

## China's de-dollarization policy and its impact on the hegemony of the US dollar

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Article Info	Abstract
<p>Original Article                      Main Object: Economics                      Scope: BRICS</p> <p>Received: 07 November 2023                      Revised: 20 November 2023                      Accepted: 30 November 2023                      Published online: 16 December 2023</p> <p><b>Keywords:</b>                      China,                      de-dollarization,                      dollar hegemony,                      US.</p>	<p>The international role of the dollar in the global economy remains dominant. Nonetheless, there is a belief that various factors, including geopolitical changes, technological advancements, and China's increasing role as an emerging power, may challenge the hegemony of the American dollar as a dominant force. China has implemented a range of significant and diverse policies in pursuit of de-dollarization to weaken one of the key pillars of American power. In this research, we employ an analytical-explanatory method and draw upon written and online sources, as well as data from financial and banking institutions, to address the fundamental question: What actions has China taken in pursuit of de-dollarization, and to what extent have they been effective? The hypothesis proposed suggests that considering the dollar's control over the financial structure and the international payment system, as well as the world's countries dependence, including China's, on the existing financial and monetary structure, dollar hegemony has persisted despite China's confrontational policies and has not encountered significant challenges thus far. The research findings suggest that while China's de-dollarization policy is acknowledged as a potential threat to dollar hegemony, it has not succeeded in challenging the dominance of the American currency, and it appears that the dollar-based system will continue predictably into the future.</p>

**Cite this article:** Salehi SH, Mousavi Shafaei SM, Golmohammadi V, Haji-Yousefi AM. (2024). "China's de-dollarization policy and its impact on the hegemony of the US dollar". *Countries Studies*. 2(2): 47-54. doi: <https://doi.org/10.22059/jcountst.2023.367816.1075>.

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Website: <https://jcountst.ut.ac.ir/> | Email: [jcountst@ut.ac.ir](mailto:jcountst@ut.ac.ir) |

EISSN: 2980-9193

Publisher: University of Tehran



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**Extended Abstract****Introduction**

The policy of de-dollarization refers to the most significant plans and actions of the Chinese government, through which it attempts to gradually weaken or even overcome the hegemony of the dollar and the payment system based on it. This is aimed at reducing its dependence on the dollar and securing its desired position in the global system. Following China's substantial economic leap, which began in the late 1970s, China initially pursued mutual benefits and shared development with other countries in line with the trend of economic globalization. This policy has empowered China significantly, making it the most prominent and the only emerging power in the world capable of challenging the current order. Today, the dollar is held as a reserve currency by central banks and is traded in foreign exchange markets. The role of the dollar reflects global confidence in the Federal Reserve and the overall U.S. economy and financial markets, demonstrating the continued economic and financial leadership of the United States in the world. China, in particular, has had concerns about the dominance of the dollar in the global market since the 2008 financial crisis and has made efforts to maintain its position against dollar-related tensions. For this reason, it has adopted a de-dollarization policy to counter dollar hegemony.

**Research question**

What actions has China taken in pursuit of de-dollarization, and to what extent have they been effective?

**Research hypothesis**

Given the dollar's supremacy in the international financial structure and payment system, as well as the reliance of countries worldwide, including China itself, on this system, China's diverse efforts to weaken the dollar have not, thus far, presented a substantial challenge to the dollar's hegemony.

**Conceptual framework**

The concept of a "currency war" is one of the most essential elements in understanding China's confrontational policy aimed at reducing the dominance of the US dollar. This concept entails an adversarial strategy of devaluing an official currency to gain a competitive advantage for one country at the expense of others. China has maintained a longstanding policy of managing its currency exchange rate, the renminbi, to curtail its appreciation against other currencies, notably the US dollar. The following concept is "dollar hegemony", which signifies America's "economic hegemony" and "monetary hegemony". The US dollar has been the predominant global currency since World War I and has evolved into a "hegemonic currency" due to its superior performance and the global trust in the economic and

political power of the United States. Measurements of trade value, international loan values, and central bank foreign exchange reserves are all denominated in dollars. Another concept is "de-dollarization", which characterizes the process of diminishing the world's reliance on the US dollar as the primary reserve currency. Some believe that China's expanding role in the global economy, technological advancements (e.g., crypto-assets), and geopolitical considerations may instigate the de-dollarization process. This issue has gained more attention from various countries, especially in the aftermath of Russia's attack on Ukraine and the freezing of Russian assets by the United States.

### **Discussion**

China has taken significant actions in line with its de-dollarization policy. One of the most crucial measures involves strengthening non-dollar reserves, such as gold and bonds. Independent sources estimate China's gold reserves at 5,029 tons, while official Chinese government statistics report holdings of 2,113 tons as of the first half of 2023. The sale of bonds in China has also increased, and China holds the second-largest amount of U.S. bonds, totaling over a trillion dollars. China is also actively pursuing the internationalization of the renminbi, approaching this process with a more cautious and market-oriented approach since 2021. The launch of China's Cross-Border Interbank Payment System (CIPS) represents a significant move by Beijing to counter the dollar-based payment system. While this system is a critical milestone in making the renminbi more globally usable, its primary usage remains concentrated in mainland China and Hong Kong, with limited adoption in other regions. China also has bilateral and multilateral financial and monetary agreements on its agenda. So far, China has signed bilateral currency swap agreements with 41 countries. Notable multilateral actions in Beijing's de-dollarization efforts include the "Chiang Mai Initiative" and the Regional Comprehensive Economic Partnership (RCEP) trade agreement. One of China's most impactful actions may be the development of the digital yuan. This initiative involves creating a domestic payment system that could potentially be used globally. China's efforts to establish alternatives to the global economic, financial, trade, and technology networks controlled by the United States could be significantly enhanced by this initiative. While Washington is not in a rush to disrupt the traditional international financial system it dominates, Beijing sees geopolitical achievements in helping to establish new protocols. The launch of the Shanghai Energy Exchange, where futures trading, settlement, and delivery of futures contracts, as well as other derivatives, take place, aims to replace the petrodollar with the petroyuan. However, it may take years for Shanghai's futures trading to challenge the dominance of the

traditional petrodollar system and benchmarks, such as West Texas Intermediate or Brent crude. The current status of the dollar reflects that the Chinese yuan, with less than 2.5% of global currency reserves, ranks as the sixth-most held reserve currency. This is while the dollar, despite experiencing a decline, still remains the dominant reserve currency with 58.88% of foreign exchange reserves, maintaining its superiority."

### **Conclusions**

China, as the world's most prominent emerging power, stands as the only nation capable of challenging the Western-led international economic order, primarily due to its economic strength. The competition between the United States and China encompasses various dimensions, with one of the most significant aspects being the struggle for dollar hegemony. This is primarily due to the fact that America's currency dominance and control over interbank payment systems have become one of China's primary vulnerabilities. Beijing has implemented crucial measures in this regard, including strengthening non-dollar financial reserves, striving to internationalize the Renminbi, and establishing a Chinese interbank payment system. These efforts go hand in hand with other initiatives such as bilateral and multilateral banking agreements, the development of the digital Yuan, and the creation of the Shanghai Energy Exchange. Collectively, they demonstrate China's intense determination to reduce its dependence on the dominance of the dollar. Nonetheless, research findings suggest that despite the significant policies pursued by China to challenge dollar hegemony, the dollar's dominance is likely to persist in the foreseeable future. Nevertheless, China's actions against the supremacy of the U.S. dollar pose a significant and important potential challenge to dollar hegemony.

### **Conflict of interest**

The authors declared no conflicts of interest.

### **Authors' contributions**

All authors contributed to the original idea, study design.

### **Ethical considerations**

The author has completely considered ethical issues, including informed consent, plagiarism, data fabrication, misconduct, and/or falsification, double publication and/or redundancy, submission, etc.

### **Data availability**

The dataset generated and analyzed during the current study is available from the corresponding author on reasonable request.

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