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CHINA'S FINANCIAL RISE AND RAMIFICATIONS FOR UNITED STATES OF AMERICA'S PETRODOLLAR HEGEMONY

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Abstract

This article examines the pattern where China's growing global economic influence in post-9/11 era has been complimented with the gradual and sustained rise of its monetary cooperation, competition as well as conflicts with United State of America (USA). While chronicling the Neoliberal and advanced capitalist arguments regarding the current international economic order and financial infrastructure led by the USA; this article refines the focuses on the global monetary system and the role of monetary coercion and builds a critical approach by engaging with Realist, Leftist-Marxist and anti-imperialist theorisations with the objective to analyse the nature of cooperation and confrontation between the two states. The methodology employed is qualitative and interpretive supported with analysis of empirical data to substantiate the theoretical claims. It is argued that the rise of Chinese currency is related to these oft-recurring financial trends, which lie at the core of USA's global economic system and the related global financial conflicts have the potential to fundamentally transform the global economic order. The paper concludes that China's internationalisation of its currency is likely to intensify its confrontation with US with the potential for international conflict.

Keywords: *Hegemon/y, Fiat Currency, Propriety Trading, Petrodollar, Petroyuan, Financialisation, Dollar Trap*

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INTRODUCTION

This article focuses on the creation of the global economic order by the United States of America (USA) in post-Cold War and post-9/11 eras and develops a theoretical explanation to the dynamics of monetary hegemony within the global economic order. The purpose is to identify and classify specific trends complementing the rise of a hegemon that creates and organises mechanisms to exercise monetary influence as well as coercion. These dynamics and mechanisms have been employed to observe the rise and sustenance of USA's monetary hegemony and the challenges it faces.

This article focuses on these primarily related questions: How has the global market perpetuated dollar hegemony? How did financialisation contribute to the financial turmoil in 2008? Why the Global Financial Crisis implicated the reduction in the sustainability of dollar? Has China emerged as a competitor to dollar's influence? What is the nature of China's evolving global financial influence and implications for dollar's hegemony?

In order to address the aforementioned, this article details and charts the discourse on monetary hegemony, USA's global monetary policies and decisions that sustained the dollar dominance and its exorbitant privilege. Therefore, this article engages with the discourse on monetary hegemony, monetary policies and decisions that sustained the dollar dominance and its exorbitant privilege. It also highlights the impact of neoliberal system, free market economy, deregulations, rise of financialisation and unlimited growth of fictitious capital through speculation, which created an economic bubble that, according to the critical perspectives (explained later), was expected to burst, therefore resulting in the financial crisis that crumbled the economic system as well. Simultaneously, the article focuses on the impact of the crisis on dollar dominance due to increasing trade deficits and the lack of capability to overcome the crisis, independently. Additionally, the paper discusses China's intervention in the international market, its competitive advantage, foreign reserve surplus and its capacity to internationalise its currency (Renminbi) through financial system and Petroyuan. In continuation, a brief analysis of China's dependence on dollar and possible interaction of China with oil producing countries is also examined in the paper.

Lastly, the rise of China as a dominant power (Beeson & Li, 2016) and her policies of extending economic and monetary influence in collaboration as well as competition with the USA have been examined with the purpose to explain; and to a degree speculate upon the nature transitions in global order and the evolving competition and conflicts between USA and China.

LITERATURE REVIEW

The Global Market System appears to be predominantly based on the financial and monetary systems, which are centred on dominance of USA's dollar, and neoliberal financial system. From a historical monetary perspective, the global market system has been steering influence incessantly due to its reliance on money for three key functions: medium of exchange, unit of account and store of value (Krugman & Wells, 2021). In practice however, only a few currencies have been capable of playing these three functions simultaneously. Since the end of Second World War and the gradual rise of USA as a dominant global economic and monetary actor; dollar has arisen as the exception performing all three functions simultaneously. In addition, since the contemporary global market uses fiat currency/money; USA government assumed relatively high control over its printing and determining its value (Krugman & Wells, 2021).

Subsequently, creation of fiat currency was the outcome of the decision taken by Nixon administration to collapse the Bretton Woods System, for the establishment of Dollar Wall Street Regime (DWSR) in August 1971 (Gowan, 1999), making a free-floating exchange rate system and dollar a fiat currency. Thus closing the gold window USA did not discipline dollar with gold or any other commodity and the value and status of dollar could be influenced by the USA treasury. The set of arrangements that Nixon administration adopted since 1970s (after the crisis of 1970, when Bretton Woods System collapsed followed by the devaluation of dollar due to Triffin Dilemma and quadrupling of oil prices by OPEC, resulting in inflation) played a prime role in the development of over-powering financial system. The US dollar had assumed a status as good as gold, as the dollar's price was not only fixed with the gold (35 dollars per ounce), but also the commitment existed to exchange dollar for gold (dollar convertibility). However, the assumption of dollar being as good as gold was challenged due to the dilemma was that foreign-held dollars tend to exceed the gold holding. The problem neither can be solved by reduced dollar provision (as it stagnated growth), nor through the supply of unlimited dollars as it will threaten the established system known as Triffin Dilemma (Eichengreen, 2012).

The rise and development of DWSR especially in the post-Cold War era along with the evolution of USA's financial mechanisms appears to display a dialectical relationship between financial markets and USA's global dollar policy as poles reinforcing each other. The role of USA administration in the development and sustenance of DWSR that changed the international socio-political and economic structure as an opposite alternative to the idea of prosperity embedded in liberal thought (Gowan, 1999). The other important development is the transformation of the notion of 'liberation' of international financial markets which were removed from the control of the central banks (Federal Reserve System) and dominated by private operators for the preservation of USA's global financial position and central role of dollar (Gowan, 1999).

The central role of the dollar has been enabling it to be the medium of exchange (trade denominated in dollars), unit of account (commodities valued in dollars) and store of value (central banks' reserves denominated in dollars); therefore, fulfilling the three prerequisites for the establishment of dollar hegemony and financial statecraft as the dollar, free of constraints and capable to manipulate others financial system due to USA's enhanced role in financial capital (Fouskas & Gokay, 2012). Although the Bretton Woods System collapsed but the financialisation, globalisation and introduction of fiat dollar initiated the new phase for dollar hegemony and USA supremacy.

It is necessary for the sustainability of dollar hegemony that dollar remains the predominant currency in the global market – delivering all three aforementioned functions. It is essential to note that dominance must be complimented with the economic support of other greater powers for the establishment of the hegemony. Therefore, Nixon Administration in 1972 decided that the USA private banks must recycle dollar in exchange for oil through Organisation for Petroleum Exporting Countries (OPEC) (Gowan, 1999). The agreement between OPEC and USA, guaranteeing the exchange for dollars collected through petroleum trade and pricing of oil exclusively in dollars, created Petrodollars. It resulted in the increased dependence on dollars of all petroleum-consuming states (Fouskas & Gokay, 2012).

Petrodollar cannot be simply explained as the trade or pricing of oil exclusively in dollars. Rather it gives leverage to USA to control the price of oil, keeping the value of dollar higher, imports to be traded in lower price (advantage to overcome trade deficits) and the petroleum exporting countries' are forced to accept prices that are being set by USA. Perhaps, the manipulation of Petrodollar and DWSR consolidated USA's control on the global economy. Despite the free-floating dollar and liberation of financial system, the development of Petrodollar also enhanced USA dollar vulnerability. Ironically, the seeds of uncertainty and unpredictability were sown in the modern international monetary system with the development of free-floating currency and unfettered financial system.

REVAMPING DISCOURSE ON MONETARY HEGEMONY

Global hegemony has been explained in this analysis by employing three significant theoretical perspectives, realist, liberal and anti-imperialist/Leftist-Marxist discourses. While realist/Machiavellian and Leftist-Marxist arguments – drawing on the centrality and vitality of material interests in constituting discourse/s of power in world politics – converge on assumptions which identify examines and dismantles discourses as ideological covers for power and material interests (Malik, 2015); liberals/liberal internationalists and cosmopolitans while considering state as an influential actor suggest the role of hegemon as a dominant power in creating, regulating and continually transforming the global order. Robert Gilpin states hegemon to be the one that dominates other states and the international system, thus making the system hierarchical rather than anarchical (Schmidt, 2018).

Similarly, Robert Keohane defines hegemony "as the preponderance of material resources with control over raw materials, sources of capital, market and have competitive advantage on production of goods, but with the will and capability to exercise leadership with asymmetrical cooperation between hegemon and other states" (Keohane, 2005). The third theoretical perspective extending and enriching the Marxist and anti-imperialist arguments is Neo-Gramscian discourse, which considers institutions, material capabilities and ideas equally necessary for the sustenance of the hegemony (Moolakkattu, 2009). The Neo-Gramscian discourse highlighted the three characteristics for the maintenance of hegemony; coercion complemented with ideas that are prevalent in all classes, perpetuation of ideas through organic intellectuals and leadership based on consent (Bates, 1975).

USA's hegemony has been maintained through the prevalence consent and coercion; to compel other states to adopt its ideologies of democracy and 'Western Neoliberal Order.' The social, political, and economic ideologies are being constructed and perpetuated with the help of organic intellectuals for perpetuation of neoliberal ideology.

Robert Cox mainly signifies the idea of 'hegemonic world order', to bridge the gap in understanding the concept of hegemony (proposed by Gramsci) from intrastate relations to interstate relations, and to link the three important prerequisites (material capabilities, ideas, and institutions) for becoming the world hegemon. Dominance by hegemon may be regarded as sustainable by its advocates; however, it may not be sustainable unless it is complemented with ideas and institutions emerging from the centred historic bloc (Cox, 1993). Historic bloc entails set of hegemonic ideas forming the basis for the social alliances (inter-subjective notions/ideas), which are politically organised and exercising long term intellectual and moral leadership referred to as historical structures (Burnham, 1991). The institutions instrumental in stabilisation and the perpetuation of the particular order or the hegemonic system have been developed through the amalgamation of the ideas and material capabilities and for their sustenance and legitimisation ideally require evolution and acceptance of new ideas and material capabilities (Cox, 1981).

The USA has maintained its hegemony through the construction of ideas, dominance through material capabilities (both militarily and economically), the formation of capitalist world economy (the development of capitalism as a mode of accumulation) and the formation of institutions such as Bretton Woods System, International Monetary Fund (IMF) and World Bank. The prevalence of neoliberal system complimented with Dollar Wall Street System and the systematisation and mechanisation of Petrodollar System that has maintained the monetary hegemony of USA, falls under the rubric of 'ideas' (neoliberalism and globalisation for growth and development) complemented with the 'institutionalisation' and trans-nationalisation (World Bank, International Monetary Fund) while increasing the material capabilities (highest GDP and military power), which has resulted in the formation of the historic bloc through which the world order can be configured and maintained.

One of the primary challenges faced by the USA in this perspective is the power of ideas (Nye, 2017) to support its global order.

The rise in the financialisation and the speculation along with the high money capital market with respect to productive capital market materialised with the endorsement of neoliberal system in which markets were highly deregulated. Gowan (1999) considered the financial sector to be dominant over the productive sector after 1970s, such that the stream of value generated by productive market whose circulation and speculation for the generation of fictitious credit-money are decided by financial market. The fictitious credit money is generated/validated by faith in expected future productive activity and is used to facilitate the circulation of commodities in productive capital system with the help of banks channelling savings and creating new fictitious money. Gradually, the introduction of other financial institutions and innovations in the financial system (such as introduction of securities – bonds and shares – asset backed securities, derivative markets) that have enhanced the creation of fictitious capital, thus playing an important role in the development of capital market and the neoliberal system (Gowan, 1999). The international DWSR regime creation had far-reaching impacts on USA, enabling it to be used as a potent instrument for their financial statecraft. They mainly built the relationship between financial system and the international monetary order that coupled dollar and the financial system of USA with each other.

DWSR ensured that the international financial system needs to be privatised and centred upon unregulated financial operations – free from the control of the central banks. The goal had been achieved through the recycling of petrodollar from oil producing states through the Western Banking System specifically in Atlantic world's private banks controlled by USA's banks (Gowan, 1999). The Petrodollar Recycling can be explained as the process through which the dollars in exchange for the oil exportation by OPEC is reinvested in the USA's economy, either through the purchase of securities, dollar dominated assets, investment in the domestic economy of USA and the purchase of military apparatus, thus the dollars reach back to the USA's economic and financial system. Nixon administration realised if oil trade and accumulation of central banks' reserves are denominated in dollars, the excess of dollars in oil producing states can be invested USA's shares and bonds, financing its current account deficits and balance of payment deficits as well as its military undertakings (Fouskas & Gokay, 2012). The Petrodollar Recycling resolved the problem of demand as it exported the capital and cultivated the new markets in the oil rich countries. In order to facilitate the Petrodollar Recycling, in 1974 USA removed the capital control and abolished the control on the flow of funds, while liberating the private banks from regulations and financial repression, thus giving the incentives to enhance the lending across the borders (Fouskas & Gokay, 2012).

The investment banks flushed with Petrodollars availed new investment opportunities massively in developing countries as well. This trend ignited the growth market along with the strong USA's economic expansion interestingly whenever the developing countries went into debt crisis (partly due to fluctuating exchange rates), International Monetary Fund had been compelled to intervene for the structural arrangement and forced the developing states to pay banks their losses through the proliferation of austerity measures with high taxes and less government spending (Harvey, 2011). USA's government was capable of using the population of borrower countries to bail out their unregulated banking and financial systems with their dominance on Bretton Woods Institutions (Gowan, 1999). Hence, the most important incentive given to financial banks for expanding their lending and credit based activities globally was the assurance via Bretton Woods Institutions (IMF and World Bank), thus giving them the confidence to expand the speculative activities beyond limits.

REVISITING GLOBAL FINANCIAL CRISIS OF 2008 AND IMPACTS OF FINANCIALISATION

USA's financial system and its neoliberal globalisation policies were coalesced and proliferated under the administration of Reagan and Clinton. When USA faced inflation after 1979 due to devalued dollar and hike in oil prices, the Chairman of Federal Reserve, Paul Volcker adopted the policies of monetarism, by reducing money supply and increasing rates of interest (8% in 1978 to 19% in 1981) (Fouskas & Gokay, 2012). Secondly, central features of Reaganite policies for the economy were increased deregulation of private banks and financial system, wage repression, huge tax cuts for rich to boost the financial sector and pursue high dollar policy – Volcker Shock – where money capital market was used to stabilise economy.

Moreover, the Dollar Wall Street Regime was deepened by removing capital controls in order to increase the inward flow of funds so that USA's domestic interest rates could be lowered (Gowan, 1999). The Volcker Shock lowered the rate of inflation to less than 5%; but it increased the investment in stock market (instead of direct investment in production) which pioneered the new market system, known as 'shadow banking', permitting investment in credit default swaps and creating derivative markets (Harvey, 2011). Moreover, during Clinton administration, there was a drive to radicalise DWSR, that swept away the remaining barriers between USA's financial markets and other states, as the practice of hedging (speculating about the currency future), the 'over the counter derivative rise' (Harvey, 2011) and repeal of the Glass-Steagall Act, giving liberty to banks to start making risky loans and to engage in excessive risk taking (Callinicos, 2010). The growth of hedge funds in the foreign exchange markets (mainly derivatives) was an outgrowth of DWSR that helped to consolidate the dollar hegemony.

A financial crisis reached the USA in the form of Subprime Mortgage Crisis/Great Recession 2008. Although USA's government succeeded in mitigating the impact of the financial shocks of the late 1990s, such as fall of Long Term Capital Management (LCTM) through multibillion dollar bailout (Fouskas & Gokay, 2012); 'dot.com' bubble crisis of 2000 and the recession of 2001 set the alarms for a greater shock in future unless the markets were not being regulated. The central bank managed to impede the impacts of the aforementioned crises as the lender of the last resort. The dot.com crisis which led to recession was followed by the new monetary and fiscal arrangements (such as low interest rates; 1% in 2003, flooding market with liquidity and tax cuts) to overcome its consequences. Through the cheap monetary policies and the liberation of investment banks and the Wall Street firms, USA's government focused on maximising returns, introduced the mortgage system with high transaction cost and variable long-term and short-term interest rates through which profits spiked.

The mortgage system was expanded by the intellectual and organisational innovations, such as the Collateralised Debt Obligations (CDOs), Credit Default Swaps (CDS) and Mortgage-Backed Securities, that led towards the credit crunch and creation of 'toxic assets'. Gowan labelled the new system with advanced derivative and innovative market instrument as the 'New Wall Street System', producing new actors, practices and dynamics (Gowan, 2009). The pricing of derivative – the financial assets that derive value from the pricing/ speculating the price of assets (asset upon which price of a derivate is based, such as stocks, bonds) along with CDO triggered the financial crisis of 2008 (Wolf, 2015). Banks loosened their credit beyond the quality spectrum in search of borrowers; even who lacked permanent incomes were considered credible to lend money to the subprime mortgages, which gradually lead towards the expansion of subprime market (Callinicos, 2010; Eichengreen, 2012).

The subprime mortgages expanded exponentially averting the risks they instilled due to higher chances of the borrowers to defaults. Yet, the regulators (Alan Greenspan, Ben Bernanke, Hank Paulson) did not contain the growth of such mortgages and maintained the mainstream faith in the self-correcting and self-regulating capability of markets (Stiglitz, 2010). The galvanised investment in Mortgage Backed Securities increased the demand of the mortgages, soared the house prices by 56 per cent in five years, it encouraged the increased borrowing and lending, hence inflating the housing bubble. In 2005, the households took 750 billion dollars loans through Mortgage-Backed Securities utilised in consumption of commodities (Callinicos, 2010). The Mortgage Backed Securities, Collateralised Debt Obligations and Credit Default Swaps and its associated financial corporations were similar to the house of cards standing on the ideologies of neoliberalism, financialisation and capitalism. The augmentation of innovative financial instruments, leveraging, lower interest rates and tax cuts, deregulation, unfettered markets which increased the risks and inflation of bubble that was meant to end and crisis – the risks of which were increasingly imminent.

The policies that were adopted to overcome crisis faced by the USA government (Federal Reserve and Treasury), revolved around the neoliberal and Keynesian economic system; the main goal was projected as saving the system, and both the groups (one criticising regulation or government and other criticising deregulation or the financial institutions) appeared incapable to comprehend the structure, which is deeply entwined in the global capitalism. The government adopted for Quantitative Easing (QE) tax cuts, Capital/cash injection to recapitalise and ensure the flow of credit (a massive bailout of 700 billion dollars to purchase the illiquid or toxic assets under the Troubled Asset Relief Program). It increased government spending (787 billion dollars fiscal stimuli), lowered rate of interests, high flow of liquidity in market (the Keynesian Economic Model) and the increase in the supply of money through purchasing long term debt securities via Open Market Operations and selling Treasury Bills (short term bonds issued by USA's Treasury which are considered as safe havens) for aggregate demand.

These policies can be regarded as a misplaced euphoria appealing to both the Keynesian and Neoliberal Economic System. However, the policy of Quantitative Easing had the caused high payment imbalance as the government spending was enhanced (to increase the consumer spending), Federal Reserve and USA Treasury had to buy these 'toxic' assets and the T-bills were mainly purchased by the foreign investors that increased the liabilities of US to other states (Prasad, 2015). The budget deficit exploded after financial crisis, averaging 1.4 trillion dollars in each year during 2009-12 and in 2013 USA government owed 10 trillion dollars to the private and foreign investors. The half of the liabilities (5.6 trillion dollars) represented to the foreign investors such as the central banks of other states (mainly China), pension funds and retail investors (Prasad, 2015). The increment in the payment deficit increased the capability of the China's intervention in the market.

The bailouts led towards the consolidation and the centralisation of the financial institutions. Leo Panitch and Sam Gindin argued that the implementation of few regulations do not signify the demise of financialisation but rather increase the transparency and efficiency in the financial system; and the processes that enhance financialisation are re-established in such a manner that finance continues to be innovative and diversifies risks (Albo et al., 2010). This financial crisis was the enough evidence to signify the structural deficiencies, which cannot be overcome by either the Keynesian or Neoliberal Economic Model. The impacts of the financial crisis, apart from the people and system itself, can be witnessed in the dollar hegemony.

IMPACT OF GLOBAL FINANCIAL CRISIS ON DOLLAR HEGEMONY

One of the main contributors for capital inflows exceeding and dollar being consolidated has been the increased demand for the safe financial assets (safe haven) for the investment while the assets provided by the USA's treasury were considered the safest. The rest of Europe went through the Eurozone crisis that reduced the provision of safe assets. The debts, financial assets and the central banks' reserves all are denominated in dollars, increasing others' dependency on dollar sustenance, and giving dollar advantage upon other currencies and economies. The emerging markets, China and other Southeast Asian countries had the reserves in surplus through increased exports (they had been saving and increasing their reserve assets after Asian Financial Crisis) which had to be invested in USA's financial market to keep their currencies depreciating, giving them the competitive advantage.

The monetary power is based on capability of the state to avoid/delay the external imbalance adjustments and the cost of the payment adjustments. The USA had consistently been living beyond its means for the decades as it has the capability to delay the cost of adjustments (Cohen, 2015). The capability to delay the adjustments has been based on the fostered set of institutions – public institutions, financial markets and the legal framework that increase the credibility in the financial system of USA (Prasad, 2015). US debt market, even after the Global Financial Crisis, remains unrivalled in terms of liquidity and the volume of securities available. There are satisfactory reasons for the attractiveness of dollar such as economic size, institutional depth and growth of USA's economy, minimal risks and high profitability, robust capital markets, secure and stable political system.

The dollar remained dominant currency playing all the three roles of money (debts denominated in dollars, advantage of incumbency as the exports continue in dollars and financial markets, with the unparalleled liquidity and safe assets such as treasury bills and the reserves in the central banks of the states, are denominated in dollars) and the fact that it is not fixed by any other currency or commodity offered it the leverage to purchase goods and companies without concerning about the limited supply of dollars.

The sustaining hegemony of the dollar is one perspective, but the chronic imbalance of payments can precipitate crisis for dollar. The prospects for that change in the international position of the dollar are quite visible because of the deficiencies in the absolute calculation (confidence that dollar will retain its value and stability) and relative calculation (the attractiveness of dollar as compared to other alternatives/reserve currencies). One of the reasons for the fault-lines can be the prospects of inflation (causing fluctuations in exchange value) and lack of sustainability of USA's current account (that records the capital flows and trade flows), due to the growing expansion of the budget and trade deficits (Kirshner, 2008). Similarly, Eichengreen claims that the dollar's role can be reduced due to the budget deficits exceeding out of the limit. The implications for the USA can be severe if the security/bond holders start to sell the bonds, which can actually crash the exchange rate market. The exchange rate market collapse will reduce the confidence in USA's market, resulting in the outflows and ultimately the dollar crash (Eichengreen, 2009).

Moreover, the fact that dollar is the key reserve currency increases the vulnerability as enormous amounts of dollars had been held abroad, giving them the capability to flood the market with dollar – in case a crisis re-emerges. Although, the vulnerability has been present but the sudden outflow of dollar needs an alternate currency to be held as reserves in the central banks. The lack of alternatives with stable and strong institutions make the dollar to be on advantage, but emerging economies (specifically China) have the potential and have been endeavouring to escape the shackles of the dollar trap (the incapability to overcome the dependence on dollar) or develop a complimentary or alternative monetary system.

CHINA'S ECONOMIC RISE, THE QUEST FOR THE ALTERNATE CURRENCY

China and other emerging economies (Southeast Asian states, India, and Brazil) did not experience highly detrimental financial repercussions due to the Financial Crisis due to a huge surplus, which suggests the possibilities of emergence of coalesced economic position. The capability to overcome Global Financial Crisis bearings relatively early has provided advantage to China for market intervention and internationalisation of Renminbi (RMB), to counter the dollar hegemony. Chinese Yuan (CYN) and Renminbi (RMB) are the two currencies of China, Yuan is used as a store of value similar to Pound Sterling, and Renminbi is used as a unit of account and medium of exchange.

China receives large amount of capital inflows and run large trade surplus (large amount of revenue generation through high exports than imports), as it is the second largest economy. The increased trade has enhanced the circulations and demand for the domestic currency within China and in other countries as well. The depreciated value of RMB as compared to dollar has been highly significant because the low value of RMB gives China the competitive advantage, as its exports become relatively cheaper, increasing its trade and the trade surplus. Moreover, if the currency's value appreciates; cheap imports damage the domestic economy and risk of losing market shares for their products. In order to offset the currency appreciation, China intervenes in foreign exchange market, through mercantilist policy, selling RMB and buying USA's dollar (Prasad, 2015). Although this may well be regarded as trends in creation of fiat money and propriety trading (Malik, 2015), the selling of RMB increases the supply of it with respect to demand and buying of dollar reduces the supply with respect to the demand, perhaps depreciating RMB and appreciating the dollars.

China has maintained the quasi-fixed exchange rate regime as it has pegged its currency directly with dollar, but to keep its exchange rates controlled it openly intervenes in the financial markets through open market operations, loosened capital outflows, restricted capital inflows and continuous buying and selling of its reserves, because exchange rates can be determined through capital flows, interest rates and speculative forces. The growing investment flows and export earning, increases the demand of the RMB, thus driving up its price

(Prasad, 2016), fostering the neo-mercantilist and precautionary motives to maintain steady flow of exports and investment in safe assets.

People's Bank of China (PBOC) can directly intervene in the foreign exchange markets as it restricts the Foreign Direct Investment or the capital inflows, as the greater inflow of the capital increases the demand of the domestic currency, appreciating its value. PBOC purchases hard currency assets (capital outflows) and safe and liquid assets to invest its hard currency purchases, typically government bonds of United Kingdom (UK), USA, Switzerland, Japan and Eurozone that account for 98% of China's reserves (Prasad, 2016). The Global Financial Crisis reduced the demand of the Chinese exports (due to recession in advanced economies), therefore China pegged itself again with dollar (as it delinked RMB from dollar in 2005) and increasingly invested in the USA's Treasury bills to keep the dollar value appreciated, thus accumulating greater reserves that helped China and other emerging economies to cushion the impacts of Global Financial Crisis. The accumulation of reserves by PBOC acts as a twin-edged sword, as it can be used as a source for bargaining in its dealing with USA (Cao, 2016), such that it increases its capability to intervene in market to fluctuate the value of its currency by buying USA's T-bills and boosting its economy through increased exports; making itself immune to financial crisis occurring in other states.

On the other hand, large balance of payment surplus makes China to be somehow at advantage, but, it has been highly dependent on USA for its exports and dollar denominated reserves. In 2009 Luo Ping, a senior official at the China Banking Regulatory Commission admitted that, they are aware of the fact that the dollar is going to depreciate, but buying T-bills appears a financial necessity, because they are considered to be the safe haven (Prasad, 2015). Luo pointed towards the inescapability from the dollar trap, therefore in order to counter the conundrum, China initiated a RMB internationalisation process after the financial crisis. PBOC claimed in 2006 that the time has reached to promote internationalisation of RMB and enhance its international role and competitiveness to increase its influence in international economy. By 2011, China's most important financial strategy became the internationalisation of RMB (Cohen, 2015).

China has adopted are the use of RMB in foreign trade and finance, the initiation of currency swap agreement with foreign central banks in RMB as a means of payment, Sovereign Wealth Funds and the introduction of Petroyuan. In late 2008, PBOC started the swap agreement in RMB with twenty-six economies to insure against the risks for a future financial crisis. In 2009, the trade transactions were widened specifically in RMB as the settlement currency, mainly with Southeast Asian countries. In 2010, China allowed local banks and foreign enterprises to open cross border Yuan settlements. By 2014, 20% of the trade was settled in Yuan within five years (Cohen, 2015). As far as financial system is concerned, China has initiated offshore financial innovations in Hong Kong, but the financial system has a long way to go for the notable expansion. Hong Kong has the open market, China Development Bank and PBOC issue Yuan denominated bonds (Eichengreen, 2009). Moreover, China became the part of the Special Drawing Right currency basket in 2016 along with USA's dollar, Japanese Yen, Euro, and the Pound Sterling. After becoming the part of SDR, the China strategy has been shifted towards the oil market.

Most importantly, the development of Petroyuan, the important aspect through which RMB can be internationalised, can pose a major challenge to Petrodollar. China has been aware of the fact that RMB internationalisation can be possible either through the liberalisation of financial market, or secondly, through the expansion of Yuan denominated oil trade, to counter the dollar circulation in energy markets. China has been the largest consumer and importer of energy (crude oil and gas), due to which the capacity to insist oil purchases in Yuan has grown largely. China has launched crude oil future contracts in Shanghai denominated in Yuan in March 2018. Shanghai oil futures contracts are the first contracts that allow the direct participation of the international investors (Kamel & Wang, 2019). These contracts ensure stability by allowing both sellers and buyers to hedge against price movements in the future. It has been noted that the Shanghai oil futures contracts are likely to expand rapidly, as in September 2018 15.9 million barrels per day (mb/d) (Salameh, 2018) has already surpassed the Brent crude oil (UK Benchmark) future contracts volume and mostly likely to overcome WIT (USA Benchmark) future contracts as well.

China has increased its oil contracts (in Yuan) with Russia, Iran, Venezuela, Indonesia, and Iraq. Iran has been reported to accept Yuan for oil, evading the impacts of USA's sanctions (to hinder the Iranian Nuclear Program and its support/assistance to several claimed terrorist organisations). USA unleashed financial warfare with Iran and severed international banking and payments, debarring Iran to trade in dollars for oil exports. Iran turned to China for the financial help, initiating new Silk Road and vigorous oil trade to China in Yuan mainly (Cao, 2016). Similarly, Russia and Venezuela count themselves as a part of Petroyuan sphere, to overcome the sanctions imposed by USA. The imposition of sanction on Russia (after Crimean annexation in 2014 and Ukrainian Intervention in 2022) and being the increasing energy power, it has been supporting China to counter Petrodollar and willing to back the idea of dollar-free international global trade.

There has been a concern that Saudi Arab and few OPEC members will follow the suit for Chinese purchases of oil, as in early 2018 Governor of PBOC met the Saudi Finance Minister, presumably agreeing on the date when it will start to accept oil sales in Yuan to China (Mathews & Selden, 2018). According to Wall Street Journal, Saudi government seems to be dissatisfied with reinstitution of Iran's nuclear deal by Biden administration; therefore, the talks between Saudi Arab and China have escalated, in March 2022, for oil trade in Yuan (Said & Kalin, 2022). It does seem to be a possibility, China being the largest oil importer and the oil war between Russia and Saudi Arab that compels Saudi Arabia to catch up with Russia in its exports to China. In 2020, Russia and Saudi Arab (despite the pandemic COVID-19 and price cuts), exported 1.7 mb/d to China (Reuters, 2021). Hence, the urge of Saudi Arab to remain the largest oil exporter of the world can be compelled by China to trade oil in Yuan specifically. Similarly, Russia will deliver coal and crude oil, paid in Yuan, in April and May 2022 (ZeroHedge, 2022). The breaking down of Petrodollar System will damage the USA's financial system and the dollar as a reserve currency, and ultimately to the Dollar Wall Street Regime. Although the probability of Petroyuan to rise is evident, it is important to state that since 2018, despite the initiation of Petroyuan, all Chinese oil trade agreements have been bilateral. Consequently, internationalisation of RMB is limited, as the trade in RMB among states other than China has not been initiated yet.

It has been argued that RMB internationalisation seems to be imminent, but it still has a long way to go. Firstly, the reserves of China are still dollar denominated, according to World Bank out of the 3.357 trillion dollars reserves, 3.230 trillion dollars reserves are denominated in dollars and the rest are the gold reserves, thereby increasing its dependence on stability and credibility of dollar. China in not likely to exchange its dollar reserves with its own currency as it will negatively affect its competitive advantage in trade. Moreover, as it will depreciate the dollar, therefore, it will reduce the value of its reserves upon which its entire economy is based; hence reducing the dollar-dominated reserves appears to be an option for China. In order to overcome its vulnerability, China has begun accumulating and exchanging dollar reserves for gold. In 2016, it revealed its gold reserves bringing it among top six (at the time of this writing) that have large gold reserves. The increase in gold reserves tends to be a caution for the dollar hegemony, and the indication of the rigorous strategy changes by China.

Secondly, despite the growing internationalisation of RMB, its future as a major reserve currency remains uncertain at this stage; as the development of financial market in the China has to be the key determinant for RMB's international status. The reserve currency needs to issue high quality and credit worthy government debts instruments that are safe and liquid securities and assets. The size and liquidity of the China's debt market appears to be lagging the major reserve economies debt market. The low market capitalisation and low GDP in China as compared to USA (China's GDP reported in 2021 is 14.7 trillion dollars, whereas US GDP is 22.7 trillion – twice of China's GDP (US Bureau of Economic Analysis, 2020), owing to the restricted capital flows and rigid/ tightly managed exchange rates. The GDP growth and debt security market can only be achievable through open capital market and flexible exchange rates (Prasad, 2015). Similarly, China has to open its economy, mainly its financial institutions that remain rudimentary and essentially closed to the other states or their financial institutions should be allowed to invest in China openly and freely. Liberalising the foreign investors' access to financial market within China will require the flexible exchange rate to adjust large volume of capital flows (Cohen, 2015; Eichengreen, 2012).

The argument has been highly based on the faith on the neoliberal polices, such that open and free economies increased the growth and development, but it has been ignored that sudden liberalisation and monetary regulations give rise to the economic bubbles and the growing debts. China has adopted the policy of trade, regulated financial growth and accumulation of surplus altogether, although the progress towards internationalisation of RMB will be slow but rather, stable, and credible. On the other hand, Krishner argued that RMB international role will be different from the USA's financial model and as western analysis considers open market and currency convertibility as a prerequisite, but it may not be necessary (Kirshner, 2016). Nevertheless, China has increased the pace of internationalisation after the crisis, promoting monetary cooperation and fostering a global monetary reform. There has been a notable increase in the supply and demand side of the RMB, China's willingness to increase RMB's international role and a wider desire of the states to diversify away from dollar, USA's financial and economic system and its imperial system. Perhaps, it can be reasonable to envision a world that has non-dollar denominated share of commodity contracts, especially for oil.

CONCLUSION

The prevalent USA centred political, economic, and ideological historic bloc, that entails the three basic aspects (Petrodollar Recycling System, Neoliberal Financial System; Dollar Wall Street Regime), appears to be in transition due to the development of Chinese centred historic bloc, that instils the fundamental aspects comprising Petroyuan system, benign rise of Chinese state capitalism and an enduring restricted financial system. The transition has been instigated by the contradictions in the neoliberal policies; advocating unfettered market and limited role of the government, rise of financial crisis and the economic plunge of USA as compared to China. The development of new historic bloc is likely to pass through an intermediate phase in which USA and China are most likely to compete, cooperate as well as fall into conflict in a growing multi-polar global system.

Neoliberalism and global advanced capitalism displays recurring boom and bust cycles challenge the sustainability of USA's promoted global economic system. It has been argued in this article that the neoliberalism and globalisation insinuated the Global Financial Crisis, which directly affected the advanced economies through the escalation of deficits and reduced economic growth, but the emerging economies due to surplus overcame the consequences/impacts of the crisis. It has instigated the China's capacity to internationalise RMB and ultimately its monetary power in global monetary system. It has been seen that implementation of Keynesian and neoliberal policies had been sufficient to reduce the impacts of Financial Crisis (preventing it to convert into depression), but they had been implemented to save the flawed financial system of the USA. They had been executed to finance the too big to fail and to consolidate the Dollar Wall Street System. Furthermore, the austerity policies to reduce the debt ceiling and regulations that were initially imposed after Financial Crisis were going back to the place where the financial crisis started. The USA provided 700 billion dollars to the problem without contemplating the root cause of the crisis, which should have been thought through in a radical way.

Overall, China has been progressing towards internationalisation of RMB and emancipation from the dollar hegemony/ dollar dominated global monetary system. Simultaneously, China has been trying to be the largest economic power, and in case it surpasses USA in GDP, it is more likely to dump the dollar reserves, which will increase volatility of dollar, reducing its credibility and value (depreciation will occur), and the financial investment/inflows will divert and capital flight will occur as well, making USA highly vulnerable and in deep financial, economic, and monetary crisis. Although, weakened role of dollar seems inevitable, but the advancement towards its ends appears to be rather slow paced, making its success far ahead.

The geostrategic and economic power struggles at the global level have been intensified by the recent invasion of Ukraine by Russia and the restriction of energy sources to Europe. It is also fundament to note that one of the post-invasion strategies by Russia was to demand the Russia oil to be purchased in Ruble. Although this is not the main focus of this article however, these events are indicative of the chances of economic confrontations between USA and China likely to lead to strategic and military confrontations since at the moment both USA and China may be selectively benefiting from each other's monetary power, but in case of the chances of grand global transformation, USA as a global great power is unlikely to unilaterally relinquish its monetary and strategic position.

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