Chapter 12
China's Concurrent Gradual Strategy of De-Dollarization and Internationalization of the Yuan

Ali Omidi
https://orcid.org/0000-0003-1882-0456
University of Isfahan, Iran

ABSTRACT

When the United States froze the reserves of the Russian Central Bank following Moscow's invasion of Ukraine in February 2022, it raised concerns in China. Previously, Washington had used the dollar as a weapon against countries such as Iran, Venezuela, and Cuba. This "weaponization" of the dollar and manipulation of it for domestic economic purposes by the US seems to have prompted China to reduce its vulnerability to it. There is ample data showing that China has taken several measures to mitigate the risks associated with the U.S. dollar. This chapter examines the various measures taken by China toward de-dollarization and internalization of the Yuan simultaneously and its prospects. The research is conducted in a descriptive-analytical manner, based on data from library and internet sources.

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INTRODUCTION

One of the pillars of U.S. hegemony is the centrality of the dollar in the international monetary regime, which has reinforced the global position of the United States as the dominant currency in international transactions since World War II. Through the dollar, the U.S. not only benefits from free riding in the global economy and reduces its substantial trade imbalances but also wields it as an economic weapon against its adversaries.

Following the collapse of Bretton Woods in the 1970s and the subsequent decline of the U.S. economy, particularly with the introduction of the euro and the rise of China, the U.S. has faced challenges from currency rivals. Speculation has emerged regarding the weakening of the dollar's position and the strengthening of its competitors, leading to discussions about the emergence of a multipolar currency system. One of the most notable developments strengthening the feasibility of this transition is China’s efforts to internationalize its currency.

Countries such as China, Brazil, Russia, Turkey, Iran, and India are rapidly expanding their gold reserves, which is driving up gold prices. China, once the largest holder of U.S. Treasuries, is now selling these bonds and actively de-dollarizing its economy. The BRICS group is working to reduce the dollar from its trade transactions. There are many indicators that the world’s second-largest economy, China, is seeking to de-dollarize.

But what does “de-dollarize” mean? De-dollarization occurs when a country reduces or completely eliminates its dependence on the U.S. dollar in its financial transactions. This move aims to increase economic independence, especially when a country desires greater control over its financial policies. Consequently, the U.S.'s use of the dollar as a weapon against other nations such as Iran, Russia, Venezuela and so on has prompted many to turn to their national currencies or consider alternatives to the dollar in transactions. China seeks to diminish its dependence on the U.S. dollar, positioning itself as a rising geopolitical power deserving of financial independence from U.S. influence. Weakening the dollar's role as the world’s dominant currency would represent a significant geopolitical victory for China, if successful. The BRICS effort to de-dollarize is expected to lead to a gradual, albeit slow, reduction in the dollar's role within the international monetary system.

This research explores the future of the U.S. dollar as the dominant global currency, with a focus on China's strategy to reduce its dependence on the dollar and to internationalize its own currency. The study employs a descriptive-analytical methodology, drawing on information and data from library and internet sources. This chapter first reviews the main research relevant to the topic and defines the specific contribution this paper makes. It then elaborates on the theoretical foundations regarding when and how a currency achieves hegemonic status, and why

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