

# **Greenback or Redback?**

*The Rise of the Chinese Renminbi Against the U.S. Dollar*

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After being known as one of the fastest growing economies for several years, the People's Republic of China has now officially climbed up the ladder to become the second largest economy of the world. China contributes more than 15% to the world GDP, while also providing 12% of the overall trade. Consequently, Renminbi, the official currency of the country, introduced in 1949 is dominating the global market and has become a preeminent reserve currency, ranking amongst the top five payment currencies of the world. Ever since the Chinese government has eased the restrictions on international trade and allowed the flow of financial capital across borders, Renminbi (RMB) has grown exponentially as a currency while playing an essential role in settlement of cross-border transactions. The Chinese government aims to replace the US dollar with RMB as the global currency and is taking necessary steps to fulfil it. So, is it happening? Can China overthrow the dollar?

The answer to this cannot be a simple "yes" or "no." However, it is possible for RMB to replace the dollar given the developments in the international markets in the last few years. When the International Monetary Fund (IMF) appointed the status of an elite global reserve currency to the Chinese RMB, it indirectly agreed to its rising state and power and made the day October 1, 2016, a historical event in the world of finance. With its announcement, the IMF included RMB in its artificial currency unit (called the Special Drawings Rights) which initially included the dollar, the euro, the British pound and the Japanese yen. In spite of the fact, that China refuses to maintain an open account of trade or a flexible exchange rate, RMB has surprisingly also become a de facto reserve currency.

Low costs exports to the United States has helped China's economy to soar and consequently led to the vast popularity of its currency. RMB overpowered the Japanese yen and reached the position of the fourth most used currency from the thirteenth in a time span of just three years. Some studies say that the dollar has weakened owing to the instability in the political body of the United States. Traders have begun to sell out their dollar holdings, further strengthening RMB. Since the beginning of the year 2017, the Chinese currency has risen by 5% against the dollar. Central banks all around the globe are changing the nature of their exchange reserve portfolios by including RMB in it; over 34 banks have come into an agreement with the People's Bank of China (PBC) for bilateral currency swaps. The nature of the global economy is changing, and everyone is adapting themselves for the same.

Some experts predict that China will never be able to win its battle against the dominance of the dollar because no matter how many steps the economy undertakes, it will never be considered a "safe haven currency" by the investors. China's stringent institutional structure is the primary reason that the world ceases to trust it. However, contrary to the popular beliefs of the nation, China is backing away from its aggressive interventions and is taking extraordinary steps to fulfil its aim. It is making its bonds (both corporate and government) stronger, all the while allowing access to the investors. Moving towards a more transparent system, the leaders are making it more convenient for the markets to transact in Yuan (another name for Renminbi) and even backed up the Renminbi Trading Hub for the Americans in 2015 to accomplice North American companies in conducting RMB transactions in Canadian banks.

The Chinese government has to take more steps to ensure transparency and stick to its commitments while making continuous reforms and performing well in the markets. The need for a well organised financial capital that can cater to the needs of the investors to hold high-quality financial assets is also crucial. If China chooses to play the right cards, it can be successful in proving RMB a worthy rival of the dollar and thus, dominate the financial world. The rise of RMB and the fight against the dollar is changing the face of the markets of the world, but more importantly, it is changing China. It is not possible to overthrow the dollar altogether, but a long and gradual process will lead to its inevitable decline making it impossible for the United States to remain the hegemonic power forever.