

STATUS QUO OF RMB INTERNATIONALIZATION AND INTERNATIONAL EXPERIENCES

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ABSTRACT

With the rise of China's economic scale, the internationalization of the Chinese currency, the RMB has made significant progress and has become a major global payment and reserve currency. However, there remains a considerable gap compared to China's economic and trade scale. This paper systematically reviews the historical process and current status of RMB internationalization, pointing out deficiencies in cross-border payments, foreign exchange reserves, and regional influence. On this basis, it draws on the experiences and lessons of the internationalization of the Japanese yen and the Euro. The yen's internationalization offers the following insights: relying on international trade and investment to increase the share of settlement, steadily advancing financial liberalization and capital account convertibility, clarifying strategic objectives, and maintaining currency stability. The Euro's internationalization highlights the importance of robust institutional development and top-level design, but Asia lacks the practical foundation for regional monetary integration. The study argues that RMB internationalization should adhere to the policy principle of "focus on the domestic," be fundamentally rooted in serving the real economy, and gradually enhance its international status by leveraging the Belt and Road construction and regional cooperation mechanisms.

Keywords: RMB internationalization; Euro; Japanese yen

1.0 INTRODUCTION

According to SWIFT data, the RMB's share in global payments reached 4.69% in August 2024, ranking as the fourth most active payment currency for ten consecutive months. According to IMF data, the RMB's share in global foreign exchange reserves rose from 1.07% in 2016 to 2.2% at the end of the fourth quarter of 2025, reflecting the rising status of the RMB in the global monetary system. However, despite these important achievements, the internationalization of the RMB still lags far behind China's status as the world's second-largest economy. Especially given the frequent geopolitical crises and the long-arm jurisdiction of dollar hegemony, steadily advancing RMB internationalization and guarding against US dollar financial hegemony and risks is an important support for China's "going global" strategy, the "dual circulation" new development pattern, and the development of new quality productive forces in finance.

Since the advent of the sovereign currency era, the economic rise of every major power has been accompanied by the growing international influence of its currency (Li Daokui, 2013). In the era of economic globalization, the global development of a country's economy is accompanied by the internationalization of its currency, which opens up broader paths for its

economic development and deeper participation in globalization. The rise of major powers such as Britain, Germany, the United States, and Japan was accompanied by the internationalization of their currencies, and they relied on the international status of their own currencies to effectively safeguard their economic interests. Enhancing the internationalization of the RMB is an inevitable choice for promoting high-quality economic development in China and transforming China from a major economic power into an economically strong country. In light of this, this paper first reviews the historical development and current situation of RMB internationalization, and then draws on the international experiences of the Japanese yen and the euro to provide insights for RMB internationalization.

The remainder of this paper is divided into three parts. Part two reviews the historical process and current status of RMB internationalization. Part three examines the internationalization process of the euro and its implications for the RMB. Part four examines the internationalization of the Japanese yen and its lessons for the RMB.

2.0 HISTORY AND CURRENT STATUS OF RMB INTERNATIONALIZATION

2.1 Identification of Monetary Internationalization

With the deepening of economic globalization and the continuous opening of international markets, the forms of currency have become more diverse, the scope of currency circulation has broken through national boundaries, and the functions of currency have expanded from the national to the world level. Cohen (1971) argues that when the private sector and official institutions promote a currency beyond the issuing country, that currency is considered an international currency. Mundell (2003) and Cohen (2012) suggest that the process by which a currency is widely held by foreign holders and widely accepted in international transaction scenarios is the process of currency internationalization. Gao Haihong and Yu Yongding (2010) argue that a currency's internationalization is achieved when it functions simultaneously in both the private and public spheres.

2.2 History and Current Status of RMB Internationalization

Since the People's Bank of China launched the cross-border trade settlement pilot for the RMB in 2009, the internationalization of the RMB has officially begun and entered a stage of steady development. Wang Xuedong (2020) believes that RMB internationalization has gradually expanded from international payments to international asset pricing and allocation, roughly going through four stages.

The first stage was before 2009, during which the use of the RMB in cross-border trade increased continuously. The second stage was from 2009 to 2015, when the pace of RMB internationalization accelerated. Driven by policies such as the inclusion of the RMB in the SDR basket, signing of bilateral currency swap agreements with many countries, cross-border trade settlement, offshore market development, and supporting infrastructure, the RMB's global payment ranking rose significantly from 35th in 2010 to 5th in 2015, and its international payment share increased from 0.3% to 2.2%. The third stage was from 2015 to 2017, when RMB internationalization entered a period of steady development. Due to the RMB exchange rate reform and US interest rate hikes, the RMB entered a depreciation phase, leading to negative growth in China's foreign trade. China's total foreign trade fell by about 7% year-on-

year in 2015, resulting in insufficient momentum for RMB internationalization and stagnation in its payment ranking. The fourth stage is from 2018 to the present. Through promoting RMB pricing of commodities, the gradual opening of China's domestic financial market, and the comprehensive development of the Belt and Road Initiative, the international functions of the RMB have expanded from international payments to international asset pricing and allocation. A mechanism for the return flow of RMB from foreign payments to overseas purchases of RMB-denominated assets is being established. According to the 2024 RMB Internationalization Report released by the People's Bank of China, since November 2023, the RMB has been the fourth most active global payment currency for ten consecutive months. The RMB's share in global foreign exchange reserves increased from 1.21% in 2017 to a historical high of 2.76% in September 2022.

2.3 The Challenges of RMB Internationalization

After years of effort, the RMB has become the most commonly used currency in China's cross-border receipts and payments, the fourth largest global payment currency, the seventh largest global reserve currency, and the fifth largest global foreign exchange trading currency. However, the international influence of the RMB remains weak. This is reflected in the following aspects: In terms of international payments, the RMB lags far behind not only the US dollar and the euro but also the British pound and the Japanese yen, even though the economic aggregates and trade scales of the UK and Japan are much smaller than China's. Moreover, the main currency for China's cross-border receipts and payments is still the US dollar, making it difficult to ensure the independent security of the international balance of payments. In terms of foreign exchange reserve influence, based on indicators such as GDP, trade scale, and stock market capitalization, the RMB's share in global reserves should be above 10%, but it is currently only 2.76%. In terms of regional influence, the RMB's "anchor" role relative to the currencies of neighboring countries is still weak, its influence remains lower than that of the US dollar, and a "RMB zone" has not yet been formed. Overall, while RMB internationalization has achieved certain results driven by market demand growth and favorable policies, the current process has not met expectations and is difficult to match with the status of the world's second-largest economy.

3.0 PROCESS OF YEN INTERNATIONALIZATION AND ITS IMPLICATIONS

3.1 Process of Yen Internationalization

The "Japanese model," characterized by imitating Western industrialization and a "big government" approach, enabled Japan to rapidly complete its industrialization and modernization within 30 years after the war. Rapid economic development then drove the process of yen internationalization. The internationalization of the yen mainly went through three stages.

The first stage was from the 1960s to the early 1980s, the initial and preparatory phase of yen internationalization. Due to the significant increase in Japan's economic strength and the collapse of the Bretton Woods system, international demand for the yen grew daily, and the yen's share in international trade and settlement continued to rise. Japan accepted Article VIII of the IMF Agreement in 1964 and implemented the Foreign Exchange and Foreign Trade

Control Law in 1980, marking the free convertibility of the yen under current and capital accounts, thus achieving the necessary conditions for yen internationalization.

The second stage was from the early 1980s to the early 1990s, the accelerated and mature phase of yen internationalization. In 1984, under US pressure, Japan accepted the recommendations on Japanese financial liberalization put forward by the Yen-Dollar Committee. In 1985, Japan's Ministry of Finance released the report Current Status and Prospects of Financial Liberalization and Yen Internationalization, marking the official launch of the yen internationalization process by the Japanese government. During this phase, the share of Japanese exports and imports settled in yen increased from 2.4% and 29.4% in 1980 to 14.5% and 37.5% in 1990, respectively. The size of the Euro-yen market expanded by about 50%, and the yen's share in international reserves reached a historical high of 8.5% in 1991.

The third stage is from the 1990s to the present, the phase of yen decline and "re-internationalization." Under the influence of the 1985 Plaza Accord signed by five Western countries, the yen appreciated sharply against the US dollar. While this boosted the yen's international status, it also contributed to the accumulation of domestic economic bubbles in Japan. Yen internationalization entered a downward channel after the bubble burst. The 1997 Asian financial crisis and the birth of the euro in 1999 raised the Japanese government's expectations for yen "re-internationalization." Consequently, Japan introduced a series of "Big Bang" financial reforms involving major financial sectors such as banking, insurance, and securities, as well as institutional construction including financial products, structures, and legal policies. It proposed an Asian Monetary Fund centered on the yen (abandoned due to US opposition) and the "New Miyazawa Initiative" providing \$30 billion in loans for the Asian financial crisis, among other bilateral aid measures. However, these measures were ineffective, and the degree of yen internationalization never surpassed its historical peak, even falling to 2.9% during the 2008 financial crisis.

3.2 Experiences and Lessons from Yen Internationalization

Although the degree of yen internationalization never reached the Japanese government's expectations, its international status is commensurate with Japan's economic aggregate and share. Moreover, despite experiencing the "lost decade," the Japanese economy did not suffer a large-scale decline, and Japan remains at the forefront of technologies such as electronics and semiconductors. Financial development, including the Tokyo international financial market and the Euro-yen offshore market, proceeded as planned. From this perspective, the internationalization of the yen can be considered relatively successful. The yen's internationalization offers the following lessons for the RMB.

First, based on international trade and investment, increasing the proportion of RMB settlement in international transactions is the primary long-term driver of RMB internationalization. Similar to the early stage of yen internationalization, RMB internationalization also started with natural use in international trade. In recent years, "Made in China" has been transformed and upgraded from "cheap products" to a symbol of "good quality at a fair price." China needs to continue expanding this advantage, relying on high-quality "going global" strategies such as the Belt and Road Initiative, thereby naturally increasing other countries' willingness to use the RMB.

However, due to historical reasons and the mindset of "leaving Asia and joining the West," Japan pursued becoming a world power while neglecting its ties with Asian countries. It failed to increase the yen's influence in Asia, thus missing an important anchor for becoming a major international currency. Taking this as a caution, China should start with countries that have close economic and trade ties with China and those along the Belt and Road, deeply cultivating the process of RMB internationalization in neighboring regions and partner countries. The medium-to-short-term goal should be to expand the regional influence of the RMB, promoting RMB internationalization gradually.

Second, financial liberalization is a necessary condition for currency internationalization, and capital account convertibility is a major breakthrough point for enhancing the RMB's international status. Japan experienced 16 years from current account to capital account liberalization. After completing financial liberalization, the degree of yen internationalization increased significantly in a short period. After China achieved current account convertibility for the RMB in 1996, progress on the capital account has been relatively slow, becoming a major bottleneck for a high degree of RMB internationalization. Similarly, although the offshore RMB market has begun to take shape and undertakes important functions of offshore use and investment of the RMB, the relative disconnect between offshore and onshore markets can easily lead to an accumulation of RMB offshore (a "RMB dam"), preventing it from effectively participating in the high-quality development of China's real economy. This reduces the international liquidity of the RMB and other countries' willingness to hold RMB assets.

In the current development of China's financial market, financial products, markets, and structures are becoming increasingly rich, but the lag in supporting legal and regulatory systems is a major shortcoming. Capital chain breaks occur from time to time, resulting in low value of RMB financial assets and low willingness of overseas holders.

Third, in the top-level design of RMB internationalization, specific strategic goals need to be clarified, and progress should be made steadily without blind ambition. The Japanese government lacked clear and consistent strategic goals for yen internationalization: from a cautious or even resistant attitude in the first stage, to passive implementation of financial liberalization in the second stage, and then to an active or even aggressive stance in the third stage. As a result, the process of yen internationalization did not achieve the desired results. In fact, due to historical reasons, the Japanese economy and the yen were, to some extent, subordinate to the United States. The US did not care whether the yen was internationalized, but rather about American enterprises having free access to the Japanese market. Therefore, Japan's efforts since the 1990s to promote "Big Bang" financial reforms, the "Asian currency unit" concept imitating the euro, and other goals to become a major world currency lacked consideration of Japan's domestic reform pressures and were inconsistent with Japan's overall strength and international status.

Therefore, China needs to clarify the strategic objectives of RMB internationalization, making clear that RMB internationalization is a process rather than an end in itself, and that RMB internationalization is an important means to promote high-quality development of domestic financial liberalization, implement the essence of finance serving the real economy, and form the "dual circulation" new development pattern. It should not be advanced recklessly for the sake of internationalization. Although China's economic aggregate has firmly ranked second

in the world, its per capita GDP is still at a medium level. RMB internationalization cannot be achieved overnight and needs to be synchronized with domestic economic development.

At the same time, financial policy formulation should adhere to the principle of "taking self as the mainstay" and maintain the stability of the RMB's value. Under US pressure, Japan passively opened its financial markets, which, while enhancing the yen's international status, also caused excessive volatility and overshooting of the yen exchange rate, laying the groundwork for the yen's decline. Given China's huge market base, the United States and the dollar have long been asking for free access to the Chinese market. In this regard, we need to adhere to bottom-line thinking, avoid trading core interests, resist international pressure, and ensure that RMB internationalization serves the development of the real economy. Depreciation or appreciation deviating from fundamentals, as well as excessive volatility, will negatively impact RMB internationalization.

4.0 PROCESS OF EURO INTERNATIONALIZATION AND ITS IMPLICATIONS

4.1 Process of Euro Internationalization

The internationalization of the euro, in essence, was achieved by weighting a basket of currencies that were already international, notably the German mark and the French franc, on the basis of transferring monetary sovereignty. Thus, the euro became the second-largest international currency from its birth. Euro internationalization is essentially a process of integrating several European national currencies into a new currency. The process of euro internationalization can be divided into five stages.

The first stage was from 1950 to 1991, the phase of European monetary cooperation. In 1950, the European Payments Union was established, marking the starting point of European monetary cooperation. In 1951, six European countries signed the Treaty Establishing the European Coal and Steel Community, initiating the process of European economic integration. In 1958, the European Economic Community was formally established. In 1971, the Vienna Plan was adopted, proposing the establishment of a European Economic and Monetary Union (EMU) in three stages over ten years. In March 1979, the European Currency Unit (ECU) became the European unit of account, functioning as a settlement and reserve currency. In 1990, the first stage of the EMU began, implementing the European joint intervention mechanism.

The second stage was from 1991 to 1998, the preparatory phase for the euro. In December 1991, the European Council summit adopted the Maastricht Treaty, formally proposing the establishment of a European monetary union and the introduction of a single currency. In January 1994, the EMU entered its second stage, and the European Monetary Institute, a supranational institution, was established. In December 1995, the Madrid Summit officially named the single currency the "euro." In July 1998, the European Central Bank was established, replacing the European Monetary Institute.

The third stage was from 1999 to 2002, the launch and transition phase of the euro. In January 1999 (should be 1999), the EMU entered its third stage, the euro was officially launched, and the ECU was exchanged for the euro at a 1:1 ratio. The euro was circulated in the form of

checks, credit cards, stocks, and bonds. In January 2002, euro banknotes and coins entered circulation. In July of the same year, the euro officially became the single currency of Europe.

The fourth stage was from 2002 to 2018, the phase of stable euro operation. After its official launch, the euro grew rapidly and steadily, forming a competitive dynamic with the US dollar in the international monetary system. The share of the euro in international foreign exchange reserves rose from 18% in 1999 to 26.8% in 2008. The share of international bonds denominated in euros rose from 30.1% to 40.5% and exceeded the US dollar for the first time. However, the 2008 financial crisis and the 2012 European sovereign debt crisis severely impacted the European economy, and the euro's international status declined to some extent, with its share in international reserves falling to 22% in 2017.

The fifth stage is from 2018 to the present, the phase of strategic shift in euro internationalization. Before 2018, the EU maintained a consistent neutral stance on euro internationalization. As the European Central Bank stated on the tenth anniversary of the EMU's establishment, the Eurosystem holds a neutral stance on the euro's international role, and promoting euro internationalization was not a policy goal it pursued. Similar to Japan's "re-internationalization" outlook, to reverse the declining trend of the euro and the EU economy, in May 2018 the European Commission issued a policy communication document titled Towards a Stronger International Role of the Euro, proposing to continue promoting the institutional construction of the economic and monetary union, enhance the euro's status in international financial markets, expand the supply of euro "safe assets," increase the share of the euro in pricing key commodities, and broaden the use of the euro in developing countries through development assistance. However, these measures have had little effect. During the Russia-Ukraine conflict in 2022, the euro's share in international reserves fell below 20%, and the euro-US dollar exchange rate fell below parity for the first time since the euro's creation.

4.2 Experiences and Lessons from Euro Internationalization

The euro is the best practice of the optimum currency area theory. The establishment of the eurozone created a relatively stable macroeconomic environment for Europe, promoted trade development among countries, reduced transaction costs and exchange rate risks, integrated European financial markets, and enhanced the value and competitiveness of euro assets. However, it is regrettable that soon after the euro's launch, the eurozone and EU economies entered a long-term decline. The internationalization process of the euro offers the following insights.

First, the birth of the euro and its internationalization process were 稳健审慎 (steady and prudent), with clear and consistent strategic objectives. Particularly in the early preparation and launch phase, following the prudent path of "European Payments Union → European Economic and Monetary Union → ECU → European Monetary Institute → European Central Bank → euro" laid a solid foundation for the euro. Therefore, RMB internationalization also requires clear top-level design and strategic objectives to avoid repeating the mistakes of the yen.

However, due to frequent geopolitical risks in recent years, the effectiveness of the euro's "re-internationalization" strategic shift has been difficult to see and still requires the test of time.

But from another perspective, taking the SDR as an example, when the IMF adjusted the new currency basket weights in 2015, the RMB was included for the first time with a weight of 10.92%, while the euro and the pound lost 6.47% and 3.21% respectively. This indicates that, apart from the US dollar as a super currency, the status of other major international currencies is closely related to their overall economic strength and reaches a state of dynamic equilibrium. It also shows that artificial factors or strategic goals deviating from a country's economic fundamentals are unlikely to succeed.

Second, the euro as a practice of the optimum currency area is unique, and China and Asia lack the foundation for European-style regional economic and monetary integration. The eurozone, especially Western European countries, are very close in terms of social development level, cultural customs, and geographical location. Common political and economic interests, similar cultural ties, and the significant influence of the European regional economy in the world economic system were important reasons for the smooth internationalization of the euro. However, looking at Asia, although there are regional economic "leaders" such as China, Japan, South Korea, and Singapore, due to historical reasons, relations among Asian countries are not harmonious, and some are even hostile. Cultural customs vary greatly, development stages are generally uneven, and the United States has long pursued strategic balancing in the Asia-Pacific region. Therefore, following the path of "Asian monetary integration" for RMB internationalization would face enormous resistance. Moreover, a monetary union formed by transferring sovereignty is subject to greater tests and vulnerabilities during crises. Due to structural economic imbalances and lack of independent monetary policy and strict fiscal discipline, countries such as Greece, Iceland, Ireland, Italy, and Spain have all experienced sovereign debt crises or difficulties, dragging down the economies of other eurozone countries.

Nevertheless, Asia and the Eurasian region remain the "main battleground" for RMB internationalization. With the absolute increase in China's economic strength and the growing international recognition of the concept of "a community with a shared future for mankind," more and more countries are actively and willingly participating in cooperation with China. Regional powers such as Singapore and the Philippines have repeatedly stated that they will not "choose sides" between China and the US. Taking advantage of this, China should continue to rely on strategic mechanisms such as the China-ASEAN cooperation relationship and the Belt and Road Initiative to increase the share of RMB in international trade and settlement, thereby consolidating the practical foundation for RMB internationalization.

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