

## Research on the Development Trend of Dedollarization in Global and China's Strategy

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### Abstract

**This article uses methods such as normative research, comparative analysis, and literature review to summarize the current development status of international settlement "de beautification" in various countries around the world, explore the implementation path of global international settlement "Dedollarization", and provide suggestions for the development of "de beautification" in China based on the current development situation. This article analyzes the global trend of "de dollarization" from both theoretical and practical perspectives, which has significant theoretical significance for the research on the development of "de beautification" at home and abroad. Based on the current economic development situation in China, analyzing the problems in China's "de dollarization" development, and proposing reasonable suggestions and strategies for China's "de dollarization" development from different perspectives, is of great practical significance for China to find the engine of economic development in the new trend of the world economy.**

### Keywords

**Dedollarization; US Dollar Hegemony; Strategy Research.**

### 1. Introduction

After World War II, the United States ranked first in terms of economic and military strength in the world. The Bretton Woods system established after World War II established a peg between the US dollar and gold, while other currencies were pegged to the US dollar. From then on, the US dollar replaced the British pound as the global "currency king", creating the US dollar's hegemonic position. With the changes in the global economic landscape and the exposure of defects in the single currency system, the risks created by the US dollar, which is located at the center of the international monetary system, and the spillovers from it, have driven many countries to embark on the path of 'going away from the US dollar'. In recent years, the global trend of "de dollarization" has been increasingly strengthened, and major economies in the world, including emerging market countries such as China and Russia, as well as developed countries such as Germany, the United Kingdom, Japan, and Canada, are implementing "de dollarization" policies in various ways.

(1) Theoretical significance. Unlike a single perspective study, this project explores and summarizes the implementation paths of "de beautification" in various countries around the world from multiple perspectives such as currency diversification, payment systems, foreign exchange reserves, and digital currencies, laying a theoretical foundation for the research on China's "de dollarization" development. By analyzing the current situation and trend of global international settlement "de dollarization" development, it has significant theoretical significance for the research on the development of "de beautification" at home and abroad.

(2) Practical significance. By analyzing the current development status of global international settlement "de dollarization", this article explores and sorts out the implementation path of global "de dollarization" at the practical level, and seeks the focus of global "de dollarization". Provide strategic guidance for China's "de dollarization" development. Based on the research on the current situation, development trends, and implementation paths of global "de dollarization", and in response to China's national conditions, corresponding strategies are proposed from the perspectives of promoting RMB internationalization, strengthening international cooperation, and strengthening financial infrastructure construction, which has practical guidance significance for China's "de dollarization" development.

## 2. Literature Review

### 2.1. Current Research Status at Home and Abroad

Through reading relevant literature, I have gained some understanding of the viewpoints of domestic scholars. Currently, domestic scholars have relatively mature research on the development trend of global "de dollarization". Wang Wen (2020) believes that current research on "de dollarization" is not only of great significance in financial policies and market trends, but also has huge implications for China's development strategy; Wang Chaoyang and Wang Shuang (2020) believe that digital currency will challenge the US dollar system. Zhang Rui (2021) believes that the successful day of "de dollarization" is the time when the international monetary system undergoes fundamental fission and deep reconstruction. Peng Tao (2021) believes that it marks the decline of the petrodollar, the rise of the petroyuan, and the official rapid march of the RMB towards the international stage. Anna Maria, a foreign scholar, and other scholars (2010) have long pointed out that "de dollarization" usually needs to be combined with macroeconomic policies and microeconomics measures to make local currency more attractive than foreign currency. Jim O'Neill (2017) stated that investors must believe that the US dollar will not always be the world's number one currency. Gal Luft believes that there is no single currency that can replace the US dollar, and we are moving towards an era of currency multipolarity.

### 2.2. Dynamic Analysis of Research and Development at Home and Abroad

At present, research on the development trend of global "dedollarization" has been very mature both domestically and internationally, and relatively consistent research conclusions have been obtained. Currently, there is more and more mature research on macro level "de dollarization" methods at home and abroad, but there is less research on the solution path and bottleneck breakthrough of key issues of international settlement "dedollarization", which may become a research focus in the future. Under the wave of global international settlement "de dollarization", the construction of a new international monetary order is still a focus of research at home and abroad. Research on China's strategy and the internationalization of the RMB will continue to become a key research object in the future.

### 3. The Development Status of Global "Dedollarization"

In recent years, the global trend of "de dollarization" has been increasingly strengthened, and major economies in the world, including emerging economies such as China and Russia, as well as developed countries such as Germany, the United Kingdom, Japan, and Canada, continue to implement different "de dollarization" policies.

In view of the poor prospects for US economic growth, the negative impact of US dollar hegemony on global economic development, the serious loss of US dollar credit, and the fact that the US dollar has become an "anchor free currency" due to its decoupling from the gold standard system, the trend of global "de dollarization" has become increasingly obvious. At present, global "de dollarization" is showing a trend of "multi country, multi channel, and multi angle" efforts: regional and global currencies such as the yen, RMB, and euro are becoming increasingly active, and the global monetary system is showing diversified development. The acceleration of international currency diversification exploration will lead to the formation of a new global monetary order. As an emerging currency, digital currency can bypass financial monitoring in the United States and promote global "de dollarization", potentially becoming an important part of international settlement "de dollarization". Multiple emerging economies and developed countries around the world have successively launched new measures to strengthen cross-border trade and investment settlement in local currency, and try to escape the impact of the US dollar as much as possible. Countries are also continuously increasing their research on cross-border payment and settlement system technology, exploring blockchain technology for cross-border payment and settlement, bypassing the US dollar for cross-border payment and settlement, greatly combating the US dollar's monopoly position.

As the world's largest financial power, the United States still has the ability to dominate the world economy for a long time, and this important financial position will be maintained for a considerable period of time. In the long run, although the US dollar can rebound strongly with the help of US financial hegemony, losing its hegemonic position has become a trend, and the world monetary system is about to enter a multipolar era. In the future, with the continuous deepening of world multipolarization, new requirements will be put forward for the development of payment and settlement mechanisms in economic and trade cooperation among countries around the world, which will promote the exploration of international currency diversification and accelerate the pace of world "de dollarization"

### 4. Exploring the Implementation Path of Global "Dedollarization"

#### 4.1. Exploration of Currency Diversification

With the rapid development of the world economy and the increase in trade and investment activities between different countries, global currency settlement is becoming increasingly diversified. Against the backdrop of US dollar hegemony, countries around the world are constantly strengthening their exploration of currency diversification. Not only are the euro, RMB, yen, pound, ruble and other global or regional currencies increasingly active, but many small and medium-sized countries are also increasingly using their own currencies. The global monetary system is fragmentation and diversified, and the hegemony of the US dollar is weakening, even gradually disintegrating in some regions. In order to cope with the potential risks of severe fluctuations in the US dollar exchange rate, a floating exchange rate system will be implemented in more countries. In the future, most major currencies in the world may adopt a floating exchange rate system that pegs to a basket of currencies. The number of countries implementing a floating exchange rate system pegged to the single US dollar will decrease, while the number of countries implementing a floating exchange rate mechanism pegged to the RMB and euro will increase. The world is promoting international currency diversification to

reduce dependence on the US dollar and its assets, in order to break through the long-term hegemony of the US dollar.

## 4.2. Adjusting the Structure of Foreign Exchange Reserves

### 4.2.1. Increase Gold Reserve



**Figure 1.** Total global central bank gold purchase

Countries adjust their foreign exchange reserve structure by increasing their holdings of gold reserves. Countries around the world mainly increase their holdings of gold reserves through two ways: on the one hand, they purchase gold. Due to high inflation and geopolitical risks, global central banks are continuously accelerating their purchases of gold. According to the latest report issued by the World Gold Council, as of February 2022, the world's central banks are increasing their holdings of gold reserve at the fastest rate since the year when the dollar was decoupled from gold half a century ago. In 2022, the world's central banks bought gold net for the 13th consecutive year. The total gold purchases of the world's central banks reached nearly 1136 tons, 686 tons more than the total purchase of 450 tons in 2021, setting the largest purchase volume of the world's central banks since the 1967 pound crisis. According to the report data, global central banks have continued to purchase gold in recent years, and the year-on-year change rate of global central bank gold purchases in 2022 was as high as 152.31%, also reaching the highest value in nearly a decade. From the linear trend line, the global central bank's gold purchase is on the rise. It is expected that the central bank will continue to purchase gold in the future to increase its own gold reserve. On the other hand, it involves transporting gold back. Under the financial hegemony of the United States, gold from more than 60 countries is stored in the treasury in Manhattan, the United States. Under the situation of high inflation and the discredit of the US dollar, Germany, France, Poland and other EU countries, represented by their gold reserves overseas, have increased their gold reserve by transporting them back. Several central banks of countries have decided to repatriate gold stored in the Federal Reserve treasury from the United States. For a long time, the US dollar has been an important safe haven

asset, but the actions of countries increasing their holdings of gold indicate that the US government and the US dollar are gradually losing global trust.

#### 4.2.2. Reducing Holdings of US Bonds

According to data released by the US Treasury, Japan, the world's largest holder of US Treasuries, reduced its holdings by \$224.5 billion in 2022, while China, the second largest holder, held \$173.2 billion in US Treasuries in 2022. The historical peak of Chinese Mainland's holdings of US debt was in November 2013, when it reached US \$1.32 trillion. Compared with the peak in 2013, by the end of December 2022, the size of US debt in Chinese Mainland had decreased to US \$867 billion, and the accumulated reduction of US debt was about US \$452.9 billion. In order to maintain the yen exchange rate, Japan significantly reduced its holdings of US bonds and bought the yen. In 2022, Japan sold a total of \$224.5 billion in US bonds, becoming the largest seller of US bonds for the year. Although Japan and China have significantly reduced their holdings of US bonds, they remain the two countries with the largest holdings of US bonds. The UK and Luxembourg have slightly increased their holdings of US bonds, while their rankings remain unchanged. Ireland reduced its holdings of US bonds by \$79.7 billion, dropping to eighth place. In addition to China, Japan and Ireland, other countries are also reducing their holdings of US debt. France, Saudi Arabia, Israel and other countries have also sold a large number of US treasury bond bonds since last year.

#### 4.2.3. Non US Dollar Currency Reserves

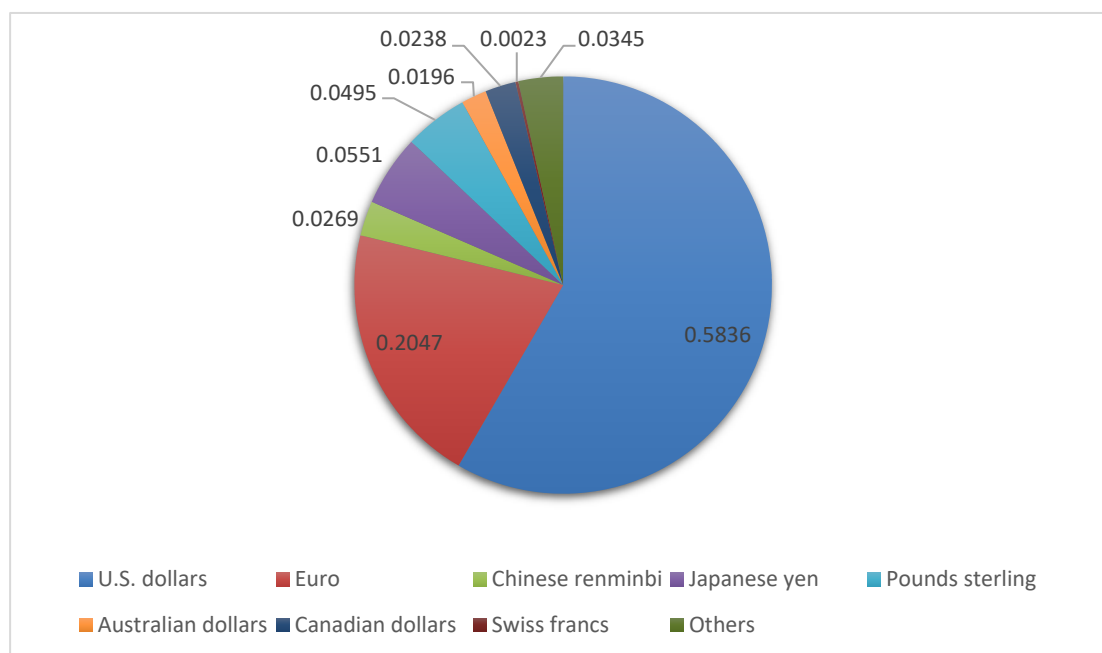


Figure 2. Currency composition of foreign exchange reserves in 2023

In addition to selling US debt and increasing gold reserve, countries all over the world adjust their foreign exchange reserve structure by increasing reserves in non US dollar currencies and increasing their holdings in other countries' currencies. According to the survey data on the composition of official foreign exchange reserve currencies by the International Monetary Fund (IMF), in the latest global foreign exchange reserve data in 2023, the proportion of the US dollar is 58.36%, the proportion of the euro is 20.4%, the proportion of the Japanese yen is 5.51%, the proportion of the British pound is 4.95%, and the proportion of the Chinese yuan is 2.69%. In terms of proportion analysis, the position of the US dollar as the main currency in global foreign exchange reserves remains unchanged. However, the US dollar's proportion in global foreign exchange reserves reached a peak of 71% during the period, and now its share in the world is

only 58.36%. The US dollar's share has been decreasing year by year, while the proportion of currencies such as the Japanese yen, RMB, and euro in global foreign exchange reserves is gradually increasing, indicating that central banks are increasing their holdings of these assets, Adjust the foreign exchange reserve structure of the country by increasing reserves in non US dollar currencies.

### 4.3. Construction of an Independent New Payment System

In the 1960s, in order to promote world international trade, 239 banks around the world collaborated to establish the "SWIFT International Settlement System". As the main settlement currency of the system was the US dollar, it greatly promoted the dominance of the US dollar. With the development of the world economy, the traditional "SWIFT international settlement system" that uses the US dollar for trade settlement and payment and is absolutely controlled by the United States has been widely criticized. In order to bypass the financial payment system controlled by the United States and eliminate political and economic risks, many economies are developing or have already developed independent payment systems. After 2014, Russia developed the Russian Payment and Financial Information Transmission System (SPFS), and so far, 23 countries around the world have reached relevant cooperation with SPFS [3]. In January 2019, France, Germany, and the United Kingdom established a new payment system called "Instrument for Supporting Trade Exchanges (INSTEX)", which was launched in July of the same year and used for special trade settlement between Europe and Iran. In April 2019, the BRICS Pay unified payment system of the BRICS countries was launched in South Africa, and internal transactions within the BRICS countries could choose "BRICS Payment", thereby achieving de-dollarization of intra group trade. The establishment of an independent payment system will greatly enhance the independence and security of international trade settlements among countries, and promote the stable and healthy development of the global economy.

### 4.4. Digital Currency

**Table 1.** Current Status of Global Digital Currencies

Retail CBDC Projects			Interbank or wholesale CBDC Top Day		
Ranking	Projects	Countries and regions	Ranking	Projects	Countries and regions
1	Sand Dollar	Bahamas	1	Jnthanon-LionRockUbin	Hong Kong,China and Thailand
2	Bakong	Cambodia			
3	DC/EP	China	3	Ubin	Singapore
4	E-hryvnia	Ukraine	4	Jasper-Ubin	Canada
	e-peso	Uruguay	5	TBC	United Kingdom
	Dinero clclrnico	Ecuador	6	CBDC Experiments	France
7	DXCD	Eastern Caribbean	7	Khokha	South Africa
8	E-krona	Sweden	8	Stella	Eurozone
9	E-won	South Korea	9	Aber	United Arab Emirates
10	Digital Lira	Turkey	10	Stella	Japan

Digital currency has become a new force in global "de-dollarization", and many countries are competing to explore and try it out. The substitution effect of the US dollar in areas such as international investment and cross-border payments is becoming increasingly evident. After Finland's "Avant" and Ecuador's "DE" measures, some central banks are also launching pilot projects to issue CBDCs. For example, the digital renminbi of the People's Bank of China, the Sand Dollar program launched by the Central Bank of the Bahamas, and the "e-krona" project of the Swedish Central Bank are all constantly developing. According to the Central Bank Digital Currency (CBDC) report released by PwC, over 60 central banks are actively exploring CBDCs. Among them, in the maturity ranking of retail CBDCs, the Sand Dollar project in the Bahamas,

the Bahamas project in Cambodia, and the DC/EP project in China are more mature compared to CBDCs in other countries. In terms of interbank or wholesale central bank digital currency projects, Thailand and Hong Kong, China are both ranked first, Next are Singapore, Canada, and the United Kingdom. In addition, according to the report, only 23% of all retail CBDC projects have entered the implementation stage, and nearly 70% of wholesale CBDC projects are currently being piloted. Digital currency poses a challenge to the existing cross-border payment system and the international monetary system, reducing the dependence of the cross-border payment system on the US dollar and promoting diversified reform of the international monetary system. It can evade US financial regulation and sanctions, and therefore, is still recognized and used by many countries, becoming a sharp tool for countries to "de dollarize". Only by walking ahead of other countries can we possibly occupy a favorable position in the future digital currency field and even in the world monetary pattern.

## **5. Research on the Development Strategy of China's "Dedollarization"**

### **5.1. Internationalization of the RMB is an Important Path for "De Dollarization"**

At the same time of "de dollarization", the internationalization process of the RMB also needs to be continuously advanced, and RMB internationalization is an important path for China's "de dollarization" development. According to the Currency Composition of Official Foreign Exchange Reserves (COFER) data released by the International Monetary Fund (IMF) on March 31, 2023, at the end of the fourth quarter of 2022, the RMB's foreign exchange reserves were approximately \$298.44 billion, accounting for 2.69% of the COFER, ranking fifth globally after the US dollar, euro, yen, and pound sterling [4]. The position of the RMB in foreign exchange reserves and international trade is constantly rising. At present, more than 70 countries around the world have incorporated the RMB into their foreign exchange reserve system. According to data released by the Bank for International Settlements, the RMB has become the fifth largest trading currency in the world with a trading volume of 7%. With the continuous growth of the Chinese economy and the decline of the US dollar hegemony, the global monetary multipolarization situation is further strengthening, and "de dollarization" will be the trend. At the same time, the internationalization of the RMB will also accelerate. In the process of the world's "de dollarization" trend and promoting the diversification of the international monetary system, China should maintain rationality, continue to improve the international use of the RMB while ensuring the steady development of its own economy, and achieve orderly internationalization of the RMB.

### **5.2. Strengthen International Cooperation and Promote the Diversified Development of International Currencies**

China needs to strengthen international exchanges and cooperation, minimize the impact of the current international monetary system dominated by the US dollar on China's economic development, and strive to deepen regional financial cooperation. Strengthening international cooperation can be achieved through the following aspects: firstly, strengthening cooperation in key areas such as payment systems. For example, the cooperative development of "de dollarization" in the settlement and payment system between China and Russia, as well as the establishment of "Asian yuan" and other ideas, to form a relatively stable exchange rate between currencies, create a regional common currency, reduce the risk of excessive dependence on the US dollar, and promote the diversified development of international currencies [5]. The second is to strengthen the national top-level cooperation initiatives of the "the Belt and Road". China should strengthen top-level design with overseas economic and trade cooperation zones and countries along the "the Belt and Road", increase cross regional cooperation with financial institutions of countries along the "the Belt and Road". With the help of relevant platforms of the "Belt and Road", cooperative countries should make reasonable

investment to innovate financial business, drive the overall business level of cooperation in China through business cooperation, and expand the openness of service trade and investment fields [6]. The third is to expand bilateral currency exchange cooperation. The currency swap agreement is an agreement that stipulates a fixed exchange rate for bilateral currency swaps, avoiding the impact of fluctuations in the exchange rates of third country currencies such as the US dollar, and making trade exchanges between the two countries smoother and more convenient. Under the wave of "de dollarization" in international trade, the Chinese government can maintain the stable development of bilateral trade by signing bilateral currency swap agreements. Bilateral currency swap agreements signed with various countries or regions can provide convenience for economic and trade exchanges between China and cooperating countries, which is more conducive to enhancing the international currency status of the RMB in the era of global economic and trade rule reconstruction, and promoting the diversified development of international currencies.

### 5.3. Strengthen Financial Infrastructure Construction and Promote Innovation in Cross-Border Payment Methods

The construction of financial infrastructure covers many aspects such as credit environment, financial regulation, and payment and settlement system. As a channel for capital flow and a bridge for carrying out capital resource transactions, the importance of financial market infrastructure is self-evident. At present, China is also developing and exploring a cross-border payment and settlement system - the RMB Cross border Payment System (CIPS). Although it has been effective, there is still a significant gap between it and the "SWIFT International Settlement System" in various aspects. To strive for "de dollarization" development, China needs to strengthen financial infrastructure and deepen payment system reform. Due to the rapid development of financial technology and the deepening of economic globalization, digital currencies have emerged. And digital currency will also become a key direction for the future development of countries, promoting the transformation of the global payment system. Strengthening China's financial infrastructure construction can better promote the development of China's digital RMB, which may become an important factor in promoting China's "de dollarization" process. China should increase the construction and improvement of financial infrastructure, increase investment in intelligent finance, big data analysis, blockchain technology, digital currency research, and payment settlement innovation, expand the application of financial technology in cross-border payments and payment systems, promote innovation in cross-border payment methods, gradually break through the dominance of the US dollar, and achieve internationalization of the financial services industry.

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