[3] Zhang Jingran. *Research on the Internationalization of RMB [J]. China Market, Issue 12, 2024.*

[4] Tan Yanzhi, Zhang Yundong. *Analysis of macroeconomic Influencing Factors of Foreign Exchange reserve scale [J]. International Finance Research, 2011-01.*

[5] Sun Haixia, Siqin Tuya. *The internationalization process of Japanese Yen and its enlightenment to the internationalization of RMB [J]. Asia-pacific Economics, 2010, issue 1.*

[6] Dejun Yu, Feilin Luo. *The Challenge and Strategy Analysis of RMB Regionalization Against the Background of "the Belt and Road"[C] Proceedings of the 3rd International Conference on Economy, Management and Entrepreneurship (ICOEME 2020)(Advances in Economics, Business and Management Research, VOL.150).*

[7] Peijie Wang, Ping Wang. *Emerging influence of the RMB on currency markets in a transpiring tri-polar international monetary system [J]. International Journal of Finance & Economics. Volume 29, Issue 1. 2022. PP 443-464.*