Pathways for the Internationalization of the Renminbi under Trump's Trade Protectionism

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Abstract: This paper explores the profound impact of Trump's trade protectionist policies on the internationalization process of the renminbi (RMB). It focuses on analyzing the current development status and challenges of the RMB in its three core functions: settlement, pricing, and reserve currency. The study shows that Trump's tariff policies, supply chain "decoupling" and capital repatriation measures have significantly reduced the frequency of RMB usage in international settlement and pricing while increasing exchange rate volatility, thereby undermining international market confidence and hindering the development of the RMB's reserve currency function. This paper proposes sustainable pathways for RMB internationalization in response to the challenges posed by Trump's trade protectionism, including optimizing China's trade structure, promoting the use of RMB in commodity pricing, advancing the digital RMB, and improving offshore RMB markets.

Keywords: Renminbi Internationalization; Trump's Trade Protectionism; Settlement Function; Pricing Function; Reserve Function

1. Introduction

Since the founding of the United States, its trade policies have reflected a pendulum swing between free trade and trade protectionism, driven by changes in its international economic position and domestic interest group dynamics. Nonetheless, protectionism has always been a fundamental guiding principle of U.S. trade policy and a vital tool for the rise of its economy. During Trump's presidency, under the banner of "America First" and the governing philosophy of "Buy American, Hire American" he implemented trade protectionist policies characterized by unilateralism. These policies included initiating Section 301 investigations against China, imposing multiple rounds of tariffs on Chinese goods--ranging from agriculture, steel, and aluminum to electronic and consumer products--amounting to $50 billion, and tightening scrutiny over Chinese investments in the United States. Simultaneously, various tax incentives were introduced to attract U.S. manufacturing back onshore. The core objectives of these actions were to improve the U.S. trade deficit, stimulate domestic production, and maintain the dominance of the U.S. dollar. The Biden administration, in contrast, has emphasized multilateral cooperation, adopting strategically coordinated trade competition measures with allied nations. However, given the possibility of Trump being re-elected as U.S. president, China needs to anticipate potential changes in U.S. trade policies. Based on Trump's actions during his first term and his frequent campaign rhetoric about imposing tariffs as high as 60% on all Chinese goods and revoking China's most-favored-nation (MFN) status, it is reasonable to predict that Trump will likely continue his trade protectionist agenda, significantly influencing RMB internationalization.

RMB internationalization refers to the use of RMB as a currency for cross-border trade and investment, allowing it to function as a settlement and pricing currency with a certain level of international circulation. This process includes the RMB's ability to be freely exchanged for foreign currencies both domestically and abroad, as well as its role as an international reserve currency. RMB internationalization holds significant importance for both China and the global economy. On the one hand, promoting RMB use in international trade and financial investment allows China to reduce its dependence on the U.S. dollar, mitigate exchange rate and financial sanction risks, and enhance economic security. On the other hand, RMB internationalization fosters the diversification of the global monetary system, providing developing countries with an alternative international currency, thereby contributing to global financial stability. For China, it also enhances the global influence of its monetary policy and strengthens its economic standing. However, Trump's trade protectionist measures stimulate the U.S. economy, impact stock market returns and exchange rate volatility, and exert strong spillover effects on other countries, particularly emerging markets such as China, creating significant obstacles to RMB internationalization.

Facing the potential challenges of a "Trump 2. 0" era, Sino-U.S. relations are likely to become further strained. In this situation, selecting flexible and practical pathways for RMB internationalization becomes even more critical. Adapting to evolving circumstances and seeking breakthroughs in a dynamic environment is essential. Based on an analysis of U.S. trade protectionism, this paper delves into the impact pathways of Trump's policies on RMB internationalization, explores the interconnections between the two, and identifies new pathways for advancing RMB internationalization.

2. Literature Review

The internationalization of the renminbi (RMB) refers to the process through which the RMB gradually functions as an international currency, becoming a primary medium of exchange and unit of account in international trade and cross-border investment, as well as an important official reserve currency. With the orderly progress of RMB internationalization, academic research on this topic has generally focused on four key aspects: the background and significance of RMB internationalization, the influencing factors, the measurement of its indicators, and the pathways to achieving it.

Zhang et al. [1] argue that largely as a result of being the most important medium of exchange and unit of account in the post-war international system, the dollar has widely been considered the key indicator of monetary hegemony. Though waves of de-dollarization and "international backlash against the dollar" expanding opportunities for RMB use, the USD has remained dominant in international currency functions. Meanwhile, Hilper [2] expresses that China is the world's largest trading nation and second-largest economic power. However, the national currency of the People's Republic, the renminbi(RMB), only plays a minor role on the international stage. The low penetration of the RMB on the international financial markets has a negative impact on the Chinese economy. Eichengreen and Kawai [3] analyze the implications of renminbi internationalization not just for China but for other countries, for the geography of international financial business and centers and for the structure of the international monetary and financial system. In terms of the research on factors affecting the internationalization of RMB, Pirankhoo et al. [4] posits that the internationalization of any emerging currency, including the yuan, requires a reduction of uncertainties in both the political and economic domains. The internationalization of a currency primarily depends on the economic capacities of the issuing country and, secondarily, on the trust it commands from other countries. Building on an understanding of these influencing factors, Chen and Hu [5] use indicators representing the RMB's functions of pricing, settlement and reserve to create an RMB Internationalization Index (RII) to evaluate the degree of the internationalization of the currency. The development of RMB internationalization is a challenging journey. Vallée [6] assumes that China's full financial openness that is really necessary for the advancement of the RMB as a an international currency. In the meantime, the existence of the offshore market can play an important transitional role by allowing firms to issue securities in RMB and thereby boost the asset base available in RMB. Mathews and Selden [7] figure that China has launched a new oil futures contract on the Shanghai International Energy Exchange(INE), promising to widen the scope for yuan-denominated trading of oil and other commodities and promote the internationalization of the yuan in the face of aggressive trade tactics launched by the Trump administration.

From the aforementioned literature, it is evident that most scholars emphasize the importance of RMB internationalization in the global economic context and delve into its role in the global trade and investment system. Existing research not only focuses on the progress and influencing factors of RMB internationalization but also employs models and empirical analyses to explore the complex impacts of external environments and international markets on this process. However, while many studies examine the global macroeconomic environment, few scholars have specifically explored the pathways for RMB internationalization from the perspective of U.S. trade protectionism. Therefore, this paper will analyze the transmission mechanisms through which trade protectionism impacts currency internationalization, focusing on Trump's trade protectionist policies to investigate their influence on RMB internationalization. It will ultimately identify viable pathways for achieving RMB internationalization.

3. Theoretical Mechanism

The essence of measuring the internationalization of a country's currency lies in the cross-border expansion of its functions as a settlement currency, pricing currency, and reserve currency. Based on Keynesian monetary demand theory, some scholars have pointed out that the key to currency internationalization is to promote its use as a pricing currency in international trade. Through monetary pricing of goods or services, the associated functions of monetary payment and settlement can be derived. Similarly, through the monetary pricing of financial assets, the international value storage function of the currency can be extended.

According to international trade theory, raising tariffs directly increases the cost of a target country's export goods, reducing their competitiveness. As exports decrease, the opportunities for the target country to use its domestic currency as a settlement currency in international trade are diminished, thereby weakening the settlement function and demand for its currency. Meanwhile, monetary demand theory indicates that the demand for a currency is closely related to the scale of a country's participation in international trade and financial activities. Therefore, a decline in exports directly reduces the frequency of the currency's use in cross-border trade, restricting its expansion in international markets. In international trade, a country's adoption of protectionist policies, such as raising tariff barriers and implementing preferential tax policies, imposes constraints on the settlement function of the target country's currency during its internationalization process.

Based on the theory of capital flows, the outflow of capital from the target country reduces the demand for its currency, weakening its influence as a pricing currency in the international market. When a country adopts preferential tax policies to attract domestic and foreign capital inflows and promote the reshoring of manufacturing, the impact on the target country is significant. Such circumstances make it difficult for the target country's currency to further expand its pricing function in financial assets and trade.

According to the theory of international financial market volatility, when economic uncertainty increases, investors tend to choose safe-haven currencies, which exerts depreciation pressure on the target country's currency and undermines its trust and demand in international markets. The global economic uncertainty induced by protectionist trade policies exacerbates volatility in international foreign exchange markets. The resulting decline in trust further limits the international appeal of the target country's currency as a reserve currency, hindering the expansion of its reserve function across borders.

In summary, trade protectionism, through measures such as raising tariffs, attracting capital inflows, and promoting the reshoring of manufacturing, reduces the frequency and demand for the target country's currency as a settlement and pricing currency in international trade. At the same time, increased economic uncertainty constrains its reserve function in international markets. These factors collectively slow the internationalization and cross-border expansion of the target country's currency in terms of its settlement, pricing, and reserve functions.

4 Trump's Trade Protectionist Actions

4.1 Escalation of Tariff Protectionism

Under the principle of "America First," U.S. political elites believe that China's rise challenges the U.S. -led international order and represents the greatest threat to maintaining U.S. hegemony. In the *National Security Strategy* report, Trump identified China as the primary strategic competitor and a challenger to the current international order. As the economic scale of the U.S. and China converges, the anxiety and sense of crisis regarding the maintenance of U.S. hegemony have intensified. To uphold its status as a superpower, Trump initiated a "Section 301 investigation" on August 18, 2017, targeting China's strategic high-tech industries under the *Made in China 2025* initiative. This marked the beginning of the U.S. -China trade war. On July 6, 2018, the U.S. imposed a 25% tariff on $34 billion worth of

Chinese exports to the U.S., officially igniting the trade war, which subsequently escalated through cycles of friction and negotiation. On July 31, 2019, after the 12th round of negotiations, the Trump administration announced an additional 10% tariff on $300 billion worth of Chinese exports, further escalating the trade conflict. Although the U.S. signed the “Phase One Trade Agreement” on January 15, 2020, it only agreed to lower tariffs on a limited range of goods while maintaining most existing tariffs.

During Trump’s 2024 campaign for the 60th U.S. presidential election, he repeatedly stated that if re-elected, he would continue to implement protectionist tariff policies against China. Between late 2023 and early 2024, Trump announced plans to impose tariffs ranging from 60% to 100% on all Chinese imports, claiming such measures were necessary to address China’s trade practices. In September 2024, during a campaign rally in Wisconsin, Trump proposed a 100% tariff on imports from countries that no longer settle trade in U.S. dollars, aiming to safeguard the international status of the dollar. By November 2024, Trump’s campaign rhetoric continued to emphasize the possibility of imposing high tariffs on Chinese goods, asserting that such measures would enhance domestic production. While some analysts regarded these statements as campaign rhetoric, with actual policy implementation requiring broader considerations, Trump’s consistent stance highlights intensified pressure on China in U.S. trade policy.

4.2 Capital Repatriation to the U.S.

“Make America Great Again” (MAGA) was Trump’s most popular campaign slogan, reflecting Americans’ anxiety over the relative decline of U.S. comprehensive national power. Clearly, revitalizing the U.S. economy to reverse this downward trend was a primary driver behind Trump’s significant tax cuts. On December 22, 2017, guided by the MAGA philosophy, the Trump administration enacted the *Tax Cuts and Jobs Act* (TCJA) to reshape U.S. international competitiveness and leadership. The act included three main provisions:firstly, the corporate tax rate was permanently reduced from 35% to 21%. To encourage repatriation of overseas capital, the act stipulated that returning funds would only be subject to a one-time tax of 15. 5% on cash and 8% on equipment. Secondly, while retaining seven tax brackets, most rates were reduced. Additionally, the standard deduction for individuals was increased from $6, 350 to $12, 000, and for married couples from $12, 700 to $24, 000. Thirdly, while retaining seven tax brackets, most rates were reduced. Additionally, the standard deduction for individuals was increased from $6, 350 to $12, 000, and for married couples from $12, 700 to $24, 000. The tax cuts worsened the U.S. trade deficit, intensifying U.S. -China trade conflicts. For example, while the U.S. imposed tariffs on Chinese imports, exemptions were granted to only a few U.S. -based firms operating in China. This reveals Trump’s intention to encourage U.S. -based and foreign companies to relocate operations back to the U.S., consistent with his tax reduction policies. Through these measures, Trump sought to address issues such as excessive capital outflows, the offshoring of U.S. multinational corporations, domestic job losses, and economic hollowing. By fostering investment in domestic industries, the goal was to achieve economic growth and expand employment, aligning with the structural shift needed to revitalize the U.S. economy.

In the 2024 U.S. presidential and congressional elections, the Republican Party achieved a sweeping victory, with Trump being re-elected as president and the party securing control of both chambers of Congress. As in his 2017–2020 term, Trump demonstrated significant interest in tax policy during his campaign, proposing various tax initiatives. On personal income taxes, he advocated for permanently extending the TCJA provisions, offering substantial tax cuts for workers, and exempting tips, overtime pay, and Social Security benefits from taxation. For corporate taxes, he proposed maintaining the 21% corporate tax rate while introducing a new 15% rate for companies producing exclusively within the U.S. These proposals reflect Trump’s goal of encouraging industrial capital to return to the U.S., revitalizing manufacturing, and alleviating the long-standing issue of industrial “hollowing out. ”

4.3 Exchange Rate and Financial Market Volatility

To consolidate U.S. global leadership and enhance its comprehensive national power, the Trump administration implemented tax reforms centered on significant tax cuts. These demand-side stimulus measures increased demand for U.S. dollars. However, the policy coincided with the Federal Reserve's transition from quantitative easing to interest rate hikes and balance sheet reductions, normalizing monetary policy. The combined effects of these policies accelerated capital flows back to the U.S., attracting foreign capital inflows and exacerbating the scarcity of the U.S. dollar, leading to global exchange rate fluctuations and financial risks.

For the Chinese yuan (RMB), the strengthening of the U.S. dollar exerted persistent depreciation pressure, increasing RMB exchange rate uncertainty. Additionally, U.S. tax reforms stimulated domestic demand and expanded imports, worsening the U.S. trade deficit. As the dollar's appreciation failed to offset the trade deficit, U.S. -China trade frictions intensified. To fulfill campaign promises, the Trump administration adopted various trade protectionist measures, including accusing China of manipulating its exchange rate, imposing tariffs on Chinese goods, and conducting anti-dumping and countervailing duty investigations. These politically motivated actions further destabilized global financial markets.

Against this backdrop, the monetary policies and financial markets of the U.S. and China became highly interconnected. The escalation of the trade war may trigger resonance effects in the two countries' currency markets, intensifying the RMB-dollar exchange rate competition. Rising financial market uncertainty puts long-term pressure on U.S. equities and may constrain China's monetary policy. Thus, the trade war not only deepened economic competition between the U.S. and China but also had far-reaching implications for global exchange rates and financial markets, warranting heightened vigilance against potential risks.

5. The Impact of Trump's Trade Protectionism on the Internationalization of the Renminbi

5.1 Weakening of the Renminbi's International Settlement Function and Demand

The international settlement function serves as the foundation of the renminbi's (RMB) internationalization. Its core lies in promoting RMB circulation in international markets through its use in cross-border trade and investment. However, the trade protectionist policies of the Trump administration have posed multiple challenges to the progress of RMB internationalization, particularly by weakening its settlement function and demand. Measures such as the imposition of tariffs on Chinese goods, initiation of trade investigations, restrictions on technology exports, and suppression of outbound investment resulted in a significant slowdown in the growth rate of Sino-American trade volumes. For some products, trade diversion effects have emerged. For instance, the proportion of U.S. imports of electronics and machinery from Southeast Asian countries increased, while imports from China decreased. This shift in trade volumes directly reduced the use of RMB in Sino-American trade settlements. According to data from the China Foreign Exchange Trade System, the share of RMB in Sino-American trade settlements fell from approximately 10% in 2017 to less than 8% in 2018. Despite China's efforts to promote RMB usage in international markets through initiatives such as the Belt and Road Initiative, the pressure induced by Trump's policies cannot be ignored. Between 2018 and 2020, the RMB's global market share in cross-border payments grew only marginally, hovering around 2%, far below the shares of the U.S. dollar and the euro. This indicates that external policy environments significantly constrained the demand for RMB in international settlements. Moreover, the Trump administration's "decoupling" policy aimed to shift key supply chains from China to other countries or regions, further impacting RMB's role in international settlements. For example, multinational corporations such as Apple reduced their procurement from Chinese suppliers and shifted to suppliers in Vietnam and India. Such adjustments in supply chains not only decreased the likelihood of RMB usage in cross-border trade but also indirectly suppressed the progress of RMB internationalization.

Notably, the RMB officially joined the Special Drawing Rights (SDR) currency basket on October 1, 2016, and RMB crude oil futures were launched on the Shanghai International Energy Exchange (INE) on March 26, 2018. These milestones posed a significant and long-term threat to the currency dominance of countries like the United States. Consequently, during economic exchanges involving trade, investment, and financing between the U.S. and China, deliberate efforts were made to suppress opportunities for RMB usage while simultaneously strengthening the position of the U.S. dollar. Furthermore, the trade protectionism of the Trump administration increased costs and uncertainties for companies engaged in Sino-American trade, further diminishing RMB's appeal in trade financing. For instance, in 2019, due to rising tariff costs, many Chinese exporters opted to use third-party currencies (e. g., the U.S. dollar) for financing to mitigate additional risks arising from exchange rate fluctuations. This, in turn, reduced international demand for the RMB. However, through systemic measures such as promoting the use of digital RMB and establishing bilateral currency swap agreements, there is potential to gradually enhance the RMB's international positioning and usage efficiency, thereby strengthening its importance in the global economy.

5.2 Disruption of the RMB's International Pricing Function

The progress of RMB internationalization is closely tied to its function as a pricing currency. According to the Mundell-Fleming trilemma, or the "impossible trinity" theory of monetary policy, China's current "managed floating exchange rate regime" has undergone multiple reforms, making the direction and extent of the trade war's impact on RMB exchange rates highly uncertain. The emergence of a national currency as an international one is largely driven by its convenience in settlement and the relative stability of its currency system, which boosts confidence in the purchasing power of the currency among foreign institutions and residents.

However, the trade protectionist policies of the Trump administration and the Sino-American trade war significantly affected the stability of RMB's pricing function and its internationalization process. The RMB's pricing function, as the benchmark for valuing goods and assets in international trade and investment, requires high exchange rate stability and market recognition. During the 2017-2020 period, the annualized volatility of RMB-to-dollar exchange rates increased substantially, particularly during the trade war and periods of policy shifts, leading to frequent depreciations. For example, during the 2018 trade war, the RMB quickly depreciated from 6. 3 to nearly 7. 0 against the U.S. dollar. In 2019, after the U.S. labeled China as a "currency manipulator", the RMB experienced a single-day depreciation exceeding 1. 5%. Such volatility heightened international market skepticism about the RMB's pricing function, significantly increasing the risk premium of holding RMB-denominated assets. The disruption to RMB's pricing function was directly reflected in its actual usage in international trade and financial activities. In 2018, international enterprises reduced the proportion of RMB in Sino-American trade settlements, instead opting for the U.S. dollar and other currencies to mitigate exchange rate risks. At the same time, the instability of returns on RMB assets diminished their attractiveness. For example, in 2019, the growth rate of foreign holdings of Chinese bonds slowed significantly as investors reduced allocations to RMB assets due to exchange rate concerns.

Although challenges persist, the RMB's pricing function could be strengthened through enhanced policy regulation, regional monetary cooperation, and exchange rate stabilization, which would provide a solid foundation for RMB internationalization by reducing cross-border transaction costs and building international trust.

5.3 Constraints on the RMB's International Reserve Function

One of the critical goals of RMB internationalization is to enhance its function as an international reserve currency, held by central banks worldwide to address balance-of-payments imbalances. However, Trump administration's trade protectionist policies significantly impacted the RMB's reserve function. With the gradual opening of China's capital markets, foreign capital's share in the Chinese financial market has steadily increased, and RMB assets were once considered potential reserve assets. Nevertheless, during the Sino-American trade war, export-oriented sectors in China—such as high-tech and manufacturing—suffered severe blows, leading to weak performance in related stock and bond markets. For instance, in 2018, Chinese technology companies faced declines in stock prices due to U.S. technology restrictions, resulting in reduced returns on RMB assets and prompting international investors to withdraw.

This capital withdrawal not only undermined the attractiveness of RMB assets but also curtailed the willingness of central banks to hold RMB as reserves. Furthermore, China's economic leadership in emerging economies, a critical driver for RMB internationalization, was constrained by the above measures. Emerging market countries, which typically rely on China's economic growth and capital flows for regional stability, saw their trust in RMB reserve assets diminished as trade war shocks impacted China's economic strength.

The trade war also created spillover effects for Belt and Road Initiative (BRI) countries, challenging RMB's role as a reserve currency. China's economic slowdown during the trade war, coupled with financial market volatility, led BRI countries to lose confidence in RMB. For example, during RMB depreciation, currencies in Southeast Asia and Africa faced similar pressures, triggering capital outflows and rising debt costs. Consequently, the RMB's safe-haven role was weakened, while the U.S. dollar's position as the global reserve currency was further solidified. To enhance RMB's international reserve function, China needs to optimize capital market opening policies, stabilize exchange rates, and strengthen economic support for BRI countries. These measures would help mitigate trade war impacts, reinforce RMB's role in regional economies, and accelerate its internationalization progress.

6. Pathways for the Internationalization of the Renminbi

The settlement function of the renminbi (RMB) is a crucial foundation for its internationalization, particularly in foreign trade where it occupies a central role. At present, foreign trade remains the primary pathway and focus for promoting international demand for the RMB and enhancing its level of internationalization. This aligns with the fundamental purpose of RMB internationalization in serving China's macroeconomic objectives. Continuously adjusting and optimizing the structure of foreign trade, enhancing China's dominance in international trade, and improving strategies to address the challenges posed by Trump's trade protectionism are key to equipping China with more tools to counter external measures. This is essential for advancing the international settlement function of the RMB. Thanks to the efforts of the Chinese government in recent years, the RMB's usage rate as a trade settlement currency has reached a peak of approximately 30%. However, further progress in RMB internationalization requires breaking through the constraints of foreign trade. It is imperative to look beyond Sino-American trade relations and consider China's economic and trade ties with other countries globally. The internationalization of the RMB can follow a gradual process of regionalization first, followed by globalization, as this approach represents a Pareto improvement for global economies, minimizing resistance. China can draw lessons from the path of the euro's emergence during the European integration process and strengthen economic and trade exchanges with ASEAN. As China's largest trading partner, ASEAN offers significant opportunities. With the implementation of the Regional Comprehensive Economic Partnership (RCEP), cooperation between China and countries within the region has become closer. China's central position in the regional industrial chain facilitates the RMB's function as a currency for trade and investment pricing. Moreover, China should actively engage in bilateral currency swaps to promote RMB internationalization. Since 2009, the People's Bank of China has signed bilateral currency swap agreements with countries such as Malaysia, Belarus, Indonesia, and Argentina. In 2019, China and the European Central Bank renewed a bilateral currency swap agreement totaling 350 billion RMB, significantly facilitating trade and investment exchanges between the two sides. These initiatives provide crucial support for the expansion of the RMB's international settlement function.

The RMB's role as an international pricing currency is gradually strengthening, but it still faces numerous challenges. In recent years, the complexity of the global economic landscape and the impact of Trump's trade protectionist policies have resulted in a reduction in the global supply and liquidity of the U.S. dollar. This has driven countries such as Russia, Vietnam, Pakistan, Iran, and several major oil exporters to accelerate their "de-dollarization" efforts. To reduce dependence on the U.S. dollar, these countries have begun exploring diversified foreign exchange pricing mechanisms, with the RMB gaining favor as a relatively stable currency. However, the recurring nature of Sino-American trade frictions and their impact on RMB exchange rate volatility highlight the urgent need to further improve the RMB's stability as a pricing currency. To address this issue, China can draw on the experience of the Japanese yen by linking exchange rate fluctuations to the price index of commodities. Leveraging market mechanisms can enhance exchange rate stability. As the world's largest consumer of commodities, China holds a unique advantage in promoting the use of RMB for commodity pricing and settlement in international trade. This approach not only helps mitigate exchange rate risks associated with third-party currency pricing but also enhances the acceptance of the RMB among commodity-exporting countries, driven by China's massive import demand. Specifically, China should focus on developing RMB-denominated commodity futures markets and establishing internationally influential commodity pricing centers. For key commodities where pricing power is not yet firmly held, China can create demand-oriented futures products to gradually form market-driven pricing mechanisms. Additionally, expanding the global application scope of RMB-denominated commodities, diversifying related financial instruments, and improving the financial services ecosystem—particularly by fostering innovation in commercial banking services for commodities—will provide robust support for RMB internationalization.

The internationalization of the RMB as a reserve currency marks a critical milestone in its evolution as a global currency. Against the backdrop of heightened capital risks in financial markets resulting from Trump's trade protectionist measures, the promotion of digital RMB for cross-border applications presents a significant opportunity for RMB internationalization. Digital currencies can improve cross-border settlement efficiency. Using blockchain and digital currency technologies, countries can establish a more efficient, lower-cost, and safer financial architecture than the existing U.S. dollar-dominated system. China should actively promote pilot projects for cross-border digital RMB settlement and participate in multilateral central bank digital currency bridge (mBridge) initiatives. The mBridge project has the potential to form an international payment and settlement network independent of the SWIFT system, significantly enhancing the appeal of the RMB as a reserve currency. Hong Kong, as the largest offshore RMB clearing center, the largest offshore RMB liquidity pool, the largest offshore RMB bond market, and the largest offshore RMB foreign exchange and derivatives trading hub, has inherent advantages in becoming a central hub for offshore RMB activities. Hong Kong has been an early promoter and full-cycle participant in RMB internationalization. With its diverse offshore financial products, risk management derivatives, advanced infrastructure, and supportive policies, Hong Kong is well-positioned to play a pivotal role as an offshore RMB center. Strengthening the connectivity between mainland China and Hong Kong's financial markets will further solidify this role. If Trump returns to office in 2025, the potential for further Federal Reserve interest rate hikes could lead to renewed RMB depreciation, affecting its international reserve function. Therefore, in addition to developing a highly liquid and diversified financial market and increasing the share of RMB in reserves, China must ensure sustained and stable economic growth. It is essential to maintain the intrinsic value and policy stability of the currency while advancing the opening of financial markets and capital accounts. Establishing transparent and sound financial regulatory frameworks, enhancing the credibility of the central bank, providing robust property rights protections, and fostering a business-friendly environment are critical measures. By building a modern and open Chinese financial system and enhancing the depth and breadth of domestic financial markets, the RMB can expand its role in international trade, reserves, and investment financing. These efforts will ensure a steady and sustainable path toward RMB internationalization.

7. Conclusion

The internationalization of the Renminbi (RMB) is a gradual development process characterized by its long-term, complex, and challenging nature. This process is closely tied to the profound evolution of the global political and economic landscape as well as the long-term progression of the international monetary system. The trade protectionist policies implemented during the Trump administration have had far-reaching effects on RMB internationalization in areas such as foreign trade, the exchange rate market, capital markets, and financial markets.

First, ensuring the sustained growth of China's trade volume and upgrading the overall trade structure—shifting from a major trading nation to a global trading powerhouse—is a vital pathway to advancing RMB internationalization. Starting from the trade channel, this approach provides an essential foundation for the RMB's broader global acceptance. Second, by linking the RMB to international commodities, China can steadily enhance its status as a global pricing currency. The promotion of RMB internationalization through the commodity market should be prioritized, with an emphasis on expanding the international application of RMB-denominated commodities. Finally, with the rapid development of the digital economy, it is crucial to further strengthen the application and innovation of the digital RMB. Leveraging technological advancements will facilitate a smoother RMB internationalization process. Simultaneously, efforts must be made to continue advancing Hong Kong's role as an offshore RMB center, proactively addressing risks stemming from financial market and exchange rate instability. By reinforcing global confidence in the RMB as a reserve currency and mitigating external risks, the internationalization of the RMB can be steadily promoted, contributing to its long-term development trajectory.

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