

Internationalization of the Chinese yuan and its impact on the future of the US Dollar

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Abstract :

This study aims at clarifying the development of the Chinese yuan status in the global economy, especially after the launch of its internationalization process from 2009 to the present day, we are going to elucidate why China is very interested in internationalization its currency?

In this study, we relied on the descriptive and analytical approach that relies on analyzing data and statistics about the Chinese currency and the evolution of its global position against the US dollar since the beginning of its internationalization process 2009. The Chinese currency has known an increasing usage in international transactions, even with these new events which have been caused by the COVID-19.

The importance of this study is to provide a current and future view of the international monetary system in the light of increasing of the international role of the Chinese currency, especially after its internationalization process.

Key words: Yuan internationalization; the US Dollar; International monetary system; International financial transactions.

Jel Classification Codes: F3- F31- F43.

الملخص :

تهدف هذه الدراسة إلى توضيح تطور وضع اليوان الصيني في الاقتصاد العالمي، خاصة بعد إطلاق عملية تدويله منذ عام 2009 إلى يومنا هذا، حيث سنقوم بتوضيح سبب اهتمام الصين الشديد بتدويل عملتها.

اعتمدنا في هذه الدراسة على المنهج الوصفي التحليلي الذي يعتمد على تحليل البيانات والإحصاءات حول العملة الصينية وتطور مركزها العالمي مقابل الدولار الأمريكي منذ بداية تدويلها عام 2009، حيث عرفت العملة الصينية استخدامًا متزايدًا في المعاملات المالية الدولية، حتى مع هذه الأحداث الأخيرة التي نتجت عن جائحة COVID-19.

تكمن أهمية هذه الدراسة في تقديم نظرة حالية ومستقبلية للنظام النقدي الدولي في ضوء تنامي الدور الدولي للعملة الصينية، خاصة بعد عملية تدويلها.

الكلمات المفتاح: تدويل اليوان؛ الدولار الأمريكي؛ النظام النقدي الدولي؛ المعاملات المالية الدولية.

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1. INTRODUCCION:

When do we ask, “why Beijing is trying to make the Renminbi as a global currency?” Many people in China have a ready answer: the first-class economy must have the first-class currency. Chinese responsible believe that the internationalization of the Renminbi is an effective way to make the Chinese economy free from the dependence of the dollar. Although the Chinese currency has not considered yet as a leading hard currency, the position of Chinese economy is imposing a clear and explicit reality on China to internationalize its currency, which was incorporated into the SDR basket by October 2016, which has become increasingly prominent for the composition of foreign exchange reserves, in addition to use it as a payment currency of global goods, where the yuan has recently been used in the pricing of the future oil contracts.

The global status of China as the second largest economy in the world after the USA, was as a result of strategic planning after 1978. Although China does not want to float its currency explicitly because of its fears about currency appreciation in the foreign exchange market and its negative impact on exports, it is clear that there is a Chinese ambition to internationalize the Renminbi to be one of the hardest international currencies, especially after the global financial crisis in 2008. Moreover, China aspires to have a leading global position in the international monetary system, posing a real threat to the US dollar. Hence, the problem of this study is as follows:

- What are the reality and challenges of the internationalization of the Chinese yuan and its impact on the future of the US dollar?

We aim to highlight on the growth of the international status of the Chinese yuan and its impact on the future of both the US dollar and the international monetary system which is known as a unipolar monetary system that has been dominated by the US dollar since the Bretton Woods Conference in 1944 to this day. We also aim to clarify the future of the Chinese currency in the international monetary system, especially after its inclusion in the SDR basket as a first step in the internationalization process.

The importance of this study is to provide a current and future view of the international monetary system in the light of increasing of the international role of the Chinese currency, allowing governments and central banks to take into their account the international status of the Chinese currency in the composition of foreign exchange reserves as well as the future of global payment currencies of various international financial transactions, which have been priced by the Chinese currency at the beginning of internationalization process.

In this study, we rely on the descriptive method of observational and survey methods, which helps us to present and analyze data related to the growing of the international status of the Chinese currency, and analyze various data regarding the future of the US dollar and the international monetary system.

We divided this study into three parts; we began with a presentation of the USD as a foreign reserve currency after the Bretton woods agreement 1944 and the appearance of the Chinese currency. Then we went on to explain the development of the Chinese yuan in international financial transactions after launching its internationalization process. Finally, we discussed the future challenges of internationalization of the Chinese yuan to be hard currency.

2. The position of the US Dollar and the appearance of the Chinese currency:

After the Britton woods agreement 1944, the US Dollar occupied a prominent place in the world economy in order to replace Gold and Sterling Pound as the principal instruments of international transaction payment and to be a principal reserve currency

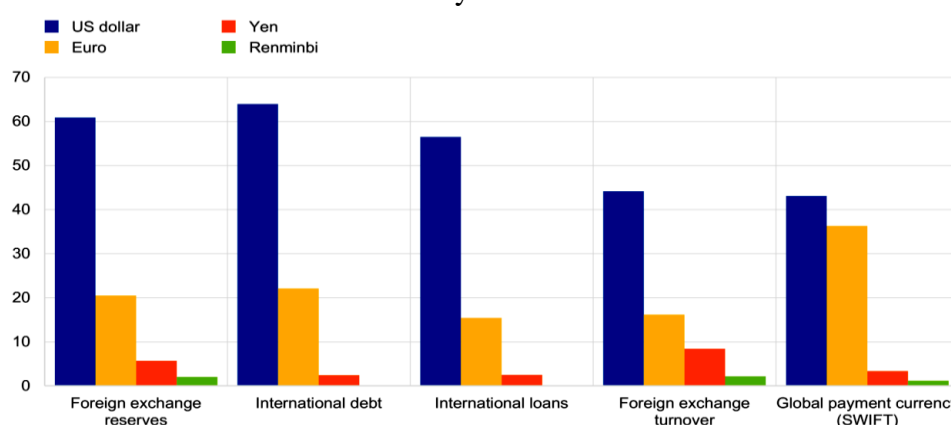
2-1. The USD as a leader currency in the world:

Before World War II, most countries were following the gold standard. By 1944 Britton woods agreement; the US dollar has been occupying a prominent place on the world. At that time, the

United States held the largest gold reserves. This agreement allowed other countries to back their currencies with dollars, rather than gold, especially after marshal's project, which was put to help European countries to rebuild their infrastructure projects. In that period, the International Monetary System was changed from the gold standard to Britton woods system, when most currencies were attaching by the US dollar. On the other hand, the USA promised agreement's members to redeem their dollars in gold upon demand whenever they need changing.

By the early 1970s, countries started demanding gold for the dollars they held. They needed to combat depreciation of the dollar which was caused by the USA's policy. Rather than allow Fort Knox to be depleted of all its reserves, President Nixon separated the dollar from gold on August 15th 1971. By that time, the dollar had already become the world's dominant reserve currency (KIMBERLY AMADEO, 2018). Moreover, the US dollar occupies a prominent place in the share of Foreign exchange reserves, international payment and investment currency and turnover in the foreign exchange market and the various international financial transactions from 1944 to this day.

Figure (01): The Dollar remains the first most important currency in the international monetary system



Sources: European Central Bank (2020) "The International Role of the Euro" 19th annual review by ECB, June 2020, Frankfurt Germany, available at: <https://www.ecb.europa.eu/pub/ire/html/ecb.ire202006~81495c263a.en.html#toc1>

Note: The latest data are for the fourth quarter of 2019.

2-2. Chinese economy and its currency (Renminbi or Yuan):

If you want to have a strong currency, you have to have a strong economy, you cannot avoid this reality, and there is no way can drive your currency to be hard and competitor except working on developing your economy to make it more advanced.

a. Chinese economy from the socialist system to liberalization system (1949 - to this day)

The Chinese economy knew many events and transformations during the 19th century and the beginning of the twentieth century. These events led to the overthrow of the monarchy and the proclamation of Chinese Republic in 1912. Instead of stabilizing the situation, things worsened from the outbreak of civil wars and the outbreak of the war against the Japanese invasion from 1937 to 1945, and once the war was over, a war from another kind emerged between the Chinese government and the Communist Party's militias, ending in 1949 with the Communist Party's control of the government and Mao Tse-tung's announcement of the socialist construction phase (Wayne M. Morrison, 2018a).

In the implementation of its economic policies since early 1949, China has adopted the central planning and application of the Soviet model through setting of five-year plans with focusing on the agricultural sector. Large cooperative societies have been formed to form centrally- and then expand the circle to include the basic and processing industries with supporting from the Soviet Union. The economic growth was knowing very modest rates due to the priority which had given to

the sector of heavy industries at the expense of the agricultural sector, which was more commensurate with Chinese privet, in addition to increasing of the phenomenon of bureaucracy which made the assignment more difficult. During the period 1949-1978, China was economically poor and its contribution to world trade was very low as well.

Two years after the death of Mao Zedong in 1976, the economic philosopher Deng Xiaoping took over the presidency of the Chinese Republic. The year 1978 marked as a real start of the Chinese economy, which has been recording high economic growth rates, making it the second largest country behind the United States, surpassing \$14 trillion in 2019 according to Table (01).

Table 1. Chinese economy is the second largest economy in the world in 2019

Unit: trillion \$		
Rank	Country	Nominal (GDP)
1	The USA	21.43
2	China	14.14
3	Japan	5.15
4	German	3.86
7	India	2.93
5	The United Kingdom	2.74
6	France	2.70
8	Italy	1.98
9	Brazil	1.84
10	Canada	1.73

Source: International Monetary Fund, World Economic Outlook Database, October 2019, <https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/weorept.aspx?>

b. Introduction to the Chinese currency:

Renminbi (people currency) is the currency of China which also known as "Chinese yuan" divided into ten Jiao or one hundred Fen. The commission that responsible to the Renminbi is the Central Bank of China, the Monetary Committee of the People's Republic of China. The currency's abbreviation in the standard ISO 4217 is CNY or RMB and its Latin symbol is ¥. Foreign observers estimate that the Yuan is undervalued by 30% to 40%.

Five issues of Chinese currency have been issued since the founding of the People's Republic of China in 1949, the first three of which were withdrawn from circulation. The first series of Renminbi banknotes was introduced during the Chinese civil war by the newly established People's Bank of China (China's central bank) on December 1st, 1948, almost a year before the founding of the People's Republic of China itself. The Chinese yuan was issued to consolidate and replace the various currencies of the lands controlled by communists as well as the currency of the national government. This series is also called the "old currency", where 10,000 yuan was equal to 1 yuan of the second series and beyond is called the "new currency."

The People's Bank of China began issuing the fourth edition on April 27, 1987. Then, on the occasion of the 50th anniversary of the founding of the People's Republic of China in 1999, the central bank issued the fifth series by adding 20 yuan as a new bank-note for the fourth series (Mo Hong'e , 2018). The Chinese currency now includes bank-notes: ¥ 1, ¥ 5, ¥ 10, ¥ 20, ¥ 50 and ¥ 100.

On July 21, 2005, China revalued its currency by 2.1 percent against the US dollar, by occasion of pegging its currency to a basket of currencies rather than just pegging it to the US dollar, allowing the Renminbi to fluctuate 0.5 percent a day.

In December 2015, China announced that would establish a new currency index rate (based on 13 foreign currencies) to help re-orient markets away from the dollar by measuring the weighted change in the currency basket. From December 2015 to December 2017, the RMB's REER fell by 6.5%, indicating a broad depreciation of the RMB (Wayne M. Morrison, 2019, p.02).

The People's Bank of China (PBOC) (2018) announced on its official website that the majority of the Renminbi will be withdrawn from trading on May 1st, 2019. The list includes bank-notes and coins of: 100 yuan, 50 yuan, 10 yuan, 5 yuan, 2 yuan, 1 yuan, 0.2 yuan, as well as 0.1 yuan currency, according to the statement.

3. Currency competition between the Renminbi and other hard currencies:

China's interest has been increasing to internationalize its currency, especially after the global financial crisis 2008, when the weaker dollar was one of the main causes that caused that crisis. As long as the Chinese economy occupies the second place in the world economy, its currency should be known a prominent place as well. China is now working on making its currency to be internationally accepted as a global currency to avoid the risks of currency fluctuations, especially which come from the US dollar, and to limit US control on the global economy, the international monetary system that was unfairly exploited.

3.1- The appearance of the Chinese yuan in the foreign exchange reserves:

The follower of the developments of the international monetary system, especially since the Bretton Woods conference in 1944, notes that there is a clear control of the US dollar which has been leading to occupation the first position since that event as the most important currency in foreign exchange reserves, with a big distance from its rest competitors, where the dollar has never faced in its career a serious competition except after the appearance of the euro which has occupied the second place since its launching in 1998 (see Table (02)).

Table 2. Currency Composition of Official Foreign Exchange Reserves (2001-2019)

Unit: (percent %, current exchange rate, end of period)

Year	2001	2005	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
USD	70,7	66,5	62,1	62,1	62,6	61,5	61,2	65,1	65,7	65,3	62,7	61,69	60,89
EURO	19,8	23,9	27,7	25,7	24,4	24,1	24,2	21,2	19,1	19,1	20,1	20,69	20,54
GBP	2,7	3,7	4,2	3,9	3,8	4,0	4,0	3,7	4,7	4,3	4,5	4,43	4,62
JYN	5,2	4,0	2,9	3,7	3,6	4,1	3,8	3,5	3,8	4,0	4,9	5,20	5,70
CYN	-	-	-	-	-	-	-	-	-	1,1	1,2	1,89	1,96
Others	1,6	1,9	3,1	4,6	5,6	6,3	6,8	6,5	6,7	6,2	6,6	6,09	6,13

Source: IMF, (2020). "Currency Composition of Official Foreign Exchange Reserves (COFER)", International Financial Statistics (IFS), Data extracted from <http://data.imf.org/> on: 22/06/2020 10:52:51 AM. Available at: <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>

However, the position of the euro in the foreign exchange reserves is an inevitable result of the union of a group of developed European countries, including Germany and France, so if we talk about individual international competition, it is very difficult to compete the United States, especially in the near and medium term according to the Table (02).

However, the dollar's position has begun to decline in favor of other non-traditional currencies, albeit at low rates. The Table (02) shows that the contribution of the US dollar has declined from 70.7% in 2001 to 60.89% in the fourth quarter of 2019. While the non-traditional currencies - including the Chinese yuan- increased from 1.6% to 8,09 % during the same period, where the latter emerged strongly in 2016, the beginning year of internationalization by 1.1%, up to 1.97% in the fourth quarter of 2019 worth 217.67 billion dollars (see Table. 03).

Table 3. The contribution of the yuan and foreign currencies in the foreign exchange reserves

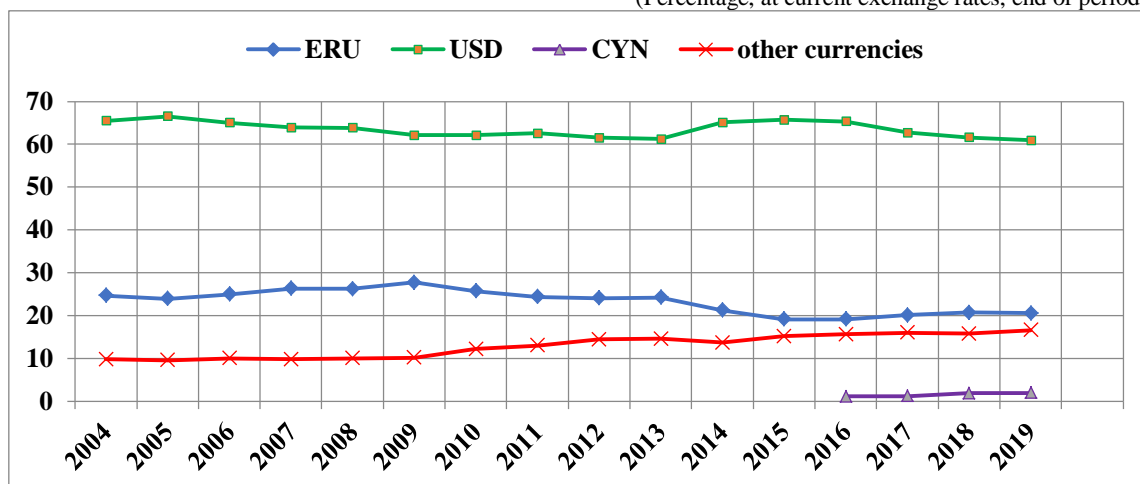
(Unit: billion dollars)

Currency	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
(USD)	6,498.13	6,551.15	6,632.15	6,617.24	6,742.18	6,792.22	6,725.88	6,745.64
(EUR)	2,122.47	2,131.63	2,192.43	2,219.34	2,205.24	2,242.71	2,210.82	2,275.94
(JPY)	501.79	522.59	532.94	558.36	571.70	596.61	613,889.97	631,439.79
(GBP)	486.57	471.04	481.10	475.45	494.41	488.56	492.13	511.81
(CAD)	193.77	200.79	208.74	197.76	209.25	211.05	205.39	207.97
(AUD)	177.34	179.30	180.91	174.21	182.47	187.57	182.57	187.31
(RMB)	145.88	193.38	192.38	202.79	212.69	217.64	215.81	217.67
(CHF)	18.25	16.91	17.18	15.86	15.28	15.80	15.92	16.98
Others	258.07	256.58	269.60	266.07	265.75	269.03	264.96	283.63
Unallocated reserves	1,202.23	958.96	703.27	707.60	708.00	711.34	731.05	751.11
Total	11,604.54	11,482.37	11,399.66	11,418.24	11,607.00	11,732.56	11,658.48	11,829.54

Source: IMF, (2020) "Currency Composition of Official Foreign Exchange Reserves (COFER)", International Financial Statistics (IFS), Data extracted from <http://data.imf.org/> Accessed: 22/06/2020.

Figure (02): share of hard currencies in foreign exchange reserves (2004-2019)

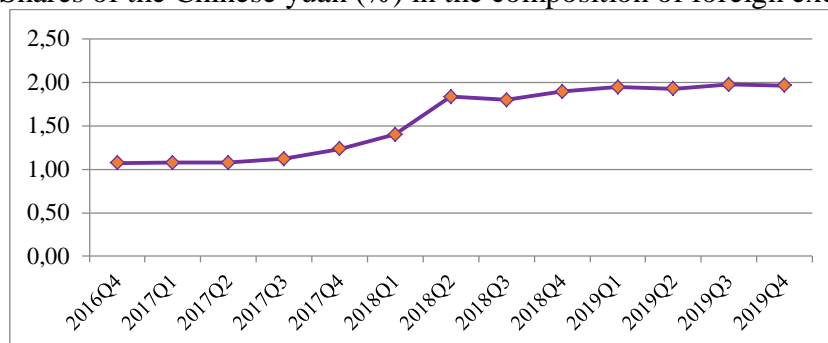
(Percentage, at current exchange rates, end of period)



Source: Produced by the author depending on the Table (02) data.

Some world's central banks hold the Renminbi as a reserve currency for an economy that is the second largest economy in the world, especially when it was listed on October 01st, 2016, within the basket of currencies that formed in special drawing rights by 10.92% (IMF, 2016).

Although the share of the Chinese yuan looks very weak as a foreign exchange reserve currency through the Figure (03), it has known an improving growth that appears obviously in the following Figure:

Figure (03): Shares of the Chinese yuan (%) in the composition of foreign exchange reserves

Source: Prepared by the author based on quarterly data of FMI (Jul-2020).

3-2- Competition the US dollar/Yuan as an international payment currency:

According to Society for SWIFT data (Worldwide Interbank Financial Telecommunications), the contribution of the Chinese yuan as a global payment currency is small compared to its economic and commercial size.

Table 4. The contribution of the Chinese yuan as a global payment currency

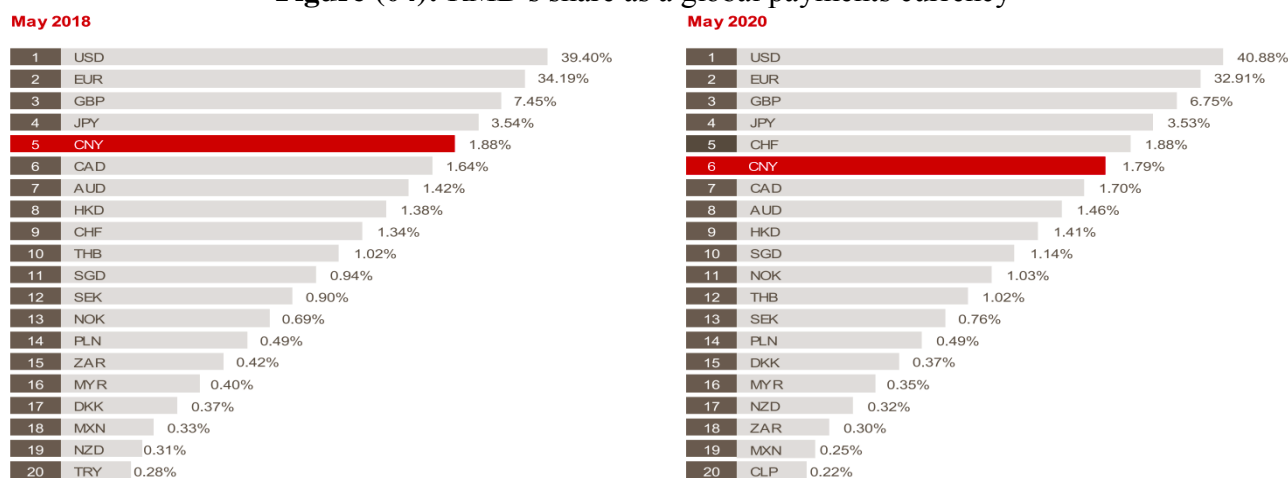
Rank	Currency	Percentage
1	USD	40.88%
2	EUR	32.91%
3	GBP	6.75%
4	JPY	3.53%
5	CHF	1.88%
6	CNY	1.79%
7	CAD	1.70%
8	AUD	1.46%
9	HKD	1.41%
10	SGD	1.14%

Source: SWIFT, June 2020, available at:

https://www.interest.co.nz/sites/default/files/embedded_images/rmb_tracker_june_2020_slides_en.pdf

Based on the table (04), the Chinese currency contributed 1.79% in May 2020 as a global payment currency occupying the sixth position in the world, while the US dollar and the euro contributed 40.88% and 32.91%, respectively:

Figure (04): RMB's share as a global payments currency

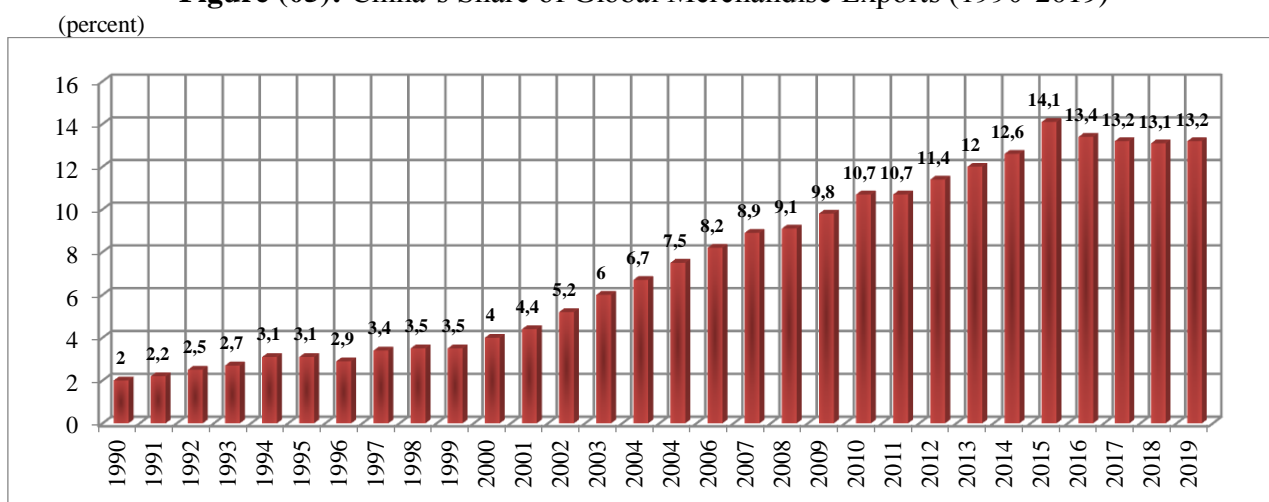


Source: SWIFT, June 2020, available at:

https://www.interest.co.nz/sites/default/files/embedded_images/rmb_tracker_june_2020_slides_en.pdf

However, growth rates of China's foreign trade have increased significantly (see Appendix 01), which will increase the use of Renminbi as a global payment currency continuously, especially after concluding swap currency by the People's Bank of China with more than 30 central banks on around the world, (Albania in April 2018 and Nigeria in May 2018), which enabled the accumulation of the Chinese yuan in the global central banks by worth 3 trillion yuan (the most important area, we have: Hong Kong worth 400 billion yuan and South Korea 360 billion yuan), where it was agreed to use the yuan currency in the settlement of part of foreign trade between China and these countries (Miguel Otero-Iglesias, 2018, p. 04), which will further increase the position of the Chinese yuan as the most important currency used in the settlement of international payments, which represents a very big step to the internationalization process, especially as China's contribution in the global trade in goods has passed 13% by the end of 2019, as it's shown in the following figure:

Figure (05): China's Share of Global Merchandise Exports (1990-2019)



Source: World Trade Statistical Review 2020, by World Trade Organization.

https://www.wto.org/english/res_e/statis_e/whs2019_e/whs19_toc_e.htm

China has signed currency swap agreements with a total of 33 other central banks between January 2009 and March 2020, which helped expand the use of the renminbi in trade (CSIS China Power Project, 2020).

3.3- Competition US dollar/ Yuan on the transactions of the foreign exchange market:

As a result of the massive growth of China's foreign trade, the foreign exchange market has known a growing demand for the Chinese yuan, but not very much to other leading currencies in comparison, which makes a great challenge to the Chinese government to liberalize its markets and transactions between banks, companies and people by easing restrictions on foreign exchange rate transactions within and outside the borders of the country.

Table 5. Foreign exchange turnover, April 2001-2019, by currency

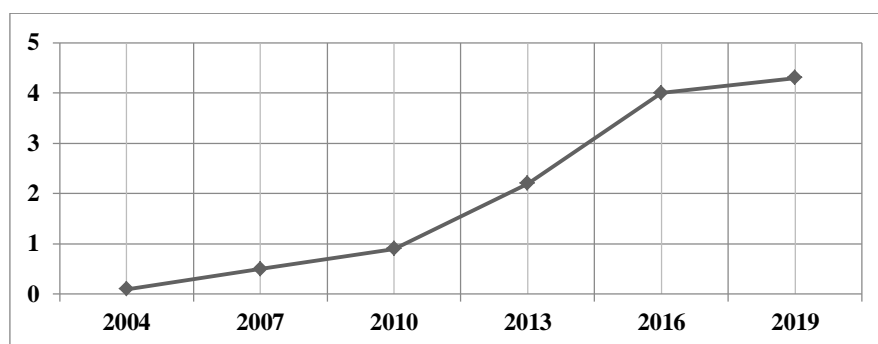
Unit: (200%, April of each year)

Currency	2001	2004	2007	2010	2013	2016	2019
USD	89.9	88.0	85.6	84.9	87.0	87.6	88.3
Euro	37.9	37.4	37.0	39.0	33.4	31.4	32.3
JYN	23.5	20.8	17.2	19.0	23.0	21.6	16.8
Pound sterling	13.0	16.5	14.9	12.9	11.8	12.8	12.8
Australian Dollar	4.3	6.0	6.6	7.6	8.6	6.9	6.8
Canadian Dollar	4.5	4.2	4.3	5.3	4.6	5.1	5.0
CHF	6.0	6.0	6.8	6.3	5.2	4.8	5.0
CYN	0.0	0.1	0.5	0.9	2.2	4.0	4.3
New Zealand Dollar	0.6	1.1	1.9	1.6	2.0	2.1	2.1
Swedish Krona	2.5	2.2	2.7	2.2	1.8	2.2	2.0
Other currencies	17.8	17.7	22.5	20.4	20.4	21.5	24.6
Total	200.0	200.0	200.0	200.0	200.0	200.0	200.0

Source: Bank of International Settlements, Foreign exchange turnover in April 2019, Statistical Bulletin, September 2019. https://www.bis.org/statistics/rpfx19_fx.pdf

Data on the (Table.05) provided by the Bank of International Settlements (BIS) shows the weakness of economic transactors on the Chinese yuan despite of the prominent economic status of the Chinese economy, which ranks the second place in the world with a total domestic product estimated at 14 trillion dollars. Although China is the largest exporter in the world, most of its transactions are selling and buying in hard currencies, led by the US dollar, which explains the weak demand on its Renminbi. However, it is very clear that China is striving to spread more confidence in its currency by seeking to internationalize its currency more and more even the way seems too long and difficult.

Figure (06): growing demand (200%) of the Chinese yuan in foreign exchange market



Source: Produced by the author depending on the Table (05) Data.

3.4- Contribution of the Chinese Yuan in the SDR basket:

The Special Drawing Rights (SDR) was created by the IMF in 1969 as a supplementary international reserve asset that can be used to settle international payments, which is accounting entries made by the International Monetary Fund to use it in this process, giving the right to a country to withdraw money from the central bank of another country, and its legal value derives from the simple commitment of the member States in the IMF to accept it.

The Chinese yuan joined the US dollar, Euro, the Pound sterling and the Japanese yen to become the fifth currency to be formed for the SDR basket on October 01st, 2016, by a decision of the IMF (2016) Executive Board, which also decided that the currency weights should be 41.73% for the Dollar, 30.93% for the Euro, 10.92% for the Chinese Yuan, 8.33% for the Japanese Yen and 8.09% for the Pound Sterling, the value of the SDR will be the sum of the values of the following amounts of each currency ^{which} are calculated such that the value of the SDR in USD:

U.S. dollar	0.58252
Euro	0.38671
Chinese yuan	1.0174
Japanese yen	11.900
Pound sterling	0.085946

Although this step appears as very important for launching the internationalization process of the Chinese yuan, it is not considered sufficient, especially since the contribution of SDRs in foreign exchange reserves is very low, not more than 1%, and there is no real market dedicated to it by economic dealers in trade and financial exchanges. However, this step provides more confidence in the Renminbi as a reserve currency, international payments and strengthens China's financial liberalization, since SDR is an important symbol in the International monetary system.

3.5 - Internationalization of the Chinese yuan and financial markets:

According to the Asian Bank's report 2018 about the internationalization of the Renminbi, this process has provided new opportunities in the financial market, making international investors more interested in allocating assets in the Renminbi.

By the end of 2017, total RMB denominated assets of foreign enterprises and individuals stood at 4.48 trillion yuan (\$630 billion), an increase of 41.3 percent in comparison with the previous year. In 2017, foreign enterprises increased Renminbi bonds held at 347.7 billion yuan (\$51.6 billion), and the total outstanding Chinese bonds held by foreign institutions at the end of the year reached a high level at 1.15 trillion yuan (\$170 billion) (Zhang Lini, 2018, p. 13).

On April 11, 2018, at the Boao Forum of Asia annual conference, President Xi Jinping announced that China will greatly expand to access to financial markets. Chinese Central Bank Governor Yi Gang announced specific measures and time frames for further opening up to the financial industry. The development of the bond market in China during the last few years has also contributed to the revitalization of the Chinese financial market (Raphael Lam .W & Jingsen Wang, 2018, p. 11).

By May 2020, the Chinese currency occupied the third place on the world as a global currency in trade finance market, when contributed 1.90%, while the USD and euro contributed 87.47% and 6.18% respectively.

Figure (07): RMB's share as a global currency in trade finance market



Source: SWIFT, June 2020, available at:

https://www.interest.co.nz/sites/default/files/embedded_images/rmb_tracker_june_2020_slides_en.pdf

4. The future challenges of internationalization of the Chinese yuan against the USD:

The contribution of the Chinese currency to various international financial transactions remains weak compared to the rest of hard currencies as discussed earlier, which poses a huge challenge for China to raise its currency in foreign exchange reserves and compete the US dollar and other hard currencies.

4.1- Stability of macroeconomic indicators:

Macroeconomic indicators and government policies play a big role in the internationalization of the Chinese yuan. The decline in economic growth from 14.02% in 2007 to 6% in 2019, it was worth 14200 billion US dollars in 2019, according to official data from the World Bank with the IMF forecast a further decline of 5.8% by 2022 which may be pushing down the RMB's value caused by the COVID-19. In addition to the increase in external debt, the general budget deficit and the uncertainties identified by the various macroeconomic indicators are considered as the biggest challenge of the internationalization of the Chinese currency (see Appendix 2).

4.2- Contribution to international financial transactions:

The Chinese yuan contributes only 1.8% in the foreign exchange reserves which held by the central banks in the world. Although the Renminbi contributes 2.09% as a global and local payment currency, most of these payments come from domestic trade - including its trade with Hong Kong, which is not yet considered as a foreign country. The share of the Renminbi in the global foreign exchange market is only 2,15%, according to BIS, where the latest data was in April 2019.

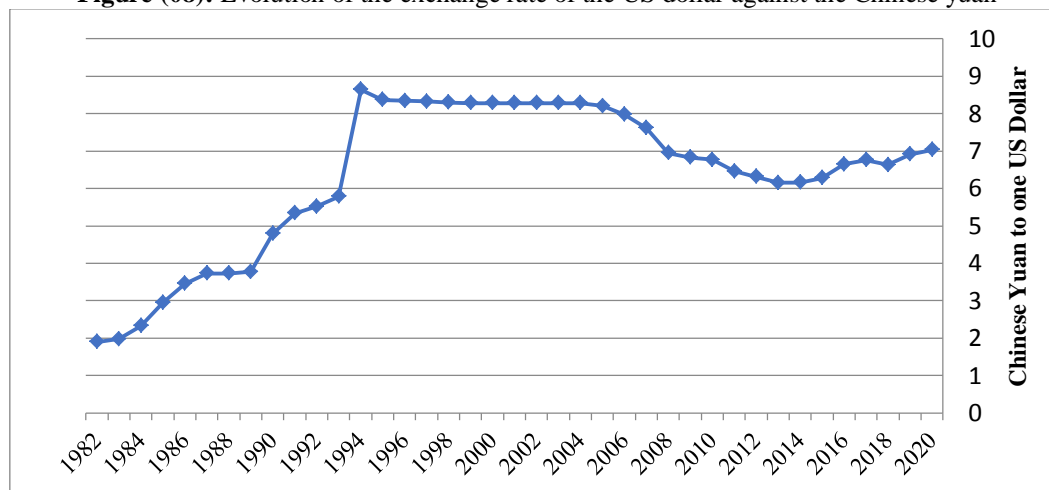
4.3 – The dependence on the US Dollar:

China's dependence on the US dollar in its trade and keeping it in its foreign reserves at least 60% makes it more vulnerable to the risks that may come from the fluctuations of the US dollar against its currency "Renminbi". The collapse and depreciation of the dollar means eroding the real value of its foreign exchange reserves. The dependence on the dollar in commercial and financial transactions also contributes greatly to the United States' control over the international payment system, forcing it to take more preventive measures against any possible collapse of the dollar by gradually decoupling its dependency and internationalizing its currency.

4.4- Trade war between China and the USA:

The trade-protectionist war between China and the United States of America is one of the biggest challenges facing both countries. The United States accuses China of trade fraud - despite its efforts to liberalize its economy and trade system - as well as using its yuan to encourage its exports by not floating its currency and deliberately reducing it, although it has tried to raise its value in the recent years.

Figure (08): Evolution of the exchange rate of the US dollar against the Chinese yuan



Source: Macrotrends (2020), "Dollar Yuan Exchange Rate - 35 Year Historical Chart" Available data at: <https://www.macrotrends.net/2575/us-dollar-yuan-exchange-rate-historical-chart> (Acceded 03-08-2020).

It is worth mentioning that this accusation is mutual between the two parties, which may make this war longer, and the weapon of this war is either the continuous reduction of their currencies or the use of tariffs to limit imports, as the trade deficit between the United States and China exceeded the barrier of 345 billion dollars in 2019 After having its estimated at only 83.8 billion dollars in 2000 according to data of Appendix 3.

Although China is the first trading partner of the United States, on March 08, 2018, Trump introduced additional tariffs on steel from China by 25% and aluminum by 15% due to its intellectual property rights policies. On April 10, China raised tariffs on various the USA products from 15% to 25% as a response to the USA move, which totaled \$3 billion in 2017 (Wayne M. Morrison, 2018b).

Although the demand on Chinese products has not been greatly affected by additional tariffs, they have become relatively more expensive than before, and the uncertainties in the US policy toward China in the future will undermine the confidence of foreign firms to invest in China, hence the Chinese government should be guided by the situation and avoid any sanctions in the future.

Despite of the trade-protectionist war between China and the USA has a negative impact on the international monetary system, Agnès Bénassy-Quéré and Yeganeh Forouheshfar's study (2013) has found encouraging results for a multipolar international monetary system (IMS) even if it does not come directly to a free floating system; the internationalization of the yuan produces some stabilizing properties.

5. Results and discussion.

Renminbi or Yuan are the names of one Chinese currency. The first means "the people's currency", which is the official name adopted since the founding of the People's Republic of China in 1949, and the second is the trading name for that currency inside the country and its symbol is CNY, and abroad its symbol is CNH. This multi-named and multi-symbol banknote now has one goal of "internationalization" and being on the top of hard currencies.

There is an obviously development in the Chinese yuan's position since the start of its internationalization process in 2019, which paves the way for it to have a strong position among hard currencies.

Given the position of the Chinese economy as the second largest economy in the world behind the United States, we can say that the Chinese currency will be a strong competitor to the US dollar, at least in the medium or long term. However, the Chinese yuan is still out of competition compared to the status of the Chinese economy, which poses many challenges to Beijing.

By announcing the start of the internationalization process of its Renminbi, China has no doubt that it wishes to break its dependence on the US dollar. The Chinese currency will undoubtedly be a serious and strong competitor to hard currencies, even in the medium or long term, because the strength of any currency in the world imposed by the economic and commercial status of the currency state. On the light of the continuity of the yuan internationalization process and the growth of China's economy which grows more rapidly than the United States economy, and therefore it will surpass it, and the Chinese yuan will surpass the position of the US dollar, even with these events which have been caused by the COVID-19.

6. Conclusion.

The US dollar easily defended its position as the dominant currency in the international monetary system, this fact was realized by China, that has been working to increase the importance of the Chinese currency as an international currency in the world especially since 2016, it has become clear that China is seeking more internationalization of its Renminbi, especially when it has become the second largest economy in the world after the United States of America, in an attempt to separate its dependence from the US dollar, which Beijing sees as the cause of global financial

crises since 1944. It considers that exchange rate risks can be avoided with the internationalization of its currency and its use as an international payment currency for its foreign trade.

China is seeking to have a global financial center competing with both New York and London, and the internationalization process of the yuan will give it the push that it wants, although this process seems not easy. However, the position of the yuan does not live up to the position of the Chinese economy, which ranks the second place in the world clearly, which imposes on China several challenges to internationalize its currency, especially under the American pressures and the world in protest against its trade policy and exchange rate system, and the composition of foreign exchange reserves of China Which exceeded \$3.09 trillion in April 2020, where the US dollar contributes at least 60% is one of the biggest obstacle and challenge to the steadfastness of the Chinese economy. China does not want to see collapse of the dollar and does not want to hurt the US economy, which is China's most important trading partner.

Despite of the existence of the trade and economic war between the two countries, the common interest between China and the USA imposes a mutual cooperation and avoids all harm on the interest of the two countries.

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8. Appendix.

Appendix 1. Evolution of Chinese merchandise Trade during the Period (1980-2019)

Unit: billion \$

Year	Exports	Imports	Balance trade
1980	18.1	19.5	-1.4
1985	27.3	42.5	-15.3
1990	62.9	53.9	9.0
1995	148.8	132.1	16.7
2000	249.2	225.1	24.1
2005	762.0	660.1	101.9
2006	969.1	791.5	177.6
2007	1,218.0	955.8	262.2
2008	1,428.9	1,131.5	297.4
2009	1,202.0	1,003.9	198.2
2010	1,578.4	1,393.9	184.5
2011	1,899.3	1,741.4	157.9
2012	2,020.1	1,817.3	232.8
2013	2,210.7	1,949.3	261.4
2014	2,343.2	1,963.1	380.1
2015	2,280.5	1,601.8	678.8
2016	2,135.3	1,524.7	610.6
2017	2,279.2	1,790.0	489.2
2018	2,263.5	1,840.9	422.6
2019	2,499.0	2,077.1	421.9

Source: The World Integrated Trade Solution (WITS), (2020), available at: <https://wits.worldbank.org/CountryProfile/en/CHN>

Appendix 2. Evolution of the importance of the Chinese Economy during the Period (1980 - 2020)

Year	Total Investment (in % of GDP)	Inflation rate (in Percent)	Unemployment (in Percent)	Budget balance (in % of GDP)	Government debt (in % of GDP)	Current account (in % of GDP)
1980	35.5	n/a	4.9	n/a	n/a	n/a
1985	39.5	9.3	1.8	0.9	n/a	n/a
1990	34.4	3.1	2.5	-0.7	n/a	n/a
1995	39.6	17.1	2.9	-0.9	21.4	n/a
2000	34.3	0.4	3.1	-2.8	22.8	1.7
2005	41.0	1.8	4.2	-1.4	26.1	5.7
2010	47.9	3.3	4.1	-0.4	33.7	3.9
2011	48.0	5.4	4.1	-0.1	33.6	1.8
2012	47.2	2.6	4.1	-0.3	34.3	2.5
2013	47.3	2.6	4.1	-0.8	37.0	1.5
2014	46.8	2.0	4.1	-0.8	38.6	2.2
2015	44.7	1.4	4.1	-2.8	36.4	2.7
2016	44.1	2.0	4.0	-3.7	36.7	1.8
2017	44.6	1.6	3.9	-3.9	36.8	1.6
2018	44.8	2.1	3.8	-4.1	37.9	0.4
2019	43.1	2.9	3.6	-2.8	51.4	0.1
May 2020	--	2.5	3.4	-3.6	48.4	-0.9

Source: The World Bank (2020), July 29, 2020. Available data at: <https://data.worldbank.org>

Appendix 3. Evolution of Trade Deficit between China and the United States of America

(Unit : billion \$)

Year	The USA exports to China	The USA imports from China	Trade deficit between The USA and China
1985	3.8	3.8	-6.0
1990	4.8	15.2	-10.4
1995	11.7	45.5	-33.7
2000	16.1	100.0	-83.8
2005	41.1	243.4	-202.2
2008	69.7	337.7	-268.0
2009	69.4	296.3	-226.8
2010	91.9	364.9	-273.0
2011	103.9	393.3	-289.3
2012	110.6	425.6	-315.0
2013	121.7	440.4	-318.7
2014	123.7	468.5	-375.2
2015	115.9	483.2	-367.3
2016	115.6	462.6	-347.0
2017	130.4	505.6	-375.2
2018	120.14	539.67	-419.52
2019	106.60	452.20	-345.60

Source: United States Census Bureau (2020), “*U.S. International Trade in Goods and Services*” July 29,2020.

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