

# "U.S. dollar and Chinese yuan may soon be neck and neck"



The U.S. dollar has always been the world's strongest currency. But for how much longer? For many emerging economies (especially in the region between Europe and China), that currency's dominant role is no longer guaranteed. International insurance company Allianz Trade's research division foresees a world with a polarized currency system, with the U.S. dollar and Chinese yuan calling the shots, side by side. The Allianz researchers say the COVID-19 crisis and the Ukrainian war added to the existing dissatisfaction over the dollar's dominance. They refer to financial globalization's next stage, ultimately resulting in the Chinese yuan and U.S. dollar's 'financial co-hegemony.'

## "Great symbolic significance"

Johan Geeroms, Allianz Trade's Risk Underwriting Director for Benelux, points to earlier reports in The Wall Street Journal this year. Those were about an oil deal between the world's largest oil exporter (Saudi Arabia) and the world's largest oil importer (China) that was settled in Chinese yuan, not U.S. dollars. "If there's one dollar-oriented sector, it's the oil sector. That deal strikes at the heart of the American system; it has tremendous symbolic impact," he says. "Western countries have always accepted the dollar as a given. That isn't the case at all in most of the rest of the world. Given Asia's economic rise, it makes sense for China to try and push the yuan as the leading currency. It also fits entirely with the growing controversy between the U.S. and China." Geeroms calls the yuan the "dollar's natural challenger." With the euro 'sandwiched' in between, he says. "As global trade flows with the U.S. and China increase, the euro's specific weight will decrease."

## Multipolar system

According to Allianz researchers, the yuan's role in the global financial system has doubled in the last decade. This growth is rapidly accelerating toward a multipolar system. The next question, then, is how the two currencies will function side by side. In a pessimistic scenario, two spheres of influence could form (U.S. and dollar versus China and yuan) with little exchange. Geeroms says the yuan's rise is instinctually linked to the massive Belt and Road (New Silk Road) investments. China is investing hundreds of billions in infrastructure projects like port and electricity facilities. They are doing so in more than 80 countries, mainly in Asia and Africa, but also in Europe. "These countries' trade with China is growing rapidly. So, China will naturally want to advance its own currency in that regard."

## "China is choicely positioned"

While Europe is mostly 'busy with itself,' many developing countries have their hands full with economic progress. "China is perfectly positioned for that. Add its technological innovation, also in the fiscal arena, to that," continues the Risk Underwriting Director. "Should China manage to combine its central bank's widely used digital currency with block chain technology, that will further strengthen that country's economic advance."

"Countries need the dollar to do international business, giving Washington political leverage. The same, of course, applies to the yuan's rise and China's influence in the world," Geerom concludes.