Yuan versus Dollar: Geopolitical Interpretations of US-China Currency War

Speaker: Hemant Adlakha, Honorary Fellow, ICS

Chair: Mr. M.V. Rappai

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Hemant Adlakha's presentation was on geopolitical interpretations of the currency war between US dollar (USD) and Chinese yuan (CNY). The presentation opened with chair Mr. M.V. Rappai dubbing the currency tussle as a game and not war since China holds maximum US treasury bonds. The speaker countered the argument by explaining how the USD-CNY currency war is being written about prolifically in the US, with some American experts going as far as calling it a hot war, and even World War III.

Adlakha illustrated the elusive nature of the phenomena[1] by sharing the difficulty he faced in choosing the title for this presentation. The speaker eventually settled on the topic 'Yuan versus Dollar: Geopolitical Interpretations of US-China Currency War' over de-dollarization and other lucrative topics in the context of the Ukraine Crisis and sanctions against Russia, which he saw as evidence of the acceleration of the currency war. Ever since, there has been a perceived threat to the dollar hegemony, that has remained uninterrupted since WW2. The speaker mentioned that the topic of his presentation was something that receives scant attention from the Indian academia. However, in the US there is a lot of discussion over how big money is running not only the American economy but also economies of other countries. He asserted that in order to have a finer understanding of international affairs, India needs to understand the role played by currency in geopolitics.

The speaker opened his talk with a Shakespearean quote "money is a good soldier" to reiterate his point that the current situation is indeed a 'war' and not a 'game' as suggested

[1] He mentioned that there are experts who are calling this phenomena as representing much more than just a currency war.

by the Chair. He also clarified that his presentation does not take sides on the issue of currency war, nor does he endorse any brand of capitalism. The fundamental premise of the presentation was that money is always managed politically. Without the acceptance of this fact it is hard to understand why countries engage in currency wars. He then went on to state that the title of the presentation is misleading, as there is no parity between dollar and yuan, and the so-called currency war is basically a strike against dollar hegemony.

Next he read a quote from the book *Money Is Politics to elaborate on his central argument*: "even in the esoteric realm of money, international relations still reflect the interest of powerful states". In other words, there has always remained a strong connection between wealth and military power, and economic strength and national security. The present times are no different. China's rise to the second largest economy in the world has rattled American finance capital and it has in turn launched an all-out financial cold war against CNY.

The speaker sought to explain the point of USD-CNY currency war by giving a brief history of dollar hegemony. After WW-II, USDbecame the international currency and its position was further strengthened after the 1974 agreement between the US and Kingdom of Saudi Arabia to use dollars for trading petrol. This agreement had a domino effect. World over, since all countries trade for petrol, itled to a global accumulation of the USD. Third world countries especially began to hoard USD to protect their fragile economies and currencies from sudden collapses. With everyone clamouring for dollar, all the US needed to do was to trade fair dollars and other countries would accept them as payment for their exports. These dollars flow back into the US to be invested in treasury bonds and sponsor war and similar instruments for setting the outflow. There is growing criticism in China as well about how cheap labour surplus exploitation, resulting in huge piles of forex reserves that China is parking in the US, is actually helping in sustaining the dollar aggression and geopolitics of US foreign policy. The International Monetary Fund and World Bank in New York reinforce this dollar hegemony. For a country whose domestic currency serves as international currency, playing the role of global reserve currency can help it build up debt for a protracted period. This has the potential to wreck any country's currency. This allowed American economy to decline unnoticed while trade deficit and gross national debt reached astronomical values. There are no profits in the absence of a real economy. Globalization destroyed America's manufacturing sector and bulk of its production moved to China. Services are also being outsourced, and now, only it's pre-eminence in global financial service industry remains intact, which is underpinned by dollar hegemony. Dollar hegemony concealed the cost of its empire, which was effectively being paid for by the rest of the world. Other countries were forced to accept dollar as this was the only reserve currency. In the present world scenario, there are two ways to enslave a nation: to use a sword, and debt slave. US capitalism was/is based on debt slavery. American capitalism was based on fraud banking system and financial institutions and not on generating revenue.

In the second part of the presentation, the speaker attempted to discern the reason behind this currency war and Chinese perspectives on it. He quoted a news item from *The Mint* about current IMF Director Christine Lagarde, "Lagarde, fresh from winning a new five-year term at the Fund's helm, used the opportunity to caution against being drawn to the kinds of forces that have fuelled the populism-driven candidacies of Bernie Sanders and Donald Trump in the US presidential election. While inequality has been declining on a global scale, the perception remains that 'the cards are stacked against the common man - and woman - in favour of elites,'" which the speaker believes is the crux of the whole debate around dollar hegemony.

He also quoted Indian foreign policy analyst C. Raja Mohan from *The Mint*, "Almost four decades after Deng's launch of reforms, China no longer maintains a low profile. It is taking the lead in building new regional institutions and pressing for a reform of the global power structure. But unlike China's assertiveness, which has made Asia and the world nervous, the rise of a democratic India, with internal checks and balances, is viewed as a benign developmen.". The speaker cautioned that if international relations are not analysed from the perspective of dollar hegemony, policymakers will make the same mistake with respect to China's assertiveness.

Song Hongping, leading consultant in financial institution in the US wrote a book in 2007 which earned a lot of name and wealth in China titled *The Currency Wars*. The book caught the attention of top politicians and decision-makers as well as masses alike. In the book, the author explains the history and development of the world from the lens of currency and finance. Historically, Chinese people did not attach respect to finance and money. However, if China wants to become a superpower like the US, it has to be more than a military power. The main battle between the two countries pertains to currency and not conventional military. Despite being the world's second largest economy and largest holder of world's foreign reserves, it might miss out on opportunity if it does not understand international finance.

Adlakha continued by talking about the Chinese people and how they were initially confused about the possibility of currency wars. However, they are now understanding and analysing this phenomena. This has led to a brand of economic nationalist literature in China.

In the international arena, events such as the Arab Spring, the Hong Kong Umbrella Movement, uprisings against Gaddafi and Saddam, Boko Haram and others have all been caused by the US's direct or indirect financial/military involvement. All of these reflect American attempt to block or stifle the growth of Chinese currency and economy. Globally, there is increasing criticism against 'economic terrorism' being carried out by the IMF and the US against Russia and other countries that are challenging the dollar hegemony. China is using its 'Belt and Road initiative' as a tool to wriggle out of this situation.

The Trans-Pacific Partnership's main objective is to isolate and prevent China from integrating with the Asia-Pacific region. Since 2005, the US has been pressurizing China to appreciate the value of RMB, which has already risen by 30 per cent. Since the US is adopting such tactics only against China, leading Chinese financial experts and geopolitics experts conclude that China is the sole target of US's currency war. Not very different from the analysis of their Chinese counterparts, US financial experts call it a financial 'hot war'.

Discussion

The nature of arguments presented by the speaker in his presentation evoked several queries from the audience. The speaker started out with a disclaimer that he might not be in a position to answer all the questions satisfactorily as he is not a subject expert on economics and finance. Questions were raised on the decline of the Trans-Pacific Partnership (TPP) and the potential benefit India stands to reap from joining the TPP.

A question was asked on the connection between the rise of Boko Haram and America's dollar diplomacy.The speaker alluded to a series of events that have occurred since 2008 to illustrate the nature of linkage between the rise of extremism globally and dollar diplomacy. He mentioned how the Iraq War was not over WMD (Weapons of Mass Destruction) but 'W$D'. The Libyan Dictator Colonel Gaddafi was in the process of setting up an Islamic Bank after which oil transactions would be carried out in Libyan currency and not the USD, which threatened the petro-dollar monopoly. Oil wars are fought to eliminate competition from any country that decides to use alternate currency for oil trade. The speaker also clarified that most of his knowledge comes from US sources and not Chinese, thus trying to negate a possible conspiracy theory angle.

A member of the audience inquired about China's motivation behind parking 4 trillion dollars in US treasury bonds. The speaker explained how various countries with strong foreign exchange reserves buy US treasury bonds which helps US maintain the value of dollar. If China decided to bring back the money parked outside the country, the Chinese economy will heat up and not know how to proceed. Another question was asked about the Chinese fascination with the US. The speaker explained how China had remained completely cut-off from the rest of the world since the establishment of the People's Republic of China in 1949 until the inauguration of the reform programme in 1978. Actually, until the 1990s, the first choice of destination for Chinese scholars was Europe and not the US. The Chinese scholars who now go to the US believe they get better exposure to scientific environment and research facilities there.

A question was asked if the RMB is used as currency in Southeast Asia and the reasons behind resistance in accepting it as a trade currency. The speaker spoke about various swap arrangements China has with different countries. However, they are no longer effective because of the change in political scenario. It is also partly due to US coercion against the use of RMB. However, China is now employing its 'Belt and Road initiative' to lure countries into using their own currencies or the RMB.

Report prepared by Prateeksha Tiwari, Research Assistant, Institute of Chinese Studies.

About the Speaker

Hemant Adlakha is Associate Professor and Chairperson, Centre for Chinese and Southeast Asian Studies, School of Language, Literature and Culture Studies, Jawaharlal Nehru University. He is also Honorary Fellow, the Institute for Chinese Studies, Delhi. His research on China includes domestic political discourse, foreign policy, language and literature, and cinema.

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