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**ОСНОВНЫМИ ОГРАНИЧЕНИЯМИ ИСПОЛЬЗОВАНИЯ ЮАНЯ  
В МЕЖДУНАРОДНЫХ РАСЧЕТАХ ЯВЛЯЮТСЯ КОНВЕРТИРУЕМОСТЬ,  
ОТКРЫТОСТЬ КИТАЙСКОГО РЫНКА И РИСК САНКЦИЙ  
THE MAIN LIMITATIONS OF USING THE RMB IN INTERNATIONAL  
SETTLEMENTS INCLUDE CONVERTIBILITY, THE OPENNESS  
OF THE CHINESE MARKET, AND THE RISK OF SANCTIONS**

**Abstract.** The international settlement of the RMB is mainly constrained by convertibility, market openness, and sanctions risks. This paper analyzes and shows that these factors hinder its internationalization process and bring policy challenges. Therefore, it proposes policy and market-level countermeasures. This research provides a new perspective and practical reference for improving the RMB international settlement mechanism.

**Keywords:** RMB International Settlement Convertibility, sanction risk Internationalization of the RMB, the openness of the Chinese market.

**Chapter 1 The impact of RMB convertibility on international settlements**

This section starts with the current situation of RMB convertibility, including the conversion of current accounts and capital accounts, as well as the differences between current policies and actual operations. It elaborates on the impact of capital account conversion restrictions on trade settlement and investment settlement, and then explores the theory of currency convertibility and the obstacles faced by the free convertibility of the RMB, such as the assessment basis of the International Monetary Fund and the passive situation of the People's Bank of China. Comprehensively analyze the impact of the convertibility of the RMB on international settlements.

**1.1 Analysis of the Current Situation of RMB Convertibility**

The convertibility of the RMB shows different trends in the current account and the capital account. Under the current account, China has achieved the convertibility of the RMB, which has facilitated trade activities. However, there are still certain restrictions on capital account convertibility and it has not yet reached the level of complete free convertibility. This current situation is related to the internationalization process of the RMB. Its restrictions have an impact on international settlements and hinder the wider application of the RMB in international investment and trade [1].

Although the current policy has corresponding regulations on the convertibility of the RMB, there are differences in actual operation. At the policy level, the internationalization of the RMB is encouraged and the process of convertibility is expected to be advanced. However, in practice, due to the constraints of factors such as the behavior of market entities and the completeness of financial infrastructure, the implementation effect of the policy is different from the expected one. This disparity affects the confidence and enthusiasm of market participants in the convertibility of the RMB, and thereby poses certain obstacles to the application of the RMB in international settlements.

Restrictions on capital account conversions pose obstacles to trade settlements. The fact that the RMB has not yet been fully convertible has led to a relatively low proportion of overseas enterprises using the RMB for cross-border trade payments and settlements. Their awareness of RMB-denominated trade products is also not high, which affects the application of the RMB in trade settlements. The RMB is difficult to circulate freely like the US dollar and cannot provide sufficient capital reserves for the balance of payments capital accounts of countries along the routes, which



restricts the expansion of the RMB in the field of trade settlement [3]. Capital account conversion restrictions also have a significant impact on investment settlement. In the field of cross-border investment, restricted capital account conversions have led to an unsmooth flow of funds. Overseas investors are subject to numerous restrictions, and their investment costs have increased, which has dampened the activity of international investment settlements. In the investment cooperation between China and the countries along the routes, the RMB is difficult to fully play its role due to exchange restrictions, which affects the scale and efficiency of investment settlement [4]. This situation has hindered the wide application of the RMB in international investment settlement and urgently needs to be improved.

### **1.2 Theory of Currency Convertibility and Obstacles to the Free convertibility of the RMB**

The theory of currency convertibility refers to the theory that a country's currency can be exchanged for other currencies without any restrictions. It encompasses current account convertibility and capital account convertibility. The former focuses on the exchange of trade-related currencies, while the latter concerns the exchange of cross-border capital flows. The internationalization of the RMB requires the realization of free convertibility under the capital account [5]. This theory provides a theoretical basis for the process of RMB convertibility, helps analyze the current situation and problems faced, and is of great significance for promoting the free convertibility of the RMB.

In the process of currency exchange, the People's Bank of China is in a passive situation. The RMB is not yet fully convertible, has a low degree of internationalization and an imperfect financial market [6], which limits the means for the central bank to regulate currency conversion. Overseas enterprises have a low awareness of RMB trade financing products, and the sustainability of cross-border RMB circulation and financing is insufficient. The central bank needs to deal with many complex factors in balancing capital account funds reserves and currency exchange policies to promote the process of free convertibility of the RMB.

## **Chapter 2 The Impact of China's market openness on international settlements**

This section starts from the relationship between the degree of market openness and international settlement, elaborating on the challenges to RMB international settlement caused by the imperfection of the financial market, such as the non-marketization of interest rates and the underdeveloped bond market, as well as the impact of problems existing in the Hong Kong offshore market, such as the mismatch between supply and demand of RMB products, the imperfect bond market reflux mechanism, and the insufficient degree of capital account openness, on the enthusiasm of non-residents to hold RMB. This is to comprehensively explore the impact of China's market openness on international settlements.

### **2.1 The Relationship between Market Openness and International Settlement**

The degree of market openness is closely related to international settlements. From a theoretical perspective, market opening can promote the optimal allocation of resources on a global scale, attract more international capital and trade activities, and create favorable conditions for the international settlement of the RMB. The opening up of the Chinese market is not only about the opening up of tangible resources but also intangible ones. This helps cultivate an international perspective among economic entities and is of vital importance to the internationalization of the RMB [7]. An open market can enhance the attractiveness and acceptance of the RMB and promote its wide application in international settlements.

From an empirical perspective, numerous studies have shown that the degree of market openness is closely related to the international settlement of the RMB. With the increasing openness of the Chinese market and the expansion of the scale of international trade and investment, the frequency and scope of the use of the RMB in international settlements have also expanded accordingly [8]. The trade relations and structural adjustments between China and East Asian countries provide an opportunity for the promotion of the RMB in international settlement in the



region, which strongly proves that market opening has a positive promoting effect on the international settlement of the RMB.

## **2.2 Challenges to RMB International Settlement Posed by the imperfection of the financial market**

The non-marketization of interest rates poses challenges for the RMB in international settlements. Under a market-based interest rate environment, the price of funds can effectively reflect supply and demand as well as risks, promoting international capital flows and settlements. At present, the RMB interest rate lacks flexibility and is difficult to precisely match the changes in the international financial market, which affects the willingness of non-residents to hold and use the RMB and hinders the promotion of RMB international settlement [9]. This situation has restricted the role of the RMB in the international settlement system and urgently needs to be improved.

The underdeveloped bond market has a significant impact on the international settlement of the RMB. A mature bond market is an important support for international currencies. However, at present, the development of China's bond market is insufficient, lacking rich products and a complete trading mechanism, which makes it difficult to meet the diverse needs of international investors and weakens the appeal of the RMB in international settlements. This leads to a decrease in non-residents' willingness to choose the RMB when conducting international settlements, hindering the enhancement of the RMB's status in international settlements [10].

## **2.3 The Impact of Hong Kong's offshore market Issues on the enthusiasm of non-residents to hold the RMB**

In the Hong Kong offshore market, the mismatch between supply and demand of RMB products is prominent. The demands of non-residents for RMB products are diverse and complex, covering various financial investment products. However, the RMB products currently offered in the market are difficult to fully meet these demands in terms of types, returns and risk characteristics, which has dampened the enthusiasm of non-residents to hold RMB. This imbalance between supply and demand urgently requires coordinated adjustment and optimization at both the market and policy levels.

The incomplete bond market reflux mechanism in the Hong Kong offshore market has a significant impact on the enthusiasm of non-residents to hold the RMB. The imperfect repatriation mechanism makes it difficult for RMB bonds held by non-residents to flow smoothly back to the onshore market, restricting the effective allocation and circulation of funds. This not only reduces the appeal of RMB bonds to non-residents, but also hinders the wide application of the RMB in international settlements [11]. Improving this situation is of great significance for enhancing the international settlement status of the RMB.

## **Chapter 3 The impact of sanctions risks on RMB international settlements**

In the process of globalization, the international political landscape is complex and changeable. Geopolitical games and trade frictions among major countries have put the international settlement of the RMB at risk of sanctions. Some Western countries, relying on their political and economic advantages, often achieve diplomatic or strategic goals through sanctions. China's influence in international affairs is gradually rising, and the status of the RMB is on the rise. This may trigger certain forces to use sanctions to hinder the internationalization of the RMB. The uncertainty of the international political environment poses a potential threat to the international settlement of the RMB. Sanctions will have a significant impact on the scale and scope of international settlement of the RMB. In terms of scale, after being sanctioned, related trade and investment activities are restricted, and the volume of RMB settlement business may sharply decline. In terms of scope, some countries and regions, considering risk avoidance, may reduce the use of the RMB for settlement, resulting in a contraction of the geographical scope of RMB settlement and a decrease in its coverage and activity in the international settlement system.



When studying the impact of sanctions on the international settlement status of currencies, the Iranian rial under the US dollar sanctions is selected as a case. The United States has imposed sanctions on Iran by virtue of its dollar hegemony, restricting the settlement of Iran's oil trade. Due to the dominance of the US dollar in the international settlement system, Iranian financial institutions were cut off from the global US dollar payment system, and the rial's international settlement status was severely impacted. This case has significant reference value for studying the sanctions risks faced by the RMB. The sanctioning party often uses measures such as cutting off financial transaction channels and freezing assets to block the currency in the international settlement system. This has led to a sharp decline in its settlement scale, a significant contraction in its application scope, and a rapid decline in its international settlement status. From these cases, it can be seen that sanctions have a huge impact on the settlement status of currencies, and the international settlement of the RMB also needs to be vigilant against such risks.

In the face of sanctions risks, the policy level can actively participate in the formulation of international rules through multilateral diplomacy, build friendly and cooperative relations with various countries, and reduce the possibility of sanctions. Enhance the capacity for risk early warning and response, and ensure the stability of the RMB settlement system. At the same time, encouraging policies will be introduced to support the expansion of cross-border RMB settlement business, guide financial institutions to innovate hedging tools, and enhance the resilience of RMB international settlement against sanctions [12]

#### **Chapter 4 The comprehensive impact of limitations on the internationalization process of the RMB and the national economy**

This section elaborates on the limitations that hinder the internationalization process of the RMB, restricting the development of international settlement functions and hindering the improvement of its status in the global monetary system. At the same time, it has an impact on China's economy, bringing negative effects on trade and investment as well as challenges to the implementation of macroeconomic policies.

##### **4.1 Limitations Hinder the Internationalization Process of the RMB**

The limitations of the RMB in international settlements, such as convertibility, market openness and sanctions risks, have greatly hindered the improvement of its status in the global monetary system. These factors have restricted the wide application and recognition of the RMB in the international financial market, making it difficult for it to compete with strong currencies such as the US dollar and the euro. As a result, its proportion in the composition of international reserve currencies has been hard to increase significantly, and the process of the RMB becoming a major global currency has been delayed.

The limitations of the RMB in international settlement restrict the development of its international settlement functions. The capital account is not freely convertible, restricting trade and investment settlement. The imperfection of the financial market has affected the performance of the RMB's investment and reserve functions. These factors have put the expansion of the RMB's settlement functions such as international payment, pricing and reserve in a difficult situation, making it hard to fully meet the demands of the international market and hindering the in-depth development of the RMB in the field of international settlement.

##### **4.2 Impact on the Economy**

The limitations of the RMB in international settlements have a negative impact on China's trade and investment. From the perspective of trade, the RMB is often excluded when settling accounts with major trading partners such as Europe, the United States and Japan. Moreover, the technological content of China's export commodities is low and their competitiveness is insufficient, which affects the profits of foreign trade. In terms of investment, the insufficient opening up of the capital account and the inconvenience for foreign investors to obtain and trade the RMB have



dampened their enthusiasm for investment and are not conducive to attracting foreign capital and expanding overseas investment.

The limitations of the RMB in international settlements also pose challenges to the implementation of macroeconomic policies. Due to the limitations of the convertibility of the RMB and the openness of the market, the autonomy and effectiveness of monetary policy may be weakened. For instance, when dealing with inflation or deflation, policy transmission may be hindered. At the same time, the risk of sanctions requires policy-making to take into account the international situation, increasing the difficulty of policy coordination and making it hard to start solely from domestic economic demands, which brings many challenges to the precise implementation and regulation of macroeconomic policies.

### **Conclusion**

This article delves deeply into the main limitations of the RMB in international settlements, as well as their impacts and countermeasures. Research findings indicate that the convertibility of the RMB, the openness of the Chinese market, and the risk of sanctions pose significant obstacles to its international settlements, restrict the process of RMB internationalization, and bring challenges to the implementation of China's trade, investment, and macroeconomic policies. To this end, it is necessary to take a dual approach from both policy and market levels, optimize the opening-up policy of the capital account, promote the reform of the financial market, formulate policies to deal with sanctions risks, encourage business innovation of financial institutions and adjustment of settlement methods by enterprises, so as to break through limitations and promote the development of international settlement of the RMB.

On the one hand, with the advancement of the internationalization of the RMB and the enrichment of data, it is possible to explore the performance of the RMB in other fields more comprehensively and deeply, such as its application in the international financial derivatives market. On the other hand, against the backdrop of continuous changes in the global economy and financial markets, how to further promote the comprehensive and steady progress of the internationalization of the RMB and facilitate the balanced development of its three major international functions will be an important direction. In addition, it is of great significance to study the quantitative assessment of sanctions risks and the effectiveness of response strategies, as well as how to better implement response strategies at the market level.

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