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Research on the Impact of Bond Market Opening on Currency Internationalization

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Abstract

A mature and open financial market is a key support for the internationalization of a currency. The bond market, with its relatively lower risk, becomes a crucial venue for opening up and attracting foreign capital to participate in trading. In light of this, this paper studies the mechanisms by which the opening of the bond market impacts currency internationalization from the perspectives of the "currency circulation path" and the "international functions of currency." Additionally, it provides specific recommendations on how the bond market can better facilitate the internationalization of the Renminbi, considering China's national conditions and development trends, to support the process of Renminbi internationalization.

Keywords

Bond Market Opening; Currency Internationalization; Renminbi.

1. Introduction

Since China initiated the pilot program for cross-border trade RMB settlement in 2009, the strategy for RMB internationalization has been established. Nearly 15 years have passed since then. During this period, the role of the RMB on the international stage has steadily strengthened, and its functions as an international currency have continuously improved, yielding significant achievements. In recent years, guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, China has deeply implemented the decisions of the 20th National Congress of the Communist Party of China, steadily advancing the internationalization of the RMB, and adopting multiple measures to promote the two-way opening of financial markets. In May 2022, the People's Bank of China, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange jointly issued Announcement [2022] No. 4 (on Issues Concerning Further Facilitating Overseas Institutional Investors' Investment in China's Bond Market), coordinating further opening of the interbank and exchange bond markets to foreign investors.

Given the relationship between the opening of the bond market and currency internationalization, numerous domestic and international scholars have conducted extensive research on this relationship. Firstly, in terms of bond market opening, researchers have reviewed the process of bond market liberalization (Tan Xiaofen and Xu Huilun, 2018; Gui Hefang, 2003; Xie Duo, 2013) and proposed suggestions on the timing of opening different types of capital accounts (Li Wei and Zhang Zhichao, 2009). Secondly, regarding currency internationalization, existing literature has examined the cases of the United States (Chen Yulu, 2005; Frankel, 1991), the United Kingdom (Simon Kuznets, 1971), and Japan.

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2. The Development of China's Bond Market Opening and RMB Internationalization

2.1. The Evolution and Current Status of the Opening of China's Bond Market

China's bond market has undergone a gradual process of marketization and opening to foreign investors. Initially, the market transitioned from over-the-counter (OTC) to on-exchange trading, primarily focusing on the interbank market. The market scale and variety of instruments have continuously expanded, and regulatory frameworks have progressively improved. The opening process can be roughly divided into the following three stages:

2.1.1. First Stage: Initial Opening (1997-2007)

During this period, China cautiously opened its bond market to foreign investors. Starting in 1997, China allowed foreign institutional investors to access the domestic bond market, but with significant restrictions. Additionally, the basic market structure was not yet fully developed, and investment channels were limited, resulting in relatively modest foreign capital inflows.

2.1.2. Second Stage: Gradual Deepening (2008-2015)

Following the global financial crisis, China accelerated its financial reforms. The introduction of the Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) programs significantly enhanced the accessibility of China's bond market for foreign investors. In 2010, China opened its interbank bond market to foreign central banks, multinational financial institutions, and other official entities, allowing them to trade bonds in the domestic interbank market.

2.1.3. Third Stage: Comprehensive Opening (2016-Present)

In 2016, the Bond Connect program was launched, providing direct access to the interbank market and simplifying investment procedures. This offered foreign investors a more convenient way to invest in China's bond market. Additionally, the inclusion of Chinese government bonds and policy bank bonds in international indices and the easing of entry requirements for foreign banks further promoted the internationalization of the RMB. For instance, in 2019, Chinese government bonds and policy bank bonds were included in the Bloomberg Barclays Global Aggregate Index, further stimulating global investor interest in China's bond market and advancing the RMB's internationalization process.

Overall, the opening of China's bond market is an orderly and gradual process. As the market matures, regulations improve, and international cooperation deepens, the appeal of China's bond market to foreign investors continues to rise, with foreign investor participation steadily increasing. Looking ahead, as China continues to open its financial markets and accelerate its globalization efforts, the role of foreign investors in China's bond market is expected to expand further.

As of the second quarter of 2023, the size of China's bond market has exceeded RMB 150 trillion (Figure 1), making it the second-largest bond market in the world. China's bond market primarily consists of government bonds, policy bank bonds, commercial bank bonds, corporate bonds, enterprise bonds, convertible bonds, and local government bonds. With the rapid growth of China's economy, the government is actively promoting further opening and innovation in financial markets, resulting in the rapid expansion of the bond market. The domestic debt market is continually optimizing its system structure, enhancing market functions, and increasing its degree of internationalization. For example, the Chinese government is actively promoting infrastructure development in the bond market, improving related laws and regulations, and refining the issuance and trading processes to enhance market liquidity and operational efficiency, thereby attracting more long-term investments.

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These efforts significantly enhance the competitiveness of China's bond market and contribute to the internationalization of market funds.

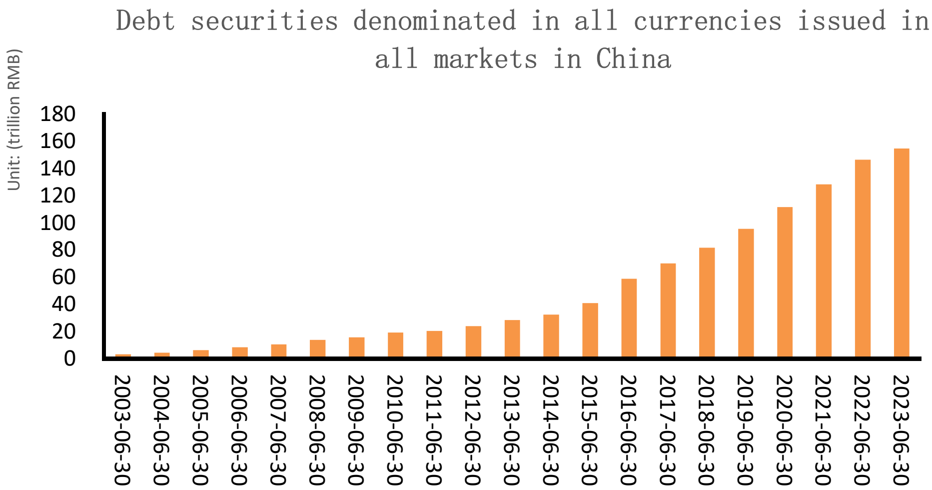

Figure 1. The size of China's bond market from 2003 to 2023

Nevertheless, China's bond market still faces several challenges, such as the need to improve credit risk management mechanisms, enhance market transparency, and further advance trading mechanisms and interest rate market reforms. Additionally, a key issue for regulatory authorities is finding the appropriate balance between financial innovation and risk management.

Overall, China's bond market exhibits tremendous growth potential and development space, but it also requires continuous reform and innovation to adapt to the ever-changing domestic and international economic environment.

2.2. The Development of RMB Internationalization

RMB internationalization is a key component of China's economic opening-up process, which refers to the continued growth of the RMB's international application and recognition, and its gradual transformation into one of the world's trade, investment, financial transactions and reserve currency options. Since China launched a pilot program for RMB cross-border trade settlement in 2009, the RMB's status on the international stage has significantly improved. Key development milestones include the RMB joining the Special Drawing Rights (SDR) basket of the International Monetary Fund (IMF) and becoming one of the world's major reserve currencies; the establishment of a "RMB clearing bank" network in major financial centers around the world, enhancing Its international liquidity; and the establishment and gradual improvement of the "Cross-border RMB Payment System" (CIPS) have improved the efficiency of RMB in cross-border payments. According to the "2023 RMB Internationalization Report" released by the People's Bank of China, as of the end of 2022, the share of RMB used in global trade financing reached 3.91%, an increase of 1.9 percentage points from the previous year, ranking third.

In addition, RMB internationalization also includes promoting the development of offshore markets, such as the establishment of offshore RMB trading centers in Hong Kong, London, Singapore and other places, providing a range of financial services, including deposits, lending, bond issuance and trading services. The overseas RMB bond market, known as the “Panda Bond Market”, also continues to grow. According to the 2022 survey results of the Bank for International Settlements (BIS), the RMB's trading share in the global foreign exchange market has increased from 4.3% to 7% in the past three years, and its ranking of global currencies has

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risen from eighth to fifth. Despite this, the internationalization of the RMB still faces challenges, such as China's capital account has not yet been fully liberalized, the RMB exchange rate formation mechanism is still being further optimized, and there is still room for improvement in the international market's recognition of the RMB.

Overall, despite the challenges, the Chinese government remains firm in its determination to promote the internationalization of the RMB. With the implementation of a series of policies, the international status and scope of use of the RMB are expected to continue to expand.

3. The Impact Mechanism of Bond Market Opening on Currency Internationalization

3.1. Based on the Currency Circulation

By introducing foreign issuers, foreign investors and developing offshore bond markets, the bond market has established channels for the outflow and return of money, as well as channels for overseas circulation. These channels help to improve the liquidity and recognition of the local currency in the international market, thereby promoting the internationalization of the currency.

(1) Introducing foreign issuers to promote monetary capital outflow

Allowing foreign institutions to raise funds in local currency in the domestic bond market can attract foreign issuers, including international institutions, foreign governments and multinational companies, to participate. The local currency bonds issued by these issuers can be subscribed by domestic and foreign investors, thereby promoting the outflow of local currency capital and expanding its application and influence in the global financial market. For foreign issuers, raising funds through the bond market is often more economical than through bank financing, because raising funds directly in the capital market is often more cost-effective. Large and stable enterprises with large assets, excellent credit ratings and low probability of default are more easily digested by the market. Debt financing is not only cost-effective, convenient and can enhance the reputation of the enterprise, so it has become a more suitable financing channel for foreign issuers.

(2) Introducing foreign investors to promote the return of monetary capital

Opening up the country's bond market to foreign investors can attract overseas funds. When these overseas investors purchase bonds denominated in the domestic currency, they need to convert their foreign currency into the domestic currency, which helps promote the return of funds. This process not only brings new capital injections to the domestic bond market, but also increases the demand and trust of the local currency in the global market. After the US dollar flows out through the trade deficit, most of it flows back in the form of purchasing debt instruments, which slows down the impact of global capital movements on domestic financial policies. The internationalization of currency has triggered a wider range of cross-border capital flows, which may pose challenges to the supervision and implementation of monetary policy. However, by incorporating foreign investors into the domestic bond market, the country can influence the decisions of external investors through open market operations, thereby reducing the interference of international capital flows on monetary policy.

The stability of the bond market and the participation of institutional investors make it an ideal way to manage risks and capital repatriation. By investing in debt securities, the burden of the current account can be alleviated and the value of the currency can be kept stable. Introducing foreign investors can also increase the seigniorage income of currency internationalization, that is, the difference between the face value of the currency and the printing cost. Because government bonds are low-interest financial instruments, the participation of foreign investors can increase the country's income from seigniorage.

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(3) Developing offshore bond markets to build overseas circulation channels

The offshore bond market is a market for non-residents to trade local currency bonds, which helps the circulation of local currency overseas. Due to its relatively loose regulation and favorable tax policies, the offshore market has attracted a large number of non-resident investors and improved the international concentration and liquidity of the local currency. For example, the offshore market of the US dollar helps maintain its global status. Its highly liquid bonds reduce holding costs and support the pricing and settlement functions of the US dollar. In addition, the pricing of the offshore market is more market-oriented and sensitive to interest rate changes. Its interconnection with the onshore market enhances the price discovery ability of the onshore market.

These three channels complement each other and jointly promote the internationalization of the domestic currency. The participation of foreign issuers expands the international use of the local currency, the participation of foreign investors increases the international demand for the local currency, and the offshore market connects domestic and foreign markets and improves the international liquidity of the local currency. With the help of these mechanisms, the internationalization of domestic currencies can be effectively promoted and their influence in the international financial architecture can be enhanced.

3.2. Based on Monetary Function

The opening of the bond market can enhance the three functions of international currency at multiple levels. In terms of the function of medium of payment, the participation of international investors in the domestic bond market promotes the cross-border flow of local currency capital, making the local currency more frequently used for cross-border payments and settlements, thereby strengthening its function as a medium of payment. When more international transactions and loans are priced and repaid in the currency of the open country, the liquidity and recognition of the local currency are improved, further enhancing its function as a medium of payment. In terms of the function of unit of account, the opening of the bond market increases the number and diversity of financial assets denominated in the local currency, promoting the popularity of the local currency as an international unit of account. The increased recognition of debt instruments denominated in the local currency by global investors strengthens the status of the currency as an international unit of account. In terms of the function of value storage, the open bond market provides international investors with investment channels denominated in the local currency, transforming the local currency into a means of attracting foreign savings, thereby enhancing its function as a means of storing value. Foreign investors hold the local currency by purchasing local currency bonds, making the local currency part of the diversified investment portfolio and reserve assets of global investors, thereby strengthening the value storage function of the local currency.

In summary, the opening of bond markets promotes the wider use and recognition of international currencies around the world by providing a transparent, accessible and liquid financial environment, enhancing the functions of these currencies in payment, pricing and storage of value.

4. The Internationalization Experience of the US Dollar and the Japanese Yen and Its Implications for the RMB

4.1. The Opening of the US Bond Market and the Internationalization of the US Dollar

As one of the most mature markets in the world, the opening process of the US bond market can be summarized into the following stages: At first, from the late 18th century to the early 1970s, the market developed slowly. Although the investment atmosphere was not active, the

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market was always open to foreign capital. In 1853, foreign-owned US securities accounted for 18% of the total. In the 1970s and 1980s, affected by the oil crisis and financial liberalization, the bond market became the main channel for financing, the market size expanded, and the market function was enhanced. Since the 1990s, the US bond market has developed rapidly and has become the world's largest and most influential market.

"Yankee bonds" are debt instruments issued by foreign institutions in the US market and denominated in US dollars. They have flourished since the 1960s and have become the main way for foreign issuers to raise US dollar capital. Although the development was restricted by US policy control from the late 1960s to the early 1970s, after the control was relaxed in the later period, the "Yankee bond" market accelerated its growth again and maintained stable development in the 21st century, becoming an important foreign bond market in the world.

The transparency and marketization of the US bond market provide a solid foundation for the popularization of the US dollar as an international currency. The Bretton Woods system established a peg between the dollar and gold, establishing the dollar's central position in the global monetary system. Although the system collapsed in 1973, the dollar's international status remained intact. After the global financial crisis in 2008, despite initiatives to reduce the dollar's dominance, the dollar remained the main reserve currency. After the launch of the Marshall Plan, the dollar mainly flowed out of the United States through capital and financial account deficits and returned in the form of current account surpluses. The opening up of the US bond market played a decisive role in promoting the dollar to become a universally accepted international currency. The two promoted each other and developed together. The United States took advantage of the opportunities of the two world wars to rise to become the world's largest economic entity, which provided a solid foundation for the dollar's global dominance. The dollar is widely used in international trade settlement and investment financing, and the United States' political influence, economic power and military strength provide key support for the global popularity of the dollar. At the same time, the openness of the US bond market also paved the way for the global circulation of the dollar, further promoting its widespread use in international transactions, investments and as a reserve currency.

4.2. The Opening of Japan's Bond Market and the Internationalization of the Yen

The Japanese bond market is gradually moving from being closed to being fully open to the outside world. Since the post-war reconstruction period in the 1960s and 1970s, the banking industry has played a central role in economic revival. With the rapid economic development, the bank-led financial system has been strengthened. From the 1970s to the end of the 20th century, Japan began to promote financial liberalization. Measures included achieving market pricing of interest rates, relaxing regulations on the securities industry, and easing foreign exchange controls. After experiencing the impact of the bursting of the economic bubble in the 1990s, Japan implemented the "Financial Big Bang" reforms, aiming to build Tokyo into a global financial center, and then completed the complete opening of the bond market to the outside world. Entering the 21st century, Japan's financial and economic system began to transform into a structure in which the banking industry and the capital market kept pace with each other, prompting the bond market to enter a new stage of steady development and making significant progress in opening up to the outside world.

In response to the pressure of the yen's appreciation, the Japanese market introduced "samurai bonds", which are yen-denominated debt securities issued by foreign governments and financial institutions. From 1970 to 1983, the "samurai bond" market grew slowly, but with the deregulation of Japan's offshore yen bond market in 1984, the "samurai bond" market ushered in rapid growth. Since 2000, the "Samurai Bond" market has entered a period of steady growth. However, the level of internationalization of the Japanese bond market is still low, with foreign

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investors holding only about 10% of Japanese yen debt securities, and the share of "samurai bonds" in the Japanese government bond market has never exceeded 2%.

In the 1990s, Japan's economic bubble and the 1997 Asian financial crisis caused serious obstacles to the globalization of the yen. Due to its complex and inefficient issuance procedures and high issuance costs, Japan's domestic bond market is unable to compete with the international market, resulting in capital flows to more mature offshore markets. Foreign investors and Japanese companies prefer to issue Japanese yen bonds in the offshore market, ignoring the domestic market. This unbalanced development model hinders the internationalization of the Japanese yen and becomes an example of unsuccessful internationalization.

4.3. Enlightenment on the Opening of China's Bond Market and the Internationalization of RMB

First, further promoting the opening of the bond market is a key measure for the internationalization of the RMB. On the one hand, the bond market constitutes the main channel for the inflow and outflow of international capital. The further opening of China's bond market will help strengthen the liquidity of international capital and the liberalization of capital accounts, thereby increasing international investors' holdings of RMB-denominated assets; on the other hand, a developed and open bond market is a core component of global monetary liquidity and plays a vital role in maintaining the stability of currency value. By analyzing the opening of the bond markets in the United States and Japan and their currency internationalization paths, it can be seen that while the United States has exported a large amount of dollars, it has relied on mature bond markets to establish an effective mechanism for the return of dollars, ensuring the stability of the dollar value and thus consolidating its global currency status; in contrast, Japan's domestic bond market lags behind and the international bond market develops ahead of time, resulting in the obstruction of the return of the yen, which has restricted the pace of the internationalization of the yen. Therefore, a mature bond market is crucial to the return of international currency and is also a basic condition for achieving internationalization.

Secondly, whether it can be achieved as a currency denominated in international bonds is an important indicator for measuring the level of currency internationalization. Take the success of the internationalization of the US currency as an example. With its mature debt market, the US has issued a large number of bonds denominated in US dollars, attracted many overseas investors, increased the proportion of the US dollar in overseas investors and international reserve assets, and finally established its position as the world's leading currency. Learning from the US practice, actively developing and opening up my country's bond market will help expand the scale of bonds denominated in RMB and increase the proportion of international investors' investment in RMB assets, thereby promoting the internationalization of RMB.

5. Suggestions on China's Bond Market Opening to Support RMB Internationalization

The opening of China's bond market is aimed at promoting the RMB as a global currency, and the corresponding policy framework has been established. These factors make the bond market an ideal place and key link to promote the wider internationalization of the RMB. Therefore, the continued growth of China's bond market should be closely integrated with the process of RMB internationalization to support the country's macro-development strategy.

5.1. From the Perspective of Improving the Monetary Circulation Mechanism

5.1.1. Control the Speed of Capital Account Opening to Ensure the Stable Development of the International Bond Market

Under the general background of China's policy to promote comprehensive opening up, the opening up of financial markets is a clear trend, and the liberalization of capital accounts is a key link in building an open economic system. Given that China's exchange rate marketization mechanism has yet to be improved and the development of domestic financial markets still needs to be strengthened, a certain degree of capital control will still need to be retained in the short term. Therefore, China's capital account opening will adopt a gradual strategy. From the RMB Qualified Foreign Institutional Investor System (RQFII), the Qualified Foreign Institutional Investor Policy (QFII) to the "Bond Connect" program, the steady reform of China's bond market has created a good development environment for the RMB international bond market. In the process of gradually relaxing capital account controls, on the one hand, it is necessary to continue to promote institutional innovation, introduce more reform pilots for several areas of the capital market, and promote the opening up of projects such as money markets, securities investment, derivative instruments and commercial credit. On the other hand, it should focus on expanding the scope of private capital flows, allowing domestic residents to allocate overseas assets more widely, while increasing the supply of RMB assets.

5.1.2. Deepen the Domestic Financial Market and Improve the RMB Capital Repatriation Mechanism

In order to promote market development, it is necessary to first deepen financial system reform and increase the proportion of direct financing. Drawing on the experience of mature markets in the United States and Europe, a developed treasury bond market is a key indicator of the depth and breadth of financial markets. China can appropriately absorb foreign practices and promote the functions of the domestic bond market in financing and price discovery through the growth of the treasury bond market. Secondly, coordinate the development of offshore and onshore RMB bond markets, because a mature onshore market is an important way for currency to flow back. The internationalization of the US dollar has used its mature domestic bond market as a return channel, while the internationalization of the Japanese yen is hindered mainly because its onshore market lags behind the offshore market. Third, the policy formulation of the secondary market for international RMB bonds should further improve the listing and trading procedures, reduce the differences in domestic and foreign ratings, and increase the attractiveness of the primary and secondary markets to domestic and foreign investors. For "Panda Bonds", it is also necessary to increase the willingness of issuers to use RMB and more effectively enhance the international currency function of RMB.

5.1.3. Strengthen Macro-prudential Management to Ensure the Stability of RMB Asset Flows

China has been adjusting its macroprudential policies to adapt to market changes. These adjustments include the establishment of the Financial Stability and Development Committee to coordinate macro policies; improving the financial institution rating system; unifying asset management regulatory standards; adjusting cross-border capital flow measures; and strengthening financial investment supervision of non-financial enterprises. In 2018, China strengthened macroprudential supervision, such as raising the foreign exchange risk reserve ratio, enabling the "countercyclical factor" of the RMB against the US dollar, strengthening the monitoring of cross-border capital flows, and regulating the flow of cross-border RMB capital pools. In the RMB international bond market, supervision needs to be consistent with international standards and improve the monitoring and management of cross-border capital flows to prevent and control risks and ensure the stable flow of RMB assets.

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5.2. From the Perspective of Enhancing the International Currency Function

5.2.1. Enhance the Function of Money as a Medium of Payment

1) Strengthen economic strength and enhance trade competitiveness to lay a solid foundation for the internationalization of the RMB

The improvement of economic strength will promote the development of the international bond market denominated in RMB. In the new stage of moving towards high-quality development, maintaining a medium-to-high-speed steady economic growth is essential to enhancing China's global influence. Although the currencies of developed countries are usually used as settlement tools in international trade, improving trade competitiveness and increasing export share will help promote the international settlement function of RMB. In particular, the expansion of the "Belt and Road" initiative has increased the diversity of trading partners and promoted the application of RMB in relevant countries and regions through trade settlement. At the same time, RMB international bonds will also play an important role as a means of "investment assistance" to support the development of the "Belt and Road" and enhance the international currency function of RMB.

2) Promote the development of financial infrastructure and simplify the RMB asset trading process

Establishing a sound financial infrastructure is the key to promoting the growth of the international RMB bond market and is the fundamental condition for increasing the convenience and attractiveness of overseas RMB asset transactions. In order to strengthen the role of RMB as a transaction medium in the international bond market, it is necessary to expand the RMB clearing bank network to countries and regions related to the Belt and Road Initiative to facilitate asset transactions and settlements and promote the practical application of RMB internationalization. On the other hand, the functions of the RMB Cross-Border Payment System (CIPS) should be further optimized, as well as its application in the international RMB bond market and its connection with other systems. Although CIPS has greatly promoted RMB transactions worldwide, it still has room for improvement compared with other major international payment systems, such as CHIPS in the United States, TARGET in Europe and BOJNET in Japan, especially in terms of serving the international bond market.

5.2.2. Enhance the Function of Currency as a Unit of Account

1) Promote the market-oriented reform of the exchange rate formation mechanism and ensure the stability of currency value

The stability of currency value has an important impact on the choice of denomination currency by international bond issuers. Ensuring that the RMB exchange rate fluctuates stably within a reasonable range is crucial to the growth of the RMB international bond market. Therefore, it is necessary to further optimize the quotation mechanism of the RMB exchange rate midpoint. Actual operations show that the midpoint formulation method of "closing exchange rate + currency basket changes + counter-cyclical adjustment" effectively stabilizes the exchange rate market and matches China's economic development level and financial market level. With the deepening of market-oriented reforms and changes in the global economic and financial environment, the flexibility and volatility of the RMB exchange rate may increase. In view of this, it is still necessary to carry out appropriate market intervention in a timely manner to ensure that the RMB exchange rate fluctuates in an orderly manner within a reasonable range, especially to adjust it in a timely and effective manner when irrational turbulence occurs in the market.

2) Promote the development of the foreign exchange derivatives market and broaden the risk management methods of RMB assets

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The development of the international bond market requires the use of risk transfer and management tools provided by the foreign exchange derivatives market, which is crucial to enhancing the global attractiveness of the denomination currency. Foreign exchange derivatives can effectively counteract the adverse effects of exchange rate fluctuations on capital costs and help transfer risks. With the further opening of financial markets and the reform of the exchange rate system, the demand for foreign exchange precautions has increased, and there is an urgent need to expand the RMB foreign exchange derivatives market. Further develop diversified financial derivatives, expand currency swap business, and encourage innovation in non-US dollar foreign exchange products to meet the risk management needs of international investors. At the same time, strengthen market supervision and improve prudent regulatory measures, such as establishing a transaction monitoring and over-the-counter transaction reporting system to prevent the risks brought about by the leverage effect of derivatives. With reference to the standardized texts of the International Swaps and Derivatives Association (ISDA), formulate a legal framework related to RMB derivative transactions to strengthen the regulatory system.

5.2.3. Strengthening the Value Reserve Function of Currency

1) Expand the maturity types of RMB international bonds to adapt to diversified investment needs

Whether it is "Panda Bonds" issued domestically or RMB bonds issued overseas, most of them focus on short-term maturities of 3 to 5 years, which is compared with the long-term maturities of "Yankee Bonds" and "Samurai Bonds" that are common in the international market. , there is a significant difference. These international bonds were often used for infrastructure financing in the early days, similar to the current role of "Yankee Bonds" in supporting the "One Belt, One Road" initiative. Taking into account the market's demand for diversified RMB asset allocation, the issuance period of RMB international bonds is expected to be extended to the medium to long term. In terms of market participants, the government and large institutions are currently dominant, with less participation from private enterprises. In order to increase market diversity, consideration should be given to lowering the threshold and innovating supervision, attracting more trading parties, and enhancing overseas RMB reserves through various channels such as currency markets, capital markets, and derivatives markets.

2) Enhance the transparency of credit ratings and ensure the credit reliability of RMB international bonds

Compared with the domestic bond market, the international bond market carries more types of risks, such as country risk, credit risk, interest rate risk and currency risk. Domestically, the credit rating system has not yet fully developed and matured, nor has it been aligned with international standards, resulting in exemptions, temporary borrowing, or a high degree of uniformity in the ratings of RMB international bonds. Therefore, for the emerging "Panda Bond" market, it is particularly important to establish a sound credit rating system. At present, the domestic credit rating system is not sound enough, and neither "Panda Bonds" nor offshore RMB bonds can fully demonstrate the role of risk warning. Driven by the “One Belt, One Road” initiative, the RMB international bond market is facing new development opportunities. However, in view of the economic and political risks of participating countries, it is crucial to establish an effective credit rating system. On the one hand, the participation of foreign rating agencies should be used to improve the internationalization level of domestic rating agencies and the transparency of ratings. On the other hand, domestic rating agencies need to be in line with international standards and build a global rating system that takes into account factors such as country risk, exchange risk and industry risk to enhance the role of credit ratings in risk warnings.

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These measures, combined with macroeconomic policies and sound management of financial markets, can not only strengthen the three core functions of the RMB in the global economy - payment medium, unit of account and store of value, but also promote the steady advancement of the internationalization of the RMB. The further development and opening of the bond market should be closely integrated with the goal of promoting the internationalization of the RMB, while balancing domestic and foreign market demand and financing and investment functions. To this end, the global use of the RMB should be supported by establishing a circulation path for the RMB and enhancing the role of the RMB in the international market.

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