

Is the Renminbi a Global Currency in the Making? Globalization of Digital yuan

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SUMMARY

Since the global financial recession of 2008 and the subsequent sovereign debt crisis, the US economic supremacy has experienced setbacks. China has steadily grown into a dependable economic force across the globe, particularly in Asia. Is the renminbi on the verge of becoming a global currency given the financial domination setbacks of the US economy? In this critical review analysis, I contend that the dollar's hegemonic position is at risk, but the political and economic climate does not appear to be ripe for renminbi globalization. The Chinese hawks see the economic sanctions levied against Russia following the Ukraine invasion as a chance to challenge the dominance of the US dollar. Furthermore, China has benefited from the first-mover advantage through the launching of the Central Bank Digital Currency. However, China must gain the trust of foreign users in the robustness of its financial system, economy, and digital yuan's functionality for the globalization of the digital yuan to be effective. Moreover, to promote renminbi internalization, China must ease capital regulations, increase renminbi convertibility, and restructure its financial system.

KEYWORDS: Renminbi, International monetary system, Reserve Currency, US-China economic rivalry, Digital yuan.

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The US dollar has been the most significantly used currency denomination around the globe since World War II and is utilized for most global commerce (Siddiqui, 2020a). The US gains from the dollar's central role in world trade in several ways, particularly the ability to borrow money overseas more cheaply and easily (Siddiqui, 2021). Despite the end of the golden era in 1971, the US still enjoys the benefits of financing enormous public and private borrowing in the global economy (Panitch & Gindin, 2009). The US external debts increased significantly in 2020 following the Covid-19 pandemic, however, the demand for the US dollar remained high on a global scale and now, about 40 percent of global debt and more than 61 percent of reserves currencies are in US dollar (International Monetary Fund [IMF], 2021). Moreover, the US dollar continues to dominate global markets, although it is less stable than it was a few years ago. In actuality, the US has more access to international commerce thanks to the enormous demand for the US dollar.

The implosion of the subprime mortgage industry in 2008–2009 precipitated a global economic recession, but the US economy recovered more robustly than other economies (Siddiqui, 2020b). In addition, precious products like crude oil and copper are typically valued in the US currency denomination (Newsweek, 2021). Nevertheless, the dollar's position as a global denomination is threatened by the economic shutdowns of Covid-19 and the Fed's infusion of billions of dollars into circulation (Siddiqui, 2021). As the Covid-19 pandemic hit, the Fed lowered interest rates to between 0–0.25 percent to promote borrowing and consumer spending (Siddiqui, 2021). This made China the largest holder, over 3 trillion US dollars, of foreign reserves of any country with Japan coming second (Siddiqui, 2021).

The euro, the Chinese renminbi¹ (RMB), and the IMF's Special Drawing Rights (SDR)

are the most frequently floated alternatives to the US dollar, however, each of the three has its setbacks. With almost 20% of the world's foreign exchange reserves, the euro is the second-most utilized reserve currency (Sitek, 2021), however, its appeal as a reserve currency is constrained by the absence of a single European bond market and a common treasury (Chey, 2013). Japan and China, whose currencies have not been used as reserves very often up to this point, are not going to present a serious challenge against the dollar in the foreseeable future (Rogoff, 2021). The Japanese economy has been stagnant for over 20 years, making it unable to contest the hegemony of the US dollar (Siddiqui, 2015). Although the Chinese economy has resumed growth following the Covid-19 outbreak, the nation experienced an immense credit bubble and continues to impose severe capital controls, which would seem to preclude its widespread usage as an international currency (Siddiqui, 2021).

The calling into question the viability of the Bretton Woods system protracted discussion about the dollar's prospect as the predominant currency reserve (Chey, 2013). And whenever the dollar's value declines significantly, there have been questions concerning the dollar's future as a major international trading denomination (Cohen, 2017). The onset of the 2008–2009 global financial crisis rekindled a heated debate about the world monetary system and drew significant attention from both political and economic circles (Chey, 2013). With mounting concerns over a potential breakup of the single currency, the ensuing European debt crisis, which began in 2010, also expanded the discussion to include the future of the euro as well. The effect of the global recession in 2008 protracted China to accelerate efforts to internationalize the renminbi, focusing especially on methods to make currency usage in global transactions

easier and creating an offshore renminbi market in Hong Kong.

As part of the process, the Chinese central bank began a significant program to increase credit among state-owned commercial banks following the 2008–2009 financial crisis and the subsequent sovereign debt crisis (Lentner, 2016); this program was only available domestically at the time. However, the official introduction of the One Belt, One Road (OBOR) program inaugurated in 2013 (Szilágyi, 2018), signaled the country's intention to expand internationally. According to *Póra and Szeplaki*, (2022) by 2014–2015, China had surpassed all other sovereign creditors, emerging as a leading global sovereign and private creditor, as well as an aid donor either directly or through development banks. Moreover, China's portfolio grew dynamically between 2010 and 2013, whereas the Paris Club and World Bank's portfolios experienced significant declines during this time (Póra & Szeplaki, 2022). This indicated that the OBOR program accelerated the Chinese growth path to being the largest global creditor after making aggressive market acquisitions cementing its global economic position against the US. China may decide to abandon pegging the renminbi to a basket of currency, switching to an inflation-aiming system beneath a volatile exchange rate scheme depending on the market conditions (Chey, 2013). Moreover, the Chinese regime progressively enabled overseas depositors to purchase RMB bonds. This move prompted the IMF, which sets the value of Special Drawing Rights, to introduce the renminbi to its basket of major currencies in 2016 (Rogoff, 2021), and since then, the Chinese currency has risen to the fifth-largest global reserve currency (Siddiqui, 2017).

This paper is structured as follows: after the introduction, the steps towards the internalization of the renminbi and the digital yuan are introduced, while the paper

also elaborates on economic provisions, the Chinese stock market bubble, and the Chinese Asian influence. Finally, the research ends with conclusions.

INTERNATIONALIZATION OF CHINESE CURRENCY (RENMINBI)

The renminbi became one of the few significant recognized worldwide currencies over the past 40 years after initially being essentially unconvertible. According to *Subacchi* (2016), although the Chinese central bank has controlled currency rates since 1981, they have undergone various stages of managed convertibility. For instance, several devaluations were implemented between 1981 and 1994 to increase exports. The renminbi was essentially set at a constant price to the dollar between 1994 and 2005 (Subacchi, 2016). This peg was changed from a fixed rate to a basket of currencies between 2005 and 2010, and the central bank's target exchange rate increased in 2014. Through a multitude of initiatives, the renminbi's internationalization is being pursued progressively (Subacchi, 2016). To ease monetary inflows and outflows, for instance, China has established overseas forex services to trade with Chinese financial institutions. In addition, China has made several currency swaps with trading allies to create a payment system for international transactions without using the dollar (Siddiqui, 2020 a and b).

Beijing, according to *Mallaby and Wethington* (2012), launched mutual local currency swap treaties with nineteen nations and permitted the issuing of renminbi-designated bonds in Hong Kong. Additionally, the government permitted overseas monetary institutions to transmit renminbi among themselves, opening the door for the development of financial instruments designated in renminbi (Chey, 2013). It has

made it possible for overseas banks engaged in cross-border renminbi trade settlements and overseas monetary systems with currency swaps with China to invest in the Chinese mainland's interbank bond markets, greatly expanding the range of investment options available to holders of the foreign renminbi. China has also made the mainland accessible to FDI with the renminbi acquired abroad. Finally, it has started disbursing renminbi-denominated foreign aid around the globe (Siddiqui, 2019).

In addition to employing Bilateral Swap Agreements (BSA) as a safeguard against financial distress, it appears that China is also using them to internationalize its currency. China intends to encourage RMB-denominated trade by recycling currency through agreements it has negotiated in previous years, such as one with Pakistan (Siddiqui, 2021). Due to Pakistan's ongoing trade deficit with China, the nation's RMB reserves are being depleted because of Pakistan exporters spending more RMB than importers are receiving. The central bank of Pakistan might theoretically use renminbi reserves to trade Pakistani Rupees for RMB with the People's Bank of China (PBOC) at an interest rate stipulated by the swap deal to adequately motivate Pakistan to keep using the RMB for cross-border trade (Siddiqui, 2021). While in a severe economic crisis in 2014, Argentina experienced fast Peso inflation and fell inadequate to get dollars for the importation of necessary consumer products and technology (Siddiqui, 2020a). Argentina employed a two-pronged strategy to integrate the US dollar into its domestic economy, drawing on its BSA with China and using the RMB, and at the same time, China did not object to the conversion of the renminbi to dollars in either situation (Siddiqui, 2021).

China has demonstrated its reliability as a partner by offering financing during times of crisis and it is paying off, as the Sino-Pakistani BSA doubled from RMB 10 billion (US\$1.42

billion) in 2014 to RMB 20 billion (US\$2.84 billion) in 2019, and the Pakistani trade payment in RMB increased by 250 percent (PBOC, 2021). Likewise, in 2019 Argentina expanded its currency swap deal with China from RMB 70 billion (US\$9.94 billion) to RMB 130 billion (US\$18.47 billion). These agreements signify the advancement of the internationalization of the renminbi and the possibility for future bilateral trade to increase as China continues to be a reliable and powerful financial partner. Russia saw a potential to expand joint trade deals in domestic exchanges with China because of the western sanctions, which caused the value of the Russian ruble to drop significantly. Since US sanctions primarily target operations that use the US dollar, Russia was able to evade them with the help of Chinese BSAs (Siddiqui, 2021). Russian intentions to use a tactic to thwart US trade and economic sanctions were reportedly what drove the surge in trade between China and Russia which saw the signing of a three-year, 150 billion RMB (\$24.5 billion) currency swap agreement in 2014. Sanctions have caused Russia, which was once the largest holder of US government debt, to drastically reduce its holdings (Siddiqui, 2021). In the middle of the escalating conflict with the US, Turkey also inked a series of economic cooperation and commercial deals with China in 2020. For instance, the two governments inked a BSA worth US\$1.7 billion which accounted for almost 8% of the overall US\$21.08 billion in commerce between them in 2019 (Chandrasekhar & Ghosh, 2020). These swaps are advantageous for both China and its partners because of China's role as a major supplier of goods, financial assets, and credit to several emerging economies, as well as its efforts to globalize the RMB by denoting a growing percentage of those payments in RMB rather than dollars (Chandrasekhar & Ghosh, 2020). According to *Simes* (2020), over the previous few years, Russia and China

have used far fewer US dollars in their bilateral commerce. Nearly 90% of bilateral deals were made in dollars as recently as 2015. However, after the start of the US-China economic tensions together with a determined effort by both Russia and China to abandon the dollar, the percentage fell to 51 percent by 2019. Since 2014, de-dollarization has been a top aim for China and Russia. To avoid US sanctions against Russia, the dollar had to be replaced in trade agreements (Simes, 2020).

THE DIGITAL YUAN

The world is quickly moving toward a cashless society where paper cash is obsolete due to the practical and cost-effective nature of digital transactions (Aysan & Kayani, 2022). Although private entity-issued cryptocurrencies presently dominate the market, Central Bank Digital Currencies (CBDCs) are steadily gaining ground, which has many nations worried that *fiat* money is becoming irrelevant (Aysan & Kayani, 2022). *Knoerich* (2021) asserts that the Covid-19 pandemic outbreak was a significant impetus for China's hasty shift toward digital currency. More than 80% of all transactions in China are now done using smartphones, where mobile payments are on the rise (Knoerich, 2021). In addition to having an impact on China's monetary system, the new digital currency system has the potential to alter the entire international monetary system. Despite nations having their local currencies, most significant international transactions are still conducted in US dollars. Moreover, commodities like oil and petroleum are priced in US dollars, demonstrating the dollar's hegemonic power. To challenge the dominance of the US dollar, China introduced a digital currency in addition to other RMB internalization initiatives.

China introduced Digital Currency Electronic

Payment (DCEP), a national digital currency in 2017 (Aysan & Kayani, 2022). By promoting the widespread use of the RMB, the DCEP lessens the US dollar's influence on the global payment network. The PBOC started developing its digital currency in 2017, before any other nation, and after three years of testing, China became the first nation to accomplish so in April 2020. As a key to global dominance, China's first-mover advantage is significant, and economists believe that the DCEP's early development will aid China in internationalizing the RMB (Knoerich, 2021). The primary goal of DCEP is to establish an electronic payment system that is recognized as legal cash in China (Gu, 2020). It will effectively be a central bank liability and be fully supported by the central bank at a 1:1 ratio to RMB *fiat* money. Moreover, DCEP is aimed at replacing cash (M0 money supply) without changing the amount of money in circulation. It doesn't carry interest and is not subject to transaction and payment restrictions (Knoerich, 2021).

The PBOC issued digital currency to intermediaries in the first tier, which included China's four largest state-owned commercial banks (Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China), as well as payment providers like Alipay from Alibaba, WeChat Pay from Tencent, and China UnionPay (Zhou, 2020). The intermediaries give out digital currency to people and businesses in the retail industry in the second stage (Zhou, 2020). Although bank deposits can be turned into digital currency, using DCEP is not dependent on having a bank account (Gu, 2020). Therefore, although this could be tried at a later stage of DCEP's growth, it is not meant to replace demand or savings deposits (Knoerich, 2021). By using DCEP, financial transactions might be made more quickly and efficiently. It could

also minimize the cost of printing coins and paper money (Wang, 2021). The government is promoting DCEP in response to the increasingly decreasing importance of cash in Chinese society, where people are particularly skilled at utilizing smartphones for all types of transactions (Paulson, 2020). On a global scale, DCEP might promote greater RMB circulation around the world and potentially erode the cross-border payment system that is dominated by the US dollar (Zhang et al., 2021).

Given that DCEP is designed primarily as a payments system, it may be anticipated that expanding it to a global scale will further facilitate international payments in RMB. DCEP might provide a more straightforward alternative for cross-border RMB-denominated settlement to firms importing into or exporting from China, with the added benefit of lowering currency exchange costs and risks by doing away with the necessity for the US dollar as an intervening currency (Xie, 2020). When it comes to a global currency system, it is frequently still more convenient to use the US dollar as an intermediary currency, even though it is possible to convert third-party currencies directly into RMB. The cost-effectiveness of DCEP could help break through this institutionalized network system (Dongsheng, 2020). If DCEP is included in larger projects for the digitization of business with China, it might become much more intriguing for investors (Knoerich, 2021). Interestingly, if technology permits it, people around the globe could use DCEP for ordinary payments and transactions (Xie, 2020). In developing nations with fragile banking systems or volatile currencies, an accessible RMB payment system may be especially appealing as DCEP may serve as a substitute for local currency (Paulson, 2020).

If DCEP is effective in facilitating RMB transfers internationally, it might provide an easily available substitute for the US dollar for

money transfers. A chance to reduce transaction costs and improve payment efficiency would be welcomed by many companies doing business with China internationally. China exports more than any other country in the world (Knoerich, 2021), so DCEP adoption for trade payment could spread quickly internationally. People will also likely express curiosity, particularly in underdeveloped nations, hence, the RMB would eventually replace the US dollar in terms of usage. Beijing might actively urge China's overseas trading partners to advance DCEP to hasten this process. Such measures may well find support in nations with particularly close relations with China or in nations that are more critical of the United States and concerned about the dominance of the US currency (Greenwald, 2020). Any potential future economic uncoupling between the United States and China could open even more scope for DCEP to grow and spread, at least inside regions where China has significant influence, including in some of the Belt and Road countries.

According to *Mathews and Selden* (2018), China's efforts appear to be primarily concentrated on displacing the dollar as the dominant global reserve rather than on the internationalization of the yuan. If the RMB becomes more accepted, the US dollar's demand declines. However, since the creation of DCEP, China has made enormous progress in its efforts to confront the eight-decade-old status quo, but there is still a long way to go. Compared to the RMB's 2.01% share of the overall foreign exchange reserves, US dollars make up 61.79% of them (Aysan & Kayani, 2022). Furthermore, WeChat Pay and Alipay have made digital payments so convenient that China's whole payment system is now virtually entirely cashless (Aysan & Kayani, 2022). However, in the US, mobile payment systems like ApplePay, GooglePay, and PayPal are all very common (Aysan & Kayani, 2022).

Therefore, the possibility of the Chinese digital payment system challenging the dominance of the dollar is improbable. The US dollar continues to be the most in-demand currency (IMF, 2022), ranking first in the share of global payments, the share of foreign exchange market turnover, and the share of allocated foreign exchange reserves. Given how deeply ingrained they are in the global financial system, the US dollar and the euro are significantly superior to the RMB in each of these categories. Only 1.76% of payments in global transactions were made in RMB against the dollar’s 40.33% in 2020, further illustrating the disparity between the currencies’ use and desirability (*Table 1*) (SWIFT, 2020).

The creation of DCEP cannot challenge the dollar’s hegemony; it can only aid in laying the groundwork for an economic conflict with the US and other world powers. The world has been duped into thinking that the RMB will eventually be competitive with the dollar by the assumption that the implementation of DCEP will change the trajectory of the entire financial system. This theory, however, ignores the fact that just the currency’s mode is changing from physical to digital. All the considerations that apply to the real RMB also hold to the digital

RMB as no new actual currency is being introduced (Paulson, 2020).

ECONOMIC PROVISIONS FOR RENMINBI GLOBALIZATION

For a currency to be used internationally, there must be confidence in its value’s stability to enhance its appeal as a store of value and reduce financial uncertainties (Chey, 2013). Another crucial economic requirement is liquidity, as users typically store their foreign reserves as liquid capital, interest-yielding financial resources but not currency balances. As a result, having vibrant, free monetary markets in an economy that issues the currency is crucial for its use abroad since they lower the cost of exchanging it (Lim, 2006). The confidence in the value of the Chinese renminbi and the networks in transactions are conducive to the globalization of the RMB (Cohen, 2017; Helleiner, 2008). However, the Chinese underdeveloped financial system and the capital-account inconvertibility posit significant obstacles to RMB globalization (Cohen, 2017). The ability to convert capital accounts and the growth of the Chinese financial markets

Table 1

RENMINBI INTERNATIONAL USAGE

Currency	Share of global payments (%), June 2020	Share of foreign exchange market turnover (%), April 2019	Share of allocated foreign exchange reserves (%), Q1 2020
USD	40.33	88.3	61.99
EUR	34.10	32.3	20.05
GBP	7.08	12.8	4.43
JPY	3.74	16.8	5.70
CNY	1.76	4.3	2.02

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT, 2020)

will undoubtedly aid the globalization of the RMB (Cohen, 2017). Comprehensive capital-account openness is neither a prerequisite nor is it necessary for currency globalization and the expansion of offshore markets aids in the globalization of currencies while preserving the issuing state's control over its capital account (He & McCauley, 2012). Regarding this, the Chinese government revealed a plan to establish a special zone in Shenzhen to try out currency convertibility, allowing Hong Kong banks to lend directly to mainland Chinese consumers in that city. The growth of the Hong Kong offshore renminbi market, however, may nevertheless significantly aid in the internationalization of the renminbi even if such a big transformation is not realized (Siddiqui, 2020b). Because there are no historical examples, it would be premature to assume that China's experiment with RMB internationalization, which is mostly focused on its offshore market in Hong Kong with no liberalization on the mainland, will fail (Subacchi, 2010). The scale of China's economy is another significant economic barrier to renminbi internationalization. The Chinese economy is still just one-third as large as the US stock of wealth in terms of GDP at market exchange rates (IMF, 2020). Additionally, running current-account deficits is one important method for delivering a currency to the rest of the globe. China, however, has consistently had significant current-account surpluses. Even if a country runs current-account surpluses, it is still possible for it to provide the global economy with money via the capital account (Cohen, 2012). Therefore, it does not seem as though the economic environment is particularly favorable for renminbi internationalization.

The international world was led by the US to impose broad economic sanctions on Russia following the Russian invasion of Ukraine and once more the center of attention is on the US dollar. The US and its allies barred Russia

from accessing its foreign exchange reserves and expelled it from the Swift messaging system, which supports global interbank banking transactions. The sanctions have caused worldwide inflation and disrupted the global supply chains for essential commodities including energy, gas, and oil. Chinese hawks see the sanctions against Russia as a chance to challenge the dominance of the US dollar. All central banks across the world are on high alert because of the freezing of Russian central bank reserves. They are inclined to make large-scale reserve shifts to avoid becoming blackmailed. This might undermine the dollar's status as the world's reserve currency if it comes at the expense of US investments. Economists have warned that these penalties would backfire since they might simply inspire China and Russia, two of the United States' main adversaries, to unite and challenge dollar hegemony. Furthermore, financial market strategists and IMF are now concerned that by severing Russia from its foreign exchange reserves, central banks throughout the world may lower their dollar holdings given the currency has grown dependent on US foreign policy. This is a dangerous path to go because it may lead every reserve currency management in the world to doubt the dollar's stability. To no surprise, Russia now prefers to settle all its oil and gas transactions using rubles as a retaliation to the economic sanctions levied against it. Hence, initiatives to de-dollarization the economies and the creation of alternative financial institutions and structures to safeguard Russia and China from sanctions endangers the US dollar's position as the leading currency in the world.

THE CHINESE STOCK MARKET BUBBLE

The Chinese stock market turbulence began with the popping of the stock market bubble on 12 June 2015 till February 2016 (Riley & Yan,

2015). State media encouraged participation in the stock market among domestic investors at the beginning of April 2015 on the perception that the Chinese government will encourage a bullish market (Li, 2015). Three months later, on June 12, the Shanghai Stock Exchange (SSE) Composite Index had increased by 36%. Subsequently, in July, 92 million new investors set a record registration (Spence, 2015). When the China Securities Regulatory Committee (CSRC) realized there was a risk of a financial bubble, it tried to impose more regulation but accidentally drove profiteers away, which sent the stock market over the edge. The Shanghai A-shares stock market had a precipitous decline in mid-June, falling 32 percent in a month, the lowest point before the RMB devaluation. To prevent the crash from worsening, policymakers solicited help from a state-owned financial agency, China Securities Finance Corporation (CSFC), a major player in the stock exchange market for interventionist measures (Li, 2015).

The People’s Bank of China abruptly announced a new mechanism to modify the exchange rate of the RMB on August 11 and set the RMB’s mid-point at the previous day’s closing value shortly after the stock market collapse. The RMB was devalued by 1.9 percent in a single day, the largest one-day decline in yuan history (Patnaik, 2015). At first, the RMB devaluation was mainly seen as China’s last-ditch effort to jump-start its slower-than-anticipated economic expansion and as evidence of the government’s inability to control the stock market issue (Yao & Luo, 2008). The volume of capital flight from China continued at an unprecedented rate under the cloud of yuan devaluation and bleak economic outlooks (Wei & Trivedi, 2015). In reality, the capital flight during this time wasn’t a sudden event; rather, it was an intensification of a trend that had been going on since 2014, when investors began to recognize the prospect of a slowdown in

China’s economy. Along with other measures to support the yuan, the PBOC actively purchased offshore RMB to stop it from falling in value, which helped to close the difference between onshore and offshore currency prices in the second half of September. The G20 convened to examine ways to mitigate the effects of the RMB devaluation on the global economy and prevent competitive devaluation (Li, 2015). In light of the uncertainty surrounding the global economy, the US Federal Reserve also decided to delay its intention to raise interest rates (Li, 2015).

There have been speculations about the reason for the RMB devaluation ever since. As China’s economic slowdown became increasingly obvious due to subpar indicators in exports, shipping, and the manufacturing sector, some observers contend that Chinese authorities used the RMB devaluation to stimulate export growth and restore the country’s economy (Kazer, 2015). While some analysts contend that the devaluation was more akin to a market correction, I contend that China devalued the RMB to show its commitment to having the currency included in the Special Drawing Rights international currency reserve basket of the IMF which became a success in 2016. This was done by giving the market a bigger voice in how much the RMB would be worth, a move supported by the IMF as a market-oriented reform (Komlóssy, 2017).

THE CHINESE ASIAN INFLUENCE

The extent to which China has been “gaining” and the U.S. has been “losing” global political supremacy is currently the main topic relating to renminbi internationalization. The RMB, however, is likely to evolve as a regional currency to some extent given the strength of China’s political power in Asia. The amount of commerce between Asian

nations and China outstrips the trade ties with the U. S. The Chinese government has adopted deliberate policies to make the renminbi a regional currency in Asia first. For instance, 13 of the total 19 partner countries or regions having bilateral local currency swap agreements with China are Asian or Asia/Pacific countries (Siddiqui, 2019). Because of the advance amassing through three channels, the swaps may provide the receiving nations with strong incentives to increase their usage of the renminbi. This is an example of how China uses its foreign political power to promote renminbi internationalization. The swaps, which signify a new method of providing oversea nations with RMB to fund imports from China, are likely to promote the renminbi's increased use as a medium of exchange. Second, the swaps can help the receiving nations maintain their financial stability in times of crisis by supplying them with foreign exchange liquidity. Notably, the central banks of Malaysia and Thailand have bought RMB-denominated bonds for their foreign exchange reserves, while the South Korean central bank, which holds the eighth-largest amount of foreign reserves globally, planned to invest a portion of those reserves in renminbi-denominated assets in mainland China to diversify its reserves away from the dollar (Chey, 2013).

The purchase of Asian nations' sovereign debt would be a notable prospective strategy for renminbi internationalization and another direct use of China's global political power. This strategy may put upward pressure on the value of the currencies of these nations, boosting their inducements to purchase Chinese debt in retaliation, if permitted, to protect their exports by preventing the appreciation of their currencies. And ultimately, that would undoubtedly support the internationalization of the renminbi in Asia. The Chinese government made considerable purchases of Japanese and

South Korean government bonds, which instigated the yen and the won to appreciate sharply and led Japan to gripe about how China's restricted capital account prohibited Japan from making a reciprocal purchase (Financial Times, 2010). Hence, the diversification of the Chinese foreign exchange reserve portfolio by increasing purchases of Asian government bonds and political power would aid in the region's renminbi internationalization.

CONCLUSION

China has benefited from the first-mover advantage by launching the CBDC. Due to its huge population and broad use of digital and cashless payments, the PBOC was quick to introduce the CBDC as a financial innovation. Early adoption of the digital yuan would aid China in internationalizing the RMB and posing a threat to the US dollar's dominance of the world financial system. China's primary priority is international transfers, but over the long run, it also aims to establish the RMB as a global reserve currency and investment vehicle. China must gain the trust of foreign users in the robustness of its financial system, economy, and digital yuan's functionality for the globalization of the digital yuan to be effective. However, the success relies on the US counter-reaction and the performance of its economy. Since the US is currently a major player in the fintech industry and most of its citizens already utilize electronic payment services for most of their transactions, the US would be able to adopt a digital currency swiftly. This might limit China's ability to benefit from its first-mover position. The US has been reluctant to react to the debut of the Chinese CBDC, it must fasten the launch of its digital currency to compete with the Chinese CBDC. Additionally, it's questionable whether a Chinese digital yuan

that lacks access to the country's financial markets can genuinely perform the duties of a reserve currency. The renminbi's emergence as a regional currency in Asia will, among other things, give Asian nations the biggest holder of yuan reserves worldwide, a substitute for the dollar as a reserve currency. Hence, the United States' ability to finance its current-account deficit with its currency will dramatically shrink, putting the nation under more market pressure to behave more stoutly. Moreover, the loss of U.S. policy autonomy could erode its ability to exert political and economic influence globally. Notably, I contend that following the conflict in Ukraine and the Covid-19 pandemic, the Chinese yuan will be very useful, but not to the point where it will completely replace the dollar.

For the offshore renminbi market to develop the necessary market thickness to become a significant reserve currency in the Asia-Pacific region and beyond, China must ease its capital controls, permit more RMB convertibility, and significantly deepen financial sector reforms. This would encourage countries to use the renminbi as a unit of account and a store of value allowing the free flow of funds between onshore and offshore markets. In addition, the renminbi will become a preferred global currency if additional marketization and improved financial market regulation are implemented. Most of the Asia-Pacific nations already regard China as their top commercial partner and they will most likely record an increase in the peg of their currencies to the RMB if the renminbi truly becomes a key currency for trade invoicing and central

bank reserves around the globe. Furthermore, it seems Russia exaggerated its political and military power, and even if it manages to win the conflict in Ukraine, it will drop back into the second tier, becoming China's junior partner. However, the recent turbulence in Europe is expected to also dim the economic prospects for western Europe. In light of the Ukrainian reality check, EU member states will undoubtedly reassess their geopolitical aspirations for a free-standing European power pole. Hence only China and the US remain nations with the ability to establish and uphold monetary order. This explains why Washington and Beijing do not want to become directly involved in this „European conflict” since the two superpowers view it primarily through the prism of their rivalry for global hegemony. It is anticipated that the current condition of global uncertainty will last longer, and hence, the dollar's position is even more secure now since foreign central banks are aware that, in a crisis, the Fed will take all necessary measures to support the portion of the financial system that is denominated in dollars, hence maintaining its hegemonic position. Therefore, I conclude that the US will undoubtedly make every effort to maintain as many nations as needed within U.S dollar-designated commerce, much as Britain did at the end of the 19th century as the biggest trading nation around the globe. But longer, China may overtake the U.S as the largest economic power, however, the renminbi, a Chinese currency, may take some time to become a universally accepted reserve currency. ■

NOTE

¹ Both the terms Chinese Yuan (CNY) and Renminbi (RMB) are used to refer to the national currency of China. The official name of China's currency is the Renminbi (RMB). The Chinese Yuan is the principal RMB currency unit. Yuan is a word that appears frequently in discussions in Hungarian literature.

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