

The Enlightenment of Internationalization of Mark and Yen to Internationalization of RMB

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Abstract

The internationalization processes of Mark and Yen are not only related to the economic strengths of their countries, but also are closely with the integrity of their financial systems and openness and supervision degree of their capital accounts. Different internationalization paths and different external impact factors lead to differences between the results of the current internationalization. Without a comprehensive institutional guarantee, without supports from deep and broad trading and financial markets, without the backup of a strong economy, there would be impossible to implement the economic activity of the current internationalization. China should learn from the historical processes of the current internationalization of Japan and Germany, make efforts to circumvent their deficiencies and gain the positive experience.

Key words: Mark; Yen; RMB; Internationalization

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INTRODUCTION

The internationalization process of a currency can bring enormous economic and political interests to the country. As for pound, Britain used its colonial strategy to regulate economy and implement the mandatory currency to its colonies, which made pound have a great facility to be in

circulation in other countries outside the United Kingdom under its power. As for US dollar, due to the inherent historical factors and strong economic strength, US dollar's absolute status of international reserve currency has been unshakeable till now. However, compared with the dominance of pound and US dollar, Japan and Germany have undergone more hardships during their respective currency internationalization process.

1. A COMPARATIVE ANALYSIS ON THE CURRENCY INTERNATIONALIZATION PROCESSES OF JAPAN AND GERMANY

Throughout the internationalization history of the currencies of Japan and Germany it can be found that although both countries chose to promote currency internationalization in the field of international trade, the internationalization effects of the two currencies are quite different.

Firstly, let's look at the internationalization experience of the Deutsche mark. During the eight years from 1972 to 1980, Germany has formed a lot of trade surplus and deficit of capital accounts in its international balance account. But with the sharp appreciation of the mark, Germany took advantage of the deficit of capital accounts to output mark to the world, which formed a supply of the mark in the international market and brought about huge economic benefits to Germany.

Firstly, the outflow of mark inhibited the demand-led inflation pressure caused by the long-term economic growth, at the same time it also reduced the pressure of mark's continued appreciation to a certain extent.

Secondly, during this period the USA was experiencing a high inflation, the devaluation of the US dollar in the domestic also reduced the loss of buying assets of mark in the market. Germany has experienced more than forty years' postwar economic reconstruction and recovery, and

has achieved success both in economic size and economic structure, therefore, naturally, mark has joined the rank of US dollar and pound to become a new international currency widely accepted by the international market. Japan, on the contrary, from 1970s to 1980s also faced the rising prices of assets and yen's appreciation under the impacts of trade surplus, but before and after Hiroshima agreement has been assigned, yen fluctuated frequently which greatly impaired its internationalization process. Many countries which had used yen as a settlement and valuation had to switch to another currency, which led to that yen's value storing function were unrealizable. Compared to d-mark's preservation property, yen gradually lost the investment demands and under the fluctuations in price, its speculative property has become increasingly apparent, which is a key for the gradual loss of confidence in the market.

2. BASIS FOR THE INTERNATIONALIZATION OF A CURRENCY

From the internationalization processes of pound, US dollar and yen, we can see that the internationalization of a country's currency requires certain conditions and characteristics.

2.1 Enormous Economical Scale

Without the backup of a strong economic strength, internationalization of a currency will become castles in the air. Economic scale can reflect a country's international trade, consumption, investment and international capital and financial transactions to a certain extent. When a country's currency becomes an international currency, its monetary supply is not only determined by the country, and the monetary policies are also influenced by exterior factors. Therefore, the wealth level, trade volume and accumulation of foreign exchange reserves reflected by the economic scale can act as favorable buffers to cope with various impacts, and provide a strong support of stable economic entity for the outflow and inflow of money.

2.2 Leading Scientific and Technological Strength

In the field of currency internationalization, scientific and technological progress also plays a pivotal role, such as in the Middle Age, Britain created a prolonged economic myth in virtue of the industrial revolution and replaced Netherlands to become the overlord of world economy, thus pushed pound to the supreme position of international currency, or with today's high comprehensive development of science and technology, the USA is also able to maintain the hegemony of US dollar relying on its comparative advantages. Technological differences are embodied in the superiority of products, which enable other countries which hold an international currency to

enjoy the benefits of this currency and buy high-value-added products which cannot be produced by themselves. Similarly, Japan and Germany are both technologically powerful countries. They both have outstanding advantages in high-end equipment manufacturing and other strategic emerging industries which are unmatched by other countries, which form the basis for international trade and create an original condition for the increase in acceptance of a country's currency's internationalization.

2.3 Stable Currency Value

For International monetary payments, exchanges, distributions and even the reserve function, the most important prerequisite is that a currency has a stable value. The stability of a current price relates to its faith and reputation from the international market, and relates to the changes of economic interests of all parties. An extremely unstable currency is unable to fulfill its long-term international monetary functions. If the exercise of a currency's settlement and valuation functions have brought a large degree of exchange rate risk to the holders, it will greatly derogate the acceptance of this currency and not conducive for it to act a means of value maintenance and reserve, so that the currency will eventually lose its international currency status.

2.4 Developed Foreign Trade

International currency is born of the development of international trade. Because of the increase of frequent bilateral and multi-lateral trades, people began to seek the most convenient transaction ways and methods in the market. International currency is precisely the important result during the developmental process of international trade. It appears to optimize trades, and brings absolute superiority for all countries from the perspective of economic benefit. Without trade development of a country, there will not be internationalization of the currency in the country, and only with a deeply and broadly developed foreign trade, a currency can meet the important prerequisite to be accepted by the international market.

2.5 Continued Growth of Foreign Investment

Huge foreign trade surplus brings impacts on many aspects to the issuing country of an international currency. Firstly, the foreign trade surplus in the country has formed a huge accumulation of foreign exchange reserves, which help provide enough wealth to conduct foreign investments and make up the deficits of capital accounts. Secondly, appreciation of this international currency brought by the surplus promotes the investment enthusiasm of foreign investors, and enhances the international purchasing power of the currency. This will greatly induce the foreign investment enthusiasm of holders of this international currency and increase their export of capitals. Finally, as the outflow of a large number of the international currency, there must be a positive influence on the international currency holding

in a specific region. This process will further promote the multi-regional acceptance of the international currency, and promote economic exchanges among multi-parties.

2.6 Government's Active Promotion

Even from a fundamental point of view, the process of internationalization of a currency is the result of market choice, not the passive acceptance of countries, we also should not ignore the positive role of government in promoting the internationalization of a currency. Although the market is a pair of invisible hands which spontaneously implement the internationalization process of a country's currency with its operational mechanism, the market is not perfect and omnipotent. Currency internationalization process relying solely on market forces is slow, delayed and inefficient. Therefore, we should pay attention to the involvement and execution of government in the process of internationalization of a currency, and use its positive functions to shorten and accelerate this process.

3. ENLIGHTENMENTS TO THE INTERNATIONALIZATION OF RMB

From the review of current internationalization processes of Japan and Germany, we can learn a lot of experience and references for the process of internationalization of RMB. During the past 10 years China has also experienced a long-term rapid growth of the economy, and had the tendency to take export as the main way to spur economic growth, which made China accumulate a lot of foreign trade surplus. This situation is similar with Japan and Germany in 1970s to 1980s, but the difference is that China has a big gap in terms of economic structure, technological innovation and per capita output level of the two countries. Meanwhile, in the background of external

economic crisis, China further delayed the opening of capital accounts. Thus offshore RMB could not find an effective back-flow channel to form funding cycles and value increases. Therefore, China should learn from the historical processes of the current internationalization of Japan and Germany, strive to avoid their deficiencies and draw lessons. This requires our country in the future to pay attention to guide RMB to gradually move forward from regional integration towards internationalization. Based on regional economic and financial cooperation, we should be first of all enhancing the implementation of RMB cross-border trade settlements. Secondly, diversify RMB investment tools and risk hedging instruments, maintain the stability of the RMB exchange rate to avoid the recurrence of frequent price fluctuations of yen. Finally, explore more RMB back-flow mechanisms and methods, relieve foreign investors' worries in the appreciation of RMB assets. To Asia, RMB and yen are both seeking monetary cooperation within the region. Monetary integration in Eastern Asia and the establishment of an Asian co-prosperity sphere is both reflections of active promotion attitude of governments. Therefore, we should make better use of these advantages to accelerate the internationalization process of RMB.

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