



“West” and “East” in the Global Economic System: Facing a New Bipolarity

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Abstract

The global economic crisis intensifies against the backdrop of inefficient actions of international organizations and individual states. As a result, there is a change in the balance of the world economy. The unipolar economic system is being replaced by a bipolar system that divides the world into the West (USA) and the East (China). In this regard, the problem of economic confrontation between the two powers and smoothing out the imbalance in the world economy due to the collapse of the monopolar world order becomes a relevant problem. This study is devoted to the analysis of the compliance of the Chinese economy with all the characteristics of a leader compared with the US economy. For this purpose, the problem of the competitiveness of the Chinese financial system has been studied. Based on the case study, the development of the Chinese financial market was analyzed in comparison with the US. The main finding is that the role of the Yuan in the international exchange market is insignificant and accounts for 4.3% of the total turnover. In addition, the Yuan is not widely used globally as a reserve currency, although the Yuan has been included in the SDR basket. The general conclusion is that without a freely convertible Yuan and free float, China's financial system will not be able to compete with the US. Accordingly, China will not be able to become a full-fledged second pole in the global economic system.

Keywords: Economics, Bipolar Economic System, International Financial Market, Chinese Financial System, International Reserve Currency, China.

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Әлемдік экономикалық жүйедегі «Батыс» пен «Шығыс»: жаңа биполярлықтың қалыптасуы

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Түйін

Қазіргі уақытта халықаралық ұйымдар мен жекелеген мемлекеттердің тиімсіз әрекеттері нәтижесінде әлемдік экономикалық дағдарыстың күшеюі орын алуда. Әлемдік экономикада тепе-теңдіктің өзгеруі байқалады, әлем шартты түрде Батыс (АҚШ) пен Шығысқа (Қытай) бөлінген биполярлық жүйемен ауысып жатқанын көруге болады. Осыған байланысты екі ел арасындағы экономикалық бақталастық және монополярлық әлемдік тәртіптің күйреуі салдарынан әлемде орнап отырған экономикадағы теңгерімсіздікті төмендету мәселесі өзекті болып отыр. Бұл мақаланың мақсаты Қытай экономикасының АҚШ-қа парапар көшбасшы сипаттамаларына сәйкестігін анықтау болды. Осы мақсатта Қытай қаржы жүйесінің бәсекеге қабілеттілігі, юанның халықаралық қаржы нарығына интеграциялану дәрежесі мәселелері зерттелді. Кейс-стади әдісі негізінде Қытай қаржы нарығының дамуы АҚШ-пен салыстырылып талданды. Зерттеу нәтижесі юанның халықаралық есеп айырысудағы рөлі шамалы екенін және жалпы айналымның небәрі 4,3%-ын құрайтынын көрсетті. Сонымен қатар, юань SDR (Арнайы қарыз құқығы) қоржынына енгізілгенімен, әлемдік резервтік валюта ретінде кеңінен қолданылмайтыны анықталды. Зерттеу негізінде еркін айырбасталатын юань және валютаның еркін режимі енгізілмесе, Қытайдың қаржы жүйесі АҚШ-пен бәсекеге түсе алмайды деген қорытынды жасауға болады. Тиісінше, қазіргі уақытта Қытайды әлемдік экономикалық жүйеде толыққанды екінші полюс деп санауға әлі ерте деп қорытындылауға болады.

Түйін сөздер: экономика, биполярлық экономикалық жүйе, халықаралық қаржы нарығы, Қытай қаржы жүйесі, халықаралық резервтік валюта, Қытай

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«Запад» и «Восток» в мировой экономической системе: формирование новой биполярности

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Аннотация

В настоящее время наблюдается усиление глобального экономического кризиса на фоне неэффективных действий международных организаций и отдельных государств. Наблюдается изменение баланса в мировой экономике, однополярная экономическая система сменяется биполярной системой, которая условно разделяет мир на запад (США) и восток (Китай). В этой связи, актуальным становится проблема экономического противостояния двух держав, и сглаживания дисбаланса в мировой экономике в связи с крушением монополярного мироустройства. Данное научное исследование посвящено анализу соответствия китайской экономики всем характеристикам лидера в противовес экономике США. С этой целью исследованы проблемы конкурентоспособности китайской финансовой системы, степень интегрированности юаня в международный финансовый рынок. На основе кейс-стади было проанализировано развитие китайского финансового рынка в сравнении с США. Проведенный анализ показал, что роль юаня в международных расчетах незначительна, и составляет около 4,3% от общего оборота. Кроме этого, юань не используется широко как мировая резервная валюта, хотя входит в корзину SDR (Специальных прав заимствования). На основе исследования были сделаны выводы, что без свободно конвертируемости юаня и введения режима свободного плавания, финансовая система Китая не может конкурировать с США. Соответственно, в настоящее время Китай не может считаться полноценным вторым полюсом в глобальной экономической системе.

Ключевые слова: экономика, биполярная экономическая система, международный финансовый рынок, финансовая система Китая, международная резервная валюта, Китай

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Introduction

The current global economic crisis has revealed specific problems of local economies' inefficiency, which have intensified the destabilization of international economic relations. Measures taken by individual states and financial institutions to smooth out imbalance processes in the global economy are ineffective and inconsistent. In this regard, it is necessary to trace how the balance of power in the world is changing and which states can overcome the imbalance processes in the global economy.

In the middle of the XX century, international economic and political relations acquired a bipolar character, mainly due to the confrontation between the USSR and the USA. The collapse of the bipolar system led to forming a unipolar world. Nowadays, the United States of America continues to dictate its rules of the game in the global system, despite the current structural crisis of its economy.

In current conditions, the economic, political and technological shift from West to East is taking place more and more rapidly, and the influence of the countries of the Asian region on the global sphere is increasing. This aspect alters the global balance of power, leading to the formation of new centres of rivalry and commonwealth. It becomes apparent that managing the world economic system is practically impossible from one centre of power.

Is the bipolarity that existed in the middle of the XX century possible in the modern world? It is supposed that the economies of the United States and China can act as poles. What are the relationships will be between these countries? Whether the USA as a representative of the western economic system, remain a monopolar leader of the world or China as a representative of East Asian economies will, dominate in future?

This paper has considered future economic development questions regarding the two global economic systems: the USA as a West power and China as an East power. In this article, we tried to analyze the Chinese economy's ability to become a leader in Asia and play a role as a pole in the global economic system. There are many attempts in scientific literature to search for global bipolar systems. However, many researchers need to pay more attention to the fact that bipolarity cannot be based only on a political basis in an era of globalization. One of the necessary conditions for the formation of poles is leadership in the economy, including the financial sector. Therefore, in this article, we decided to investigate whether China meets all the characteristics of an economic

leader. Thus, we raise the following questions: (1) whether China will be able to become the second pole in opposition to the American economy? (2) is China's financial system competitive globally? Answering these questions requires analyzing the Chinese economy's development and comparing its development with the USA as a leader of the West. In addition, an analysis of the integration of the Chinese financial system into the world economy will help answer the question of whether China is a full-fledged second pole in the economic sphere.

Literature review

As Karl Marx stated, "the country that is more developed industrially only shows, to the less developed, the image of its own future" (Marx, 1964). In this sense, the term "developing" refers to a transition from underdevelopment to economic development, defined as a historical process of capital accumulation and productivity growth that allows per capita income growth and better well-being among a country's people. The heart of the economic development process is not only the political will to mobilize an entire society around a modernization strategy and overcome a state of backwardness but also the achievement of a balance between the state and the market. In other words, it is the creation of a national development strategy.

There are a lot of discussions about the nature of China's economic growth. Some scholars suggest that Chinese experience is entirely different from the Washington Consensus, a collection of liberal policies and reforms (Lo & Zhang, 2011). The mainstream view of Chinese development emphasises openness to foreign capital and market deregulation as crucial enabling factors. However, some researchers are criticizing other policies and institutions in China, such as the country's essentially public financial system, state-owned enterprises in key sectors, and comprehensive capital controls, among other things, as detracting from the country's path to a free market economy (Meier, 1987).

Since 1980, China's economic growth has been broad and long, indicating a continuous trend of rapid catch-up. At least since the 1990s, when four elements became interwoven, this process has been visible:

- 1) Investments increased dramatically in absolute terms and as a percentage of total demand.
- 2) China became an oil importer in 1993, significantly altering the international market for this commodity.

3) The urbanization accelerated, followed by the launch of comprehensive, visionary programs to improve transportation and communication links across China's vast territory, with the strategic goal of unifying and integrating the vast, continent-sized national market.

4) A gradual and incremental policy of economic opening-up was implemented.

Lewis (1954) work, which supports the concept of economic development of China with a limitless labour supply, should be noted. Along with cheap labour, Warriner (1964) noted the contribution of industrialization to the country's development and state regulation of capital accumulation processes. Hirschman (1984) and Prebisch (1949) believe that the dynamic development of China is associated with the state's active intervention in all market processes. Thus, the state began to play a greater role in economic, monetary and fiscal policy in foreign trade and especially in launching new and higher forms of financial planning (Jabbour, 2012).

China's economy is getting closer to the US, its main competitor. According to the International Monetary Fund (IMF), China's nominal GDP was 71 percent of that of the United States in 2020, up from 67 percent in 2019. Furthermore, according to the Organization for Economic Co-operation and Development (OECD), in 2019, China's Research and Development spending accounted for 84% of US spending, up from 47% in 2010. Thus, China is catching up with the United States in these areas (World Bank, 2021). Thus, the rapidly shrinking economic gap between the US and China will ensure full bipolarity in the global economic system in the long run.

The COVID crisis has not reversed this trend, and both countries are emerging from the pandemic with their structural advantages intact. The United States has the strongest financial system, its currency remains dominant, it is the leader in innovation, and it has one of the most favourable demographic projections of any powerful country. On the other hand, China has enormous innovation potential, a high savings rate, and the ability to mobilise and direct resources.

It should be stated that China's economic growth was achieved based on a financial market closed to international institutions. Given the insignificant role of the Yuan in the global financial market, can China be considered a superpower in a bipolar economic system? Given the primary function of the financial market in the country's economy and the competition in the financial market, will the developed countries of Europe, the United States and Japan enable

China to continue to thrive in the financial market? From our point of view, the closeness of China's financial market to international participants in the short term and the minor role of the Yuan in the global FX turnover may cast doubt on the bipolarity in the world economic system.

The US dollar remains the dominant currency. This confounds academics like Chinn and Frankel, who attempt to explain its dominance in foreign exchange reserves using US factors like GDP (Chinn & Frankel, 2007). The proportion of US GDP to global GDP has been gradually declining for decades. In particular, the US economy made up 29% of the worldwide economy in 1975 at market values but just 24% in 2017. Similarly, the US's share of world trade has been on the decline. The dollar and euro's FX reserve shares should be nearly equal if one uses the size of the US economy, its foreign trade, or its bond market to explain the dollar's share (Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets in 2019, 2020). Instead, the USD still accounts for 63% of all foreign exchange reserves, far exceeding the EUR's 20% share. Using a similar methodology, Lu & Wang (2019), Ferrari (2019), Ito & McCauley (2019), and Tovar & Nor (2018) determine that the dollar zone accounts for approximately 60% of global GDP. Chinese financial infrastructure is more regional than international. BIS Triennial Survey classifies the Yuan as an emerging market currency (Bank for International Settlements, 2019). The primary causes are the adopted monetary policy and the lack of internationalization of the Yuan.

Despite the present state of a Yuan-denominated system, the following strategic developments may be seen:

- the expansion of China's global network of financial relationships;
- the ongoing development of its domestic financial markets;
- and marketing initiatives that highlight the significance of Chinese entities in the financial sector.

A variety of financial markets, including the FX (Foreign Exchange) market (including CNY (Chinese Yuan) FX spot, FX forward, and FX swaps transactions), the credit market (based on Shanghai Interbank Offered Rate (SHIBOR) quotations), the bond market, and stock exchanges, make up the Chinese domestic financial system. Such a system is typical for the capitalist economy, where, despite the intentions and expectations of the Communist Party of

China (CPC), the prices of financial instruments and assets are subject to turbulent and swift changes brought on by economic data or politics. Even though that more than 80% of equities belonged to individual investors, a 30% decline in equity prices in the summer of 2015 prompted China Security Regulatory Commission (CSRC) to freeze prices for six months (Shen & Goh, 2015).

The CSRC invested \$32.21 billion into newly created mutual funds, notwithstanding the administrative actions taken against market participants. Their straightforward strategy was to buy stocks when the market fell to stabilize the market (Taplin & Chatterjee, 2015). Such administrative actions go against the idea of financial markets. These approaches might be effective in the short term, but they are exceedingly expensive for the economy as a whole in the long run. China will have to continue to adhere to the Washington Consensus patterns in the future if it wants to have a sound and adequate financial infrastructure.

A new and more secure way for China to expand its influence is by creating a system of international financial institutions. This tactic is reminiscent of what the US did to establish the Bretton Woods system. China just founded the Asian Infrastructure and Investment Bank (AIIB) in January 2016 and the New Development Bank in 2014, which, despite the absence of the USA and Japan, has been highly positively reviewed by analysts from the Centre for Strategic and International Studies due to the size of funds (about \$3.7 quintillion per year) and the participation of Germany and Great Britain (Moser, 2016). In the future, the Chinese financial system may serve as a check on the influence of western organizations like the IMF (International Monetary Fund) and the World Bank.

It should be noted that the CNY was first rejected by the IMF in 2010, mainly because it did not meet the criterion of being “freely usable.” (IMF, 2015). Despite having a significant impact on global trade, China’s government has long faced criticism for monopolizing the domestic CNY forex market. The function of the CNY in the international monetary system is significantly inferior to its actual economic weight. Before the 2021 assessment, the fund acknowledged that CNY still lagged behind competitors on important indicators.

In some ways, the CNY’s ascent since 2014 has reverted, but its proportion of foreign exchange reserves has increased since it entered the Special Drawing Rights (SDR) basket of the IMF in 2015, and the number of central banks holding it has grown (Yi, 2018).

China benefits from the internationalization of its currency. The inclusion makes the Yuan more widely used in international currency markets, thus lowering the cost of borrowing by Chinese financial institutions. The Yuan’s internationalization stimulates the overseas expansion of Chinese companies and financial institutions. In addition, it will further improve China’s economic and political position in the world and reduce the “country’s dependence on US dollars.” (Zhang & Tao, 2014).

With SDR incorporation, costs are also incurred. As a bigger size of international transactions may lessen the “efficiency and independence” of the policies, China would lose its tight control over monetary policies. Additionally, the inclusion would “decrease the independence of the country’s exchange rate decisions.” Loss of trade competitiveness and increased risks of financial instability are two additional costs (Zhang & Tao, 2014).

Additionally, the inclusion hastens the global deregulation of capital account operations, interest rates, and exchange rates. Due to a higher level of diversity and representability following the inclusion, the CNY makes SDR reserves more appealing to governments (IMF). The inclusion decreases transaction costs for nations doing business with China. Direct conversion between local currencies and CNY would result in significant cost savings for African countries. Before, they had first to exchange the money into US dollars. The USD served as the intermediary currency in such transactions, raising transaction costs. African nations are likely to adopt the CNY as part of their foreign reserves due to the CNY’s globalization (Wei, 2018).

However, there would be grounds for the rest of the globe to be concerned about the possible economic turbulence in China. China’s prospects for economic growth are more volatile than other emerging markets because of this. Its currency might vary more than that of industrialized countries. This finally causes systemic concerns in international financial markets. There may be cause for concern given the Chinese government’s sway. The government may exert pressure on foreign leaders through its monetary policies to accomplish its economic objectives.

Despite potential expenses, the benefits that are more clearly seen could outweigh any potential drawbacks. The authoritarian Chinese government does not specifically intend to hurt the economy, and its vows to liberalize its financial system increase the likelihood of favorable

outcomes. The IMF added the CNY to the SDR basket in the hopes that a more varied basket would benefit the world economy.

The Yuan must eventually obtain full convertibility and take on a free-floating currency status to reach a position comparable to that of the Dollar. However, these two choices are crucial ones for Chinese economic policy. Are China's leaders prepared for these changes? Do they adhere to Xi Jinping's goals? According to Gideon Rachman, the great rejuvenation of the Chinese country is a new and radical direction for Xi Jinping's strategy. Before Xi Jinping, China adopted Deng Xiaoping's method of promoting group leadership as exports and investment grew by double digits, and foreign policy used the correct momentum strategy rather than active diplomacy (Rachman, 2016). Xi Jinping has different aspirations for the future and another image of his leadership. It is built on using his powerful personality and enhancing his position as the nation's leader. He favours domestic consumption over exports in terms of the economy. He views China as a player in international affairs capable of challenging the USA's hegemony in the Asia-Pacific region (Rachman, 2016). Does China's currency policy need to be altered in light of the new policy?

According to Ghazanchyan et al. (2015) analysis, China, along with nations like Bangladesh, Bhutan, Brunei, Fiji, Laos, Maldives, Burma, Nepal, Singapore, and Vietnam, did not implement a system of floating exchange rates between 1980 and 2012. They did not have a free-floating currency, but at the same time, they showed economic growth driven by both public and private capital. Low financial risk and significant FDI influx were further factors supporting development. The study demonstrates that, on the one hand, the free-floating currency regime promotes rapid economic expansion. However, the current accounting liberalization may be detrimental when there are currency crises.

Which currency regime serves these aims if the current system is not the primary factor in GDP growth and the new Chinese goals encourage domestic consumption and stable economic growth? In talks concerning appropriate currency regimes for emerging countries, Kawai, Morgan & Takagi (2012) work demonstrates that the preventative role of currency policy plays an increasingly crucial role. The stabilization effect of a currency regime receives equal emphasis to other parts of economic policy, such as the expansion of global trade, a strategy to draw foreign direct investment or a strategy to promote

economic expansion. Washington and Beijing both participate in these discussions.

China appears to be extremely near to completing all of the operational and formal conditions needed to create a free-floating currency regime and fully liberalize its current and capital accounts.

Academic society in China has closely examined major exporting nations' currency policies to prepare the economy for complete openness. Germany and Japan are two popular countries for such evaluations. The China Development Research Foundation published a paper on the ideal currency system for China in 2015 based on their macroeconomic and monetary expertise. According to the recommendation, a free-floating system should be implemented with all adjustments seamlessly and entirely under the control of the Beijing authorities (Bin, 2014). This should eventually gradually strengthen the Yuan relative to other currencies (and not only against the USD). The Washington Consensus guidelines would subsequently be accepted due to these adjustments.

This article aims to use these early theoretical developments as a springboard for a comprehensive and multifaceted study of China's economic development process, focusing on the development of the financial market and its integration into the global financial market.

A comparative analysis of the development of China provides a comprehensive framework for analysing the future economic development of China and substantiating its leading role in the global economy.

Methodology

The study used general scientific and special methods, with the help of which processes, phenomena and their interrelationships were considered. The study's theoretical basis is a review of the fundamental principles of economic theory, scientific works of foreign scientists on economic development, and reports from international organizations such as the Triennial Central Bank and International Monetary Fund. Many researchers need to pay more attention to the development of an open financial system in China, considering only the overall economic development of the country based on socio-economic indicators such as GDP, national income, exports and imports. We tried to explore the competitiveness of the financial system. Since the development of the financial system and its openness is of paramount importance for determining a symmetrical

bipolar global economic system. Therefore, we specified the degree of integration of the Yuan into the global financial system, its use as a reserve currency, and the degree of openness of China's financial market.

As an exchange rate is a key to creating a financial system, we used a case-study method for analyzing the integration of the Yuan in the global economy. This method can show the differences between China and the USA and help to examine their impact on potential changes on the distribution of power in the international system. Furthermore, a functional analysis was also applied, which helped to establish the relationship and dependence of financial market data and assess the role of the Yuan as a reserve currency. A graphic image method helps to depict the economic dependence of indicators visually.

There are some limitations in our research. Triennial Central Bank provides FX data every three years. The last FX Survey for 2022 has yet to be released. That is why we used FX turnover data up to 2019. Moreover, the Chinese government do not disclose information about the financial market, such as the currency breakdown of their reserves. Up-to-date information about

the Chinese financial market would help better understand the current situation.

Discussion

China has risen to the position of the second economic power in the world in 40 years. However, this statement does not apply to the Chinese currency, which still lags behind the US dollar (USD) in the international financial market. Chinese Yuan does not significantly contribute to the global turnover of foreign exchange (FX), as indicated in Table 1.

The Yuan comprised only 4.3% of the total Foreign Exchange (FX) turnover in 2019. There was a significant increase compared to 2010, when the turnover accounted for 0.9% only. However, when compared with other currencies, this indicator is still insignificant. Thus, in 2019, the share of the US dollar (USD) in the global FX turnover was 88.3%, the share of the euro (EUR) was 32.3%, the percentage of the Japanese yen (JPY) and the British pound sterling (GBR) accounts for 16.8% and 12.8%, respectively. The increased level of offshore transactions explains the increase in the share of the Chinese Yuan since 2016.

Table 1 – Foreign exchange market turnover by currency and currency pairs, 2010 and 2013, 2016, 2019 net-net basis, daily averages in April, in percent)

Currency	Years				Selected currency pairs	Years			
	2010	2013	2016	2019		2010	2013	2016	2019
USD	84,9%	87,0%	87,6%	88,3%	USD/EUR	27,7%	24,1%	23,1%	24,0%
EUR	39,1%	33,4%	31,4%	32,3%	USD/JPY	14,3%	18,3%	17,8%	13,2%
JPY	23,0%	23,0%	21,6%	16,8%	USD/GBR	9,1%	8,8%	9,3%	9,6%
GBR	12,9%	11,8%	12,8%	12,8%	USD/AUD	6,3%	6,8%	5,2%	5,4%
AUD	7,6%	8,6%	6,9%	6,8%	USD/CAD	4,6%	3,7%	4,3%	4,4%
CAD	5,3%	4,6%	5,1%	5,0%	USD/CNY	0,8%	2,1%	3,8%	4,1%
CHF	6,3%	5,2%	4,8%	5,0%	USD/CHF	4,2%	3,4%	3,6%	3,5%
CNY	0,9%	2,2%	4,0%	4,3%	USD/HKD	2,1%	1,3%	1,5%	3,3%
HKD	2,4%	1,4%	1,7%	3,5%	USD/KRW	1,5%	1,1%	1,5%	1,9%
NZD	1,6%	2,0%	2,1%	2,1%	USD/INR	0,9%	0,9%	1,1%	1,7%
SEK	2,2%	1,8%	2,2%	2,0%	USD/SGD	bd	1,2%	1,6%	1,7%
KRW	1,5%	1,2%	1,7%	2,0%	USD/NZD	bd	1,5%	1,5%	1,6%
SGD	1,4%	1,4%	1,8%	1,8%	EUR/GBR	2,7%	1,9%	2,0%	2,0%
NOK	1,3%	1,4%	1,7%	1,8%	EUR/JPY	2,8%	2,8%	1,6%	1,7%
MXN	1,3%	2,5%	1,9%	1,7%	EUR/CHF	1,8%	1,3%	0,9%	1,1%
INR	0,9%	1,0%	1,1%	1,7%	EUR/SEK	0,9%	0,5%	0,7%	0,5%
RUB	0,9%	1,6%	1,1%	1,1%	EUR/CNY	bd	0,0%	0,0%	0,1%

Source: Bank for International Settlements. (2019). *Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets in 2019*. <https://www.bis.org/statistics/rpfx19.htm?m=2677>.

The data in the table show that the value of the Yuan in international turnover is growing. So, in 2004 the Chinese Yuan was ranked 29th in the global FX turnover, in 2010 - 17th, in 2013 – 9th, in 2016 and 2019, it was 8th. However, it should be noted that the Yuan is mainly used in local markets and does not have an international character.

When comparing the export and import statistics of these two nations, the stark disparity between the usage of the US dollar and the Chinese Yuan prompts questions regarding the causes of such a significant disparity in currency movements (Table 2). In 2019 the USD accounted for about 88.3% of worldwide foreign exchange turnover, whereas the Yuan has a pitiful 4.3% coverage in the FX markets (World Bank, 2020). What are the reasons for these disparities? Suppose China deliberately slows down the internationalization processes of the financial market and currency. Why does it accept the inclusion of the Yuan in the list of reserve currencies and the SDR basket?

Due to the Chinese currency's partial convertibility, the Yuan offshore market (CNH) concept and the expectation that the Yuan onshore market (CNY) will attain reserve-currency status reeks more of marketing efforts than a stride towards financial development.

Hong Kong introduced the offshore Yuan market in 2004 (Hong Kong Monetary Authority, 2016). The following financial centres with the highest offshore Yuan turnover are Singapore, London, and New York. The onshore market is open from 4.30 a.m. to 6.30 p.m., while the offshore market is open 24/7. Longer trading hours for the offshore Yuan give the impression that it is independent and accessible (contrary to the onshore market). Although there are differences, a substantial link in practice results from a conversion mechanism (Funke et al., 2015). When compared to the use of USD (Table 1, Table 2) or the volume of exports, the data from the Triennial Central Bank Survey of Foreign Exchange (which included total sum of the turnover of the onshore and offshore market) reveals that trade on both markets is growing, but relatively small.

Table 2 – Reserve currencies statistics (export, import and FX turnover) as of 2019

Countries	Reserve currencies	Exports in \$ bn.	Imports in \$ bn.	Share in Foreign Exchange market turnover
USA	USD	2 528,37	3 104,71	88,3%
EU	EUR	7768,43	7 182,26	32,3%
Japan	JPY	904,63	913,25	16,8%
UK	GBR	892,63	919,15	12,8%
China	CNY	2 631,0	2 499,15	4,3%

Source: Bank for International Settlements. (2020). *Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets in 2019*. <https://www.bis.org/statistics/rpfx19.htm?m=2677>;
World Bank. (2020). *Exports of goods and services. Imports of goods and services. (BoP, current US\$)*. <https://data.worldbank.org/indicator/BX.GSR.GNFS.CD>.

The IMF agreed to include CNY in the group of global reserve currencies in 2015. This was made possible by the Yuan's use as an accounting unit that was supported by China's economic might rather than by its participation in international financial markets. The revised composition of Special Drawing Rights (SDR) is an example of this (Table 3). The Euro's share suffered the most, falling from 37.4% to 29,31%, while the USD's stake was nearly stable (41.9% and 43,38%, respectively) (IMF Factsheet, 2022).

Table 3 – The structure of the SDR basket

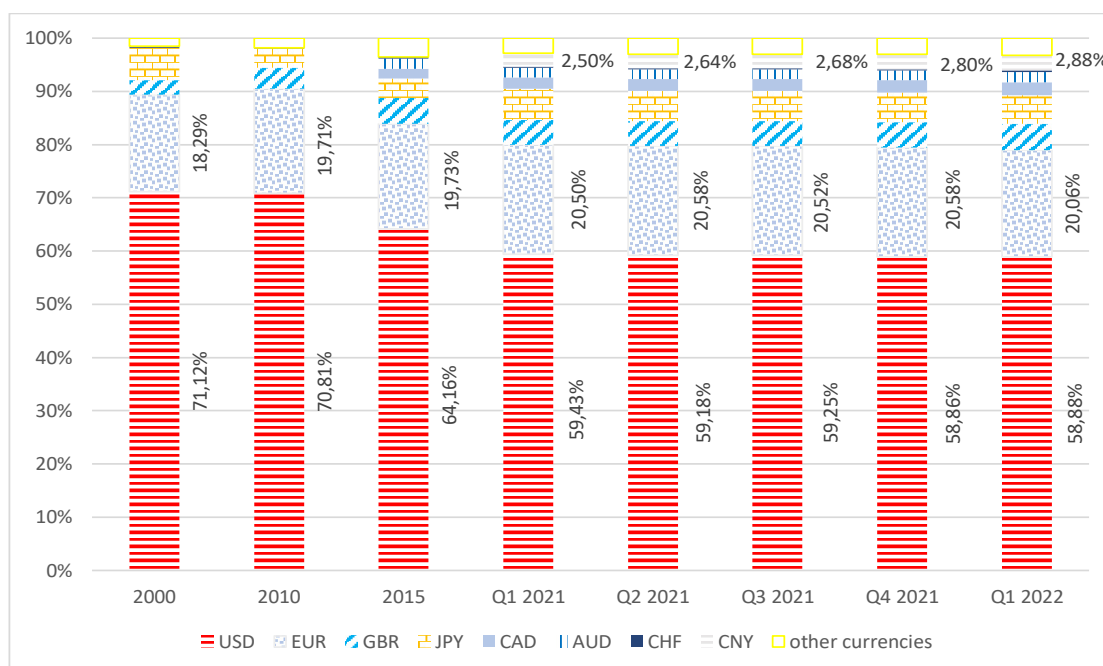
Currency	Before 01.10.2016	From 03.10.2016	From 01.08.2022
USD	41,9%	41,73%	43,38
EUR	37,4%	30,93%	29,31
CNY	-	10,92%	12,28
JPY	9,4%	8,33%	7,59
GBR	11,3%	8,09%	7,44

Source: IMF. (2022). *Currency Composition of Official Foreign Exchange Reserves (COFER)*. <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>.

The USD's dominance demonstrates the dollar's dominant position as the world's reserve currency (as shown in Figure 1).

The USD is supposed to be the world's safest and most liquid currency. The US government bonds are describing as a "safe haven assets". As part of the flight to quality strategy, financial institutions purchase them as a risk-hedging measure during any period of political unpredictability worldwide. Safe haven status

is based on a currency's historical performance through time and is determined by the varying opinions of market participants (financial institutions or private investors). Such a position can never be reached through administrative decisions; it can only be tested for market liquidity and accessibility. That is why the USD is the most liquid and safest global currency. The financial markets will stay unipolar as long as the Yuan is not fully and freely convertible.



Source: IMF. (2022). *Currency Composition of Official Foreign Exchange Reserves (COFER)*. <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>.

Figure 1 – Allocated Foreign Exchange Reserves by Currency (in percent)

It is known that the Chinese government holds USD as reserves. According to the annual report of the State Administration of Foreign Exchange (2019) China the percentage of USD in the nation's foreign exchange reserves accounted for 79% in 1995 and 58% in 2014. It should be noted that Emerging Market Economies (EMEs) in East Asia typically do not disclose the currency breakdown of their reserves. That is why we can consider foreign exchange reserves of China based on data from 2014 year.

The accounts of a country are where the assets of that country are held. From an operational perspective, dollars and assets denominated in dollars are stored in the United States and cleared by the Federal Reserve. Most of China's

foreign exchange reserves are held in the USD, which might be frozen if conflict broke out. The BIS statistics support the dollar's dominance even without this worst-case scenario, especially given that the selected default of US Treasuries is very improbable from a formal standpoint (Eichengreen et al., 2014). What might change the situation as it stands right now? From our point of view, to match the Dollar's status, the Yuan must eventually achieve full convertibility and take on a free-floating currency status.

It appears that the goal — a free-floating regime — was established and accepted as a long-term tactical goal. However, any plan must face current market conditions. China's foreign exchange reserves fell below the three trillion

dollars in January 2017. This meant that the nation's foreign reserves had decreased by 25% in just two years. When they reached approximately USD 4 trillion in September 2014, funds were at their highest point. The government's response to this sudden decline in foreign reserves was the formal imposition of restrictions on dollar purchases and transfers overseas (the limits also applied to FDI's (Foreign Direct Investments), which had always been regarded as one of the pillars of the Beijing Consensus route of development). Only two months had passed since the Yuan's inclusion in the basket of official reserves currencies when this occurred. Financial markets follow patterns set by the Washington consensus, as evidenced by fluctuations in the foreign exchange market, stock exchanges, and trends in currency reserves.

One of the most significant government policies concerning the voters is the currency policy, as was previously mentioned.

The difficulties facing China are caused by the design and genesis of the global financial system. After World War Two, the USA essentially designed the financial system. To adhere to CPC internal policy, China is compelled to operate inside this system while creating its own system. This dichotomy produces tensions on several levels.

The extent of administrative actions following the 2015 stock market sell-off demonstrates that the party is dissatisfied with the financial market instability, which has been directly criticized by official party doctrine. However, the behavior of the financial market includes both market volatility and economic crises. If they are not resolved, they can cause the ruling party to shift into democratic nations. However, this scenario cannot take place in China. Financial instability, which would almost certainly occur following the establishment of a free-floating regime, is not something that Xi Jinping's ambitions allow for. However, the Yuan cannot displace the Dollar as the most liquid and secure currency in the world without such a test.

It is currently unable to reach the same level of usage in the various financial tasks that the US Dollar now performs. This position can only be achieved by persuading financial market players to be politically and economically autonomous by implementing an economic strategy that is long-term transparent, predictable, and successful. Lastly, by adhering to the guidelines set forth by the Washington Consensus. Eichengreen et al. (2014) demonstrate that in the post-Breton Woods era, the interaction and credibility of conducted policy play a more critical role,

as shown by the statistical data regarding the US Dollar's dominance in the global financial system. If such a test is not conducted, economic bipolarity in the financial sector will prove elusive.

Conclusions

Considering the analysis above, what could one suggest about the future and challenges of the global economic system? This paper argues that China is the current global economic growth locomotive. Moreover, nowadays, China's strategic efforts aim to strengthen its international political positions based on economic power and financial expansion, intensified during the global economic crisis.

However, being the second most powerful economy in the world, China still has a financial market that needs to be sufficiently integrated into international relations. The Yuan has a relatively limited role in the international financial market. Thus, in 2019, the share of the US dollar (USD) in the global FX turnover was 88.3%, and the Yuan comprised only 4.3%. Moreover, the Yuan offshore market (CNH) and the the Yuan onshore market (CNY) trade is growing but are relatively small. The Yuan is currently unable to reach the same level of usage that the US Dollar performs.

IMF included CNY in the group of global reserve currencies from 1st October 2016, and its share is about 12%. The USD's stake is nearly stable (43%). Thus, the USD has a dominant position as the world's reserve currency. Furthermore, USD is the most liquid and safest global currency. The majority of China's foreign exchange reserves are also held in the USD (around 60%).

In addition, the Chinese government overuses administrative methods to regulate the financial market. For example, freezing prices during the financial crisis in 2015 for about six months for individual investors by China Security Regulatory Commission does not match the market concept. Therefore, to check the Dollar's status, Chinese financial market players must be politically and economically autonomous and follow the guidelines set forth by the Washington Consensus.

With a certain degree of confidence, it can be stated that China's financial system does not entirely correspond to the conditions of bipolarity in the world economy. It is supposed that the The financial market will stay unipolar as long as China shift to a fully freely convertible currency, implement a free-floating exchange rate, and use economic methods to regulate the financial market.

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