

Research on the Development Process and Influence of RMB Internationalization under the Background of Hiroshima G7 Summit in 2023

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Abstract. The internationalization of the RMB is a complex and arduous process. The internationalization of the RMB refers to the economic process in which the RMB crosses national borders and becomes a widely recognized tool for pricing, settlement, reserves, and market intervention internationally. This article conducts further research on the development process and impact of RMB internationalization in the context of the 2023 Hiroshima G7 Summit. The inclusion of RMB in SDR has broadened the export channels of RMB and increased the proportion of RMB's international reserves, which has changed the influencing factors of RMB internationalization. Generally speaking, there is a very close relationship between exchange rate fluctuations and currency internationalization. The appreciation of a currency will bring appreciation benefits to non residents who hold it, thus helping to drive non residents to increase their holdings of the currency and assets denominated in that currency, thereby improving the internationalization of the currency. It can be seen that the key to promoting the internationalization of the RMB at the Hiroshima G7 summit is to enhance the internal driving force of sustainable economic development through comprehensive deepening of reforms.

Keywords: 2023 Hiroshima G7 Summit; RMB; Internationalization Development Process; Impact.

1. Introduction

At present, China is also facing the problem of improving the international status of RMB through RMB internationalization. Especially after the outbreak of the financial crisis, with the growing voice of reforming the international monetary system, RMB internationalization has become a necessary way for China to overcome the negative impact of the financial crisis and get out of economic imbalance [1]. The internationalization of RMB is a complicated and arduous process. The internationalization of RMB refers to the economic process that RMB crosses national boundaries and becomes an internationally recognized tool for pricing, settlement, reserve and market intervention. It is complementary to the country's international status that a country's currency becomes an international currency, and currency internationalization is almost every country's development dream. Renminbi pursues its own development with the standard of international currency, and has made great achievements in trade, finance and international foreign exchange reserves. Renminbi is gradually recognized by neighboring countries and even some countries in the world [2]. However, compared with the US dollar and other major currencies in the world, the performance of RMB in pricing and settlement and international reserves is still limited. On the whole, the road of RMB internationalization is still very long. China is a vast country with a long history, which had a glorious history of civilization development. Even on the eve of the Opium War, China's economic aggregate still ranked first in the world [3]. In the current situation of slowing economic growth and complicated international relations, it is of great theoretical and practical significance to study the influencing factors and path selection of RMB internationalization. Therefore, under the background of the G7 Summit in Hiroshima in 2023, this paper further studies the development process and influence of RMB internationalization. In this context, the selection of RMB in SDR has broadened the export channels of RMB and increased the proportion of RMB in international reserves, which has changed the influencing factors of RMB internationalization [4]. The traditional view is that the international economic strength determines the position of the country's currency in the

international monetary system, and the continuous expansion of trade scale increases the scope of RMB pricing and settlement, so it also promotes the internationalization of RMB [5].

2. The Development Process of RMB Internationalization Against the Background of the 2023 Hiroshima G7 Summit

The internationalization of the RMB not only optimizes the international monetary structure and promotes diversified development in the world, but also has significant implications for maintaining sustained economic growth, enhancing comprehensive competitiveness, and enhancing international influence in China. The acceleration of the internationalization process of the RMB has continuously enriched the research results on the influencing factors of RMB internationalization. The scale of China's economy and trade has enabled the RMB to initially meet the conditions for internationalization [6]. China has developed into the world's second largest trading country, an Asian supply chain center, a strong economic scale, and strong growth prospects, which have led to a huge international demand for the RMB and basically met the prerequisites for cross-border use [7]. This article attempts to analyze the development process of RMB internationalization in the context of the 2023 Hiroshima G7 Summit. The 2023 Group of Seven Summit was held in Hiroshima from May 19 to 21, 2023, with Japan serving as the rotating presidency of the Group of Seven. G7 adheres to camp confrontation and Cold War thinking, and its actions violate historical trends, objective facts, and international morality. As shown in Figure 1, Japan, as the rotating presidency of the Group of Seven in 2023, collaborated with relevant countries in the activities and joint declarations of the Group of Seven Hiroshima Summit to smear and attack China, grossly interfering in China's internal affairs, violating the basic principles of international law and the spirit of the four political documents between China and Japan, and damaging China's sovereignty, security, and development interests. The Chinese side is strongly dissatisfied and firmly opposes it.

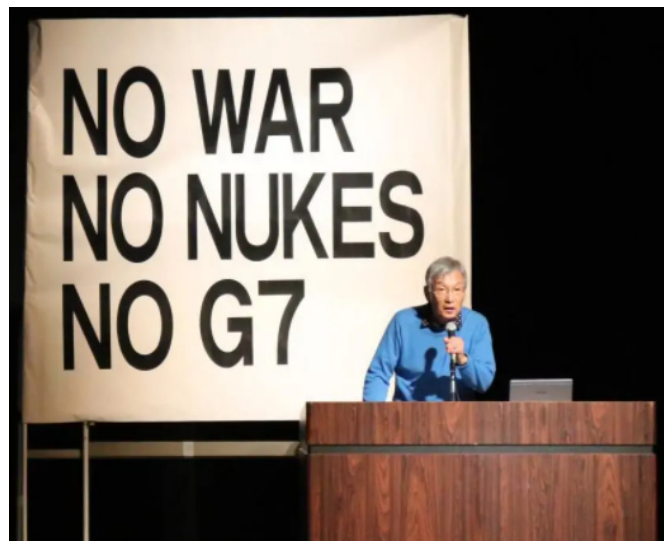


Figure 1. G7 Hiroshima Summit Speech

After the internationalization of the renminbi, China has acquired the power to issue and regulate an international currency. Through the inspiration of the Hiroshima G7 Summit, countries that use the renminbi will form a certain degree of dependence on the Chinese economy. China's economic development status and policy changes will also have an impact on those countries. China will have a greater voice and influence in international affairs. Therefore, the Hiroshima G7 Summit stated that the internationalization of the RMB will undoubtedly greatly enhance China's role in the world economy and enhance its international position. By strengthening trade exchanges to promote capital flow, actively seeking to use the Chinese yuan as the pricing and settlement currency in the trade process [8]. In terms of scale and growth rate, China's RMB has made significant achievements, but it is also worth noting that the foreign direct investment settled in RMB has long been higher than that of foreign direct investment, which means that some of the RMB that flows out through trade

flows back to China. Compared to importing RMB, the expenditure is smaller, which means that more exports are denominated in US dollars, while in import trade, the expenditure on importing RMB accounts for a relatively high proportion. This not only fails to expand the scale of RMB output, but also accelerates the net inflow rate of foreign exchange. From Figure 2, it can be seen that the overall trend of foreign direct investment and outward direct investment also decreased in 2021.

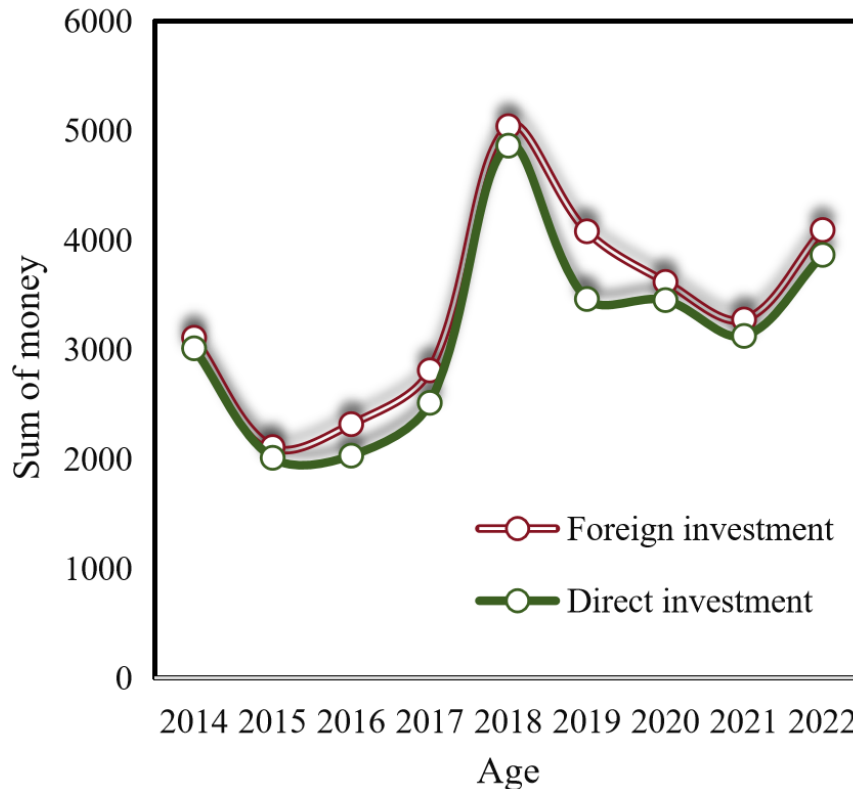


Figure 2. The amount of foreign direct investment and foreign direct investment settled in RMB.

Efforts will be made to promote the economic development level of local countries, export RMB capital to the outside world, and on this basis, increase the demand of overseas investors for RMB, help RMB gradually realize international functions of money such as pricing settlement and foreign exchange reserves, and then accelerate the internationalization process of RMB [9]. In addition, in terms of influencing factors of RMB internationalization, GDP scale, current account surplus and RMB real exchange rate positively promote RMB internationalization, and Hiroshima G7 Summit indicated that there is a negative correlation between China's capital and financial account surplus and RMB internationalization [10]. China's strong economic strength and strong foreign trade momentum have laid the foundation for RMB internationalization, but the government's interest rate control and the fluctuation of RMB value have hindered the process of RMB internationalization for a long time.

3. The Influence of RMB Internationalization Development under the Background of Hiroshima G7 Summit

3.1. Strengthen National Strength

The current international currency is a credit currency, which is far below its value, and its value depends largely on the economic strength of the issuing country. The main reason why the US dollar can dominate the existing international monetary system is that the strong economic strength of the United States provides credit guarantee for the US dollar, which can ensure the stability of the currency to the greatest extent. Economic strength is the decisive factor of currency internationalization. To a certain extent, it will narrow the scope of RMB use and hinder the development of RMB internationalization. However, after the Federal Reserve announced the interest

rate increase, China's central bank generally raised the OMO interest rate and the interest rate of refinancing instruments, which made the benchmark spread between China and the United States basically stable. Moreover, China has released the pressure of RMB depreciation against the US dollar in advance by expanding the fluctuation range of RMB exchange rate. Hiroshima G7 Summit spans the Eurasian continent, the Western Pacific Ocean and the Indian Ocean. The countries along the route include developing countries, economic transition countries and developed economies, and their economic development is very uneven. Most of the countries with higher economic development level have abundant energy reserves, strong financial strength and higher education level, while the less developed countries have a simple economic development model, but they have strong advantages of being late-comer. Among the global economies, China ranks second in the world after the United States. Among the countries along the G7 summit in Hiroshima, China's solid economic volume makes it both determined and confident to promote the internationalization of RMB.

3.2. Improving Currency Stability

The stability of currency value is crucial for currency internationalization, as it increases the confidence of holders and encourages foreign investors and traders to expand their holdings of the currency. The RMB needs to improve its exchange rate formation mechanism, maintain stable currency value at a reasonable level, and avoid exchange rate fluctuations becoming a cause of intense fluctuations in international hot money. The RMB exchange rate should develop towards a more floating direction, expanding the breadth and depth of the foreign exchange market, allowing market supply and demand forces to determine the balance point of the foreign exchange market, reducing cross-border capital arbitrage space, in order to expand the scope of use of the international market and gradually promote the process of internationalization. This article measures the stability of currency values from two aspects: inflation rate and exchange rate. By describing the fluctuation of the CPI price index in the context of the Hiroshima G7 Summit, the stability of the currency in China is reflected; By analyzing the actual effective exchange rate index, it reflects the degree of stability of the currency internationally. Generally speaking, there is a very close relationship between exchange rate fluctuations and currency internationalization. The appreciation of a currency will bring appreciation benefits to non residents who hold it, thus helping to drive non residents to increase their holdings of the currency and assets denominated in that currency, thereby improving the internationalization of the currency. If China fully utilizes the Hiroshima G7 summit strategy to increase the proportion of RMB denominated settlement in trade transactions with countries along the route, transaction costs will decrease accordingly, which is beneficial for Chinese enterprises to reduce transaction risks and avoid exchange rate risks during the transaction process. More countries will choose RMB for settlement, which can promote trade activities between countries, it can also provide a foundation for the RMB to become a reserve currency abroad.

3.3. Investment and Financial Institutions have Increased.

Chinese-funded financial institutions are mainly located in Singapore and Viet Nam, and their outlets can't fully cover all countries along the route, so they can't provide effective support for Hiroshima G7 Summit, and can't well meet China's capital demand for foreign investment and infrastructure construction. At the same time, the construction of financial cooperation organizations along the G7 Summit in Hiroshima is not perfect, and there is no systematic long-term planning for them, which leads to poor international financing and low level of financial integration, which hinders the strategic development of the G7 Summit in Hiroshima. The key to promote the internationalization of RMB in Hiroshima G7 Summit is to enhance the internal driving force of sustainable economic development through comprehensive deepening reform. Vigorously support the development of service industries and emerging industries, promote the transformation and upgrading of traditional industries, actively resolve the contradiction of serious overcapacity in some industries, deepen supply-side reform, optimize economic structure, and promote sustainable economic development. China led the establishment of a multilateral financial institution of the AIIB, focusing on supporting the infrastructure construction of member countries, making full use of the high capital stock of

member countries, and promoting the international multilateral cooperation mechanism, which created a great development space for the internationalization of RMB.

4. Conclusion

In summary, this article conducts further research on the development process and impact of RMB internationalization in the context of the 2023 Hiroshima G7 Summit. The stronger China's domestic economic strength, the more stable the value of the RMB, and the stronger the confidence of other countries in the RMB, the more willing they are to use the RMB for pricing and settlement, and the higher the degree of internationalization of the RMB. On the contrary, the regression of the country's economic strength will affect the stability of China's macro economy, and at the same time cause foreign investors to lose confidence in the RMB, which is not conducive to the internationalization process of the RMB. When a country's currency gains the status of reserve currency, it needs to open up its domestic financial market and relax restrictions on capital flow, which will affect the autonomy of domestic monetary policy and also cause significant external impacts and shocks to the domestic economy. In the context of the Hiroshima G7 Summit, while improving the exchange rate formation mechanism and changing the issuance method of the RMB, China has created a series of platforms including the Asian Investment Bank and the BRICS New Development Bank to deepen economic cooperation within the Shanghai Cooperation Organization and deepen cooperation between China and Europe. The failure of yen internationalization and the obstacles encountered in the process of euro internationalization have both been hindered by the United States and international speculative capital shocks, which are also issues that need to be prevented for the internationalization of the RMB. Secondly, China has already lowered reserve requirements and interest rates multiple times, releasing a large amount of liquidity in advance.

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