

# Europe, China, and the Dollar's Competitiveness

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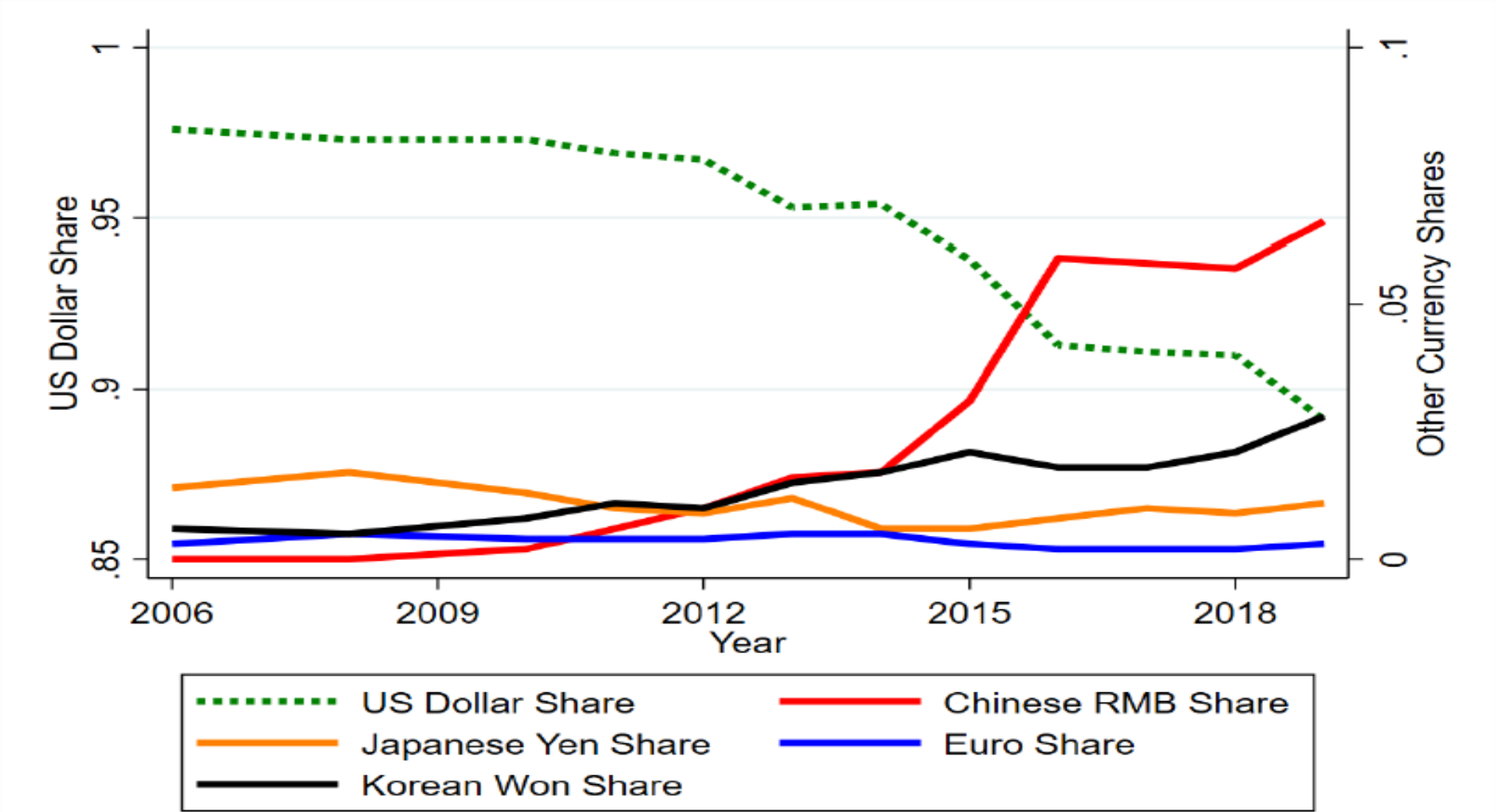
- While the US policy makers at the start of the floating rate period “wanted and expected a return to a fixed exchange rate regime”, China had taken the mantra of restore a fixed exchange rate a bit more seriously and longer than perhaps US policy makers wanted ...

- While there are headlines in the recent past about China's large current account surplus supposedly driven by an undervalued RMB,
- there are many reasons for the high savings rate in China other than an undervalued RMB, which help to produce a CA surplus, but I will leave it to a different talk ...
- Instead I will talk about a different "headline" ...

## Parallel universe: media/official pronouncements versus data

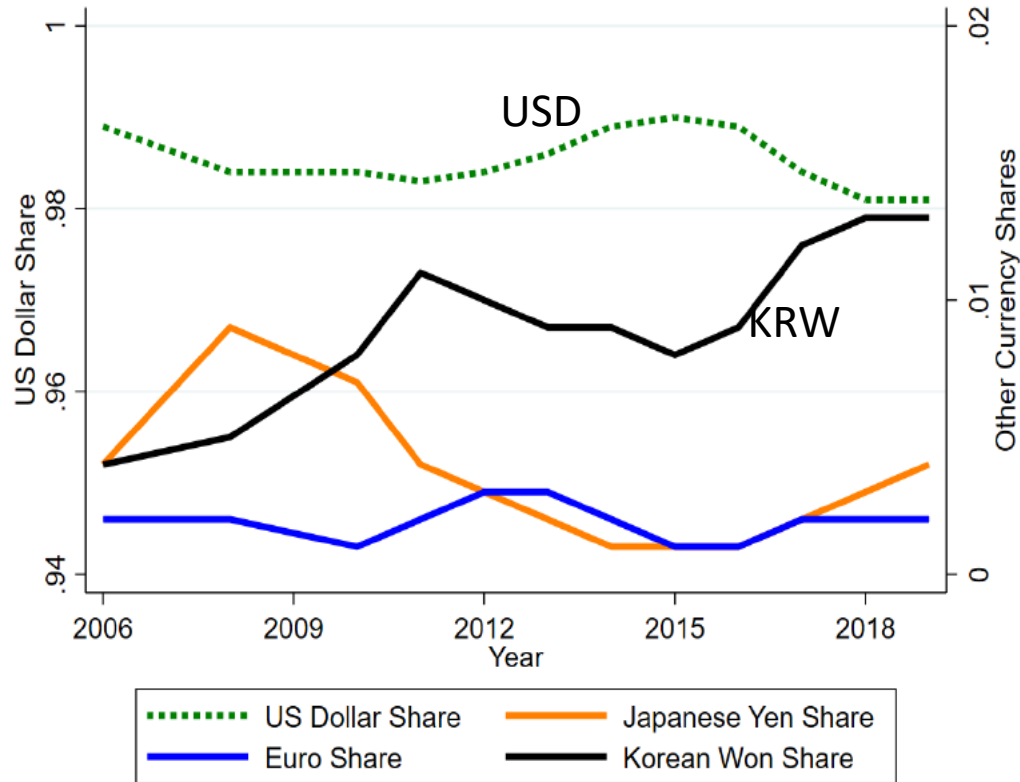
- **China Is Quietly Trying to Dethrone the Dollar**
- [Joe Liu, Foreign Policy, Sept 21, 2022](#)
- <https://foreignpolicy.com/2022/09/21/china-yuan-us-dollar-sco-currency/>
  
- **“Could China’s Yuan replace the US dollar as the world’s dominant currency?”**
- Yahoo.com, Moneywise, **Vishesh Raisinghani**, Feb 23, 2023

# Fact 1: Shares of the USD, RMB, and other currencies in Korean exports to China

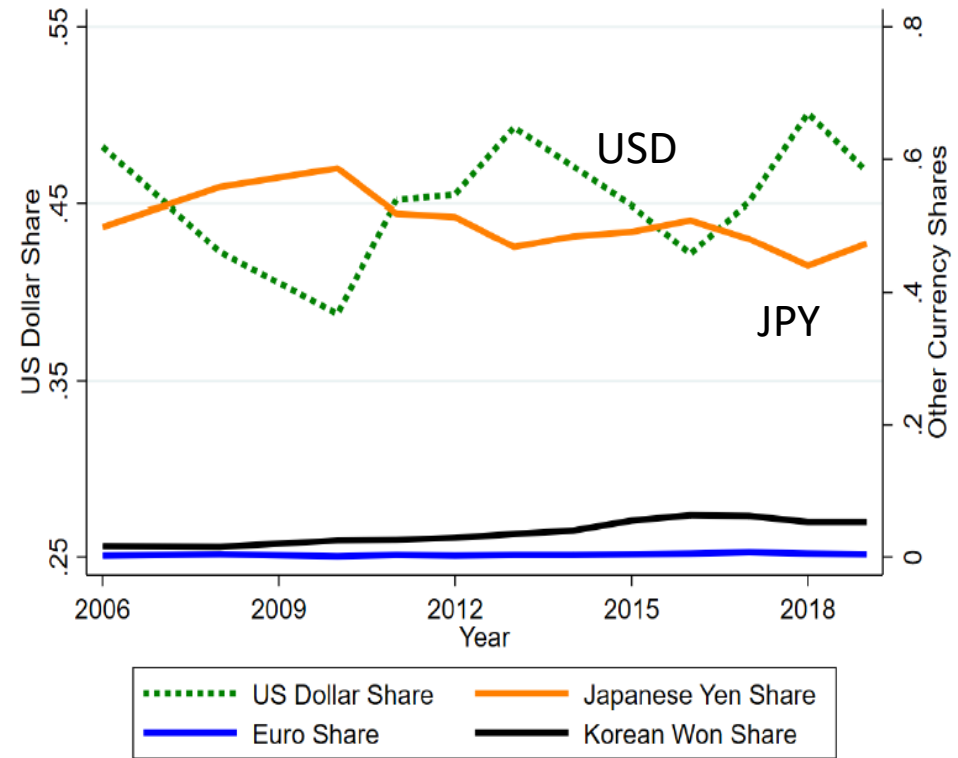


Source: Yang, Kwan, Lee, and Wei 2023

# Fact 2: RMB is not even as big as many non-dollar currencies



**Korean Exports to the US**



**Korean Exports to the Japan**

	US dollar	Euro	Chinese RMB	Others
Low cost and low risk facilitation of trade in goods and services	Initially strong but losing in relative position	Strong but concentrated among European countries	Initially low but gaining in relative position	
Low cost and low risk facilitation of cross-border financial transactions	Initially strong and continues to be strong	Strong but less so than the US dollar	Initially weak and continues to be small relative to other major currencies	
Initial advantage reinforced through a network effect	Strong	Absent	Absent	
Large and investable domestic financial market	Unrivalled	Big	Big for domestic investors but hard to access for international investors	

## Internationalization of a currency involves both costs and benefits

### Major Benefits

- Lower cost of borrowing by the government
- Lower cost of borrowing by firms
- Lower transaction costs for individuals
- Seignorage revenue
- Macro policy flexibility

### Major Cost

- Vulnerable to international shocks
- Possible exacerbation of domestic distortions



# China's experiments and innovation: domestic objectives versus international ambitions

- SDR basket
- Swap agreements with central banks
- CIPS = Chinese cross border interbank payment system
- Partial capital account convertibility
  - FDI ahead of other types of capital flows
  - The QFII program – qualified foreign institutional investors
  - The QDII program – qualified domestic institutional investors
  - The stock connect program
  - The bond connect program
- Digital RMB

# Concluding remarks

- The RMB is very far from becoming a dominant international currency if ever
- Even to become a second-tier international currency, the RMB still has a long distance to travel
- China's various experiments in partial financial liberalization are nonetheless interesting to watch and may hold useful insight for other developing countries