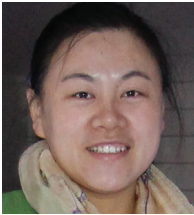


# THE DISADVANTAGES OF SOVEREIGN CURRENCY AS THE WORLD CURRENCY

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**Abstract:** From the perspective of Marx’s theory of the functioning of the international monetary system, there are inherent disadvantages in a sovereign currency acting as the world currency. First, the existing model of the single world currency is unfair, with the country whose sovereign currency functions as the world currency able to obtain huge international seigniorage and international inflation tax. Second, this single world currency model is unstable. The premise behind the functioning of an international monetary means of payment is the strong credit of currency-issuing countries, but the Triffin problem means that the sovereign currency issuers face a dilemma. Third, the duality of the monetary measure of value determines that there can be only one currency performing the function of a world currency in the international market, and a multipolar world currency pattern will lead to frictions among currency-issuing countries. Recognizing the disadvantages of using a sovereign currency as the world currency has important reference value and educative significance for achieving a correct view of digital currency, eSDRs, and RMB internationalization.

**Key words:** international monetary system; super-sovereign currency; the duality of measure of value; international means of payment; eSDR

## Introduction

Since the global financial crisis of 2008, the great changes and upheavals in the pattern of the world economy and politics have triggered a strong call for the establishment of a super-sovereign currency. This concept refers to a kind of unified world public currency that is disconnected from national or regional

sovereignty and that can maintain its long-term stability as a store of currency value. A super-sovereign currency would have the functions of simplifying price calculations for all commodities throughout the world, of aiding payments and settlements in international trade, of acting as a reserve of international settlement surplus, and of expediting payments on credit and debt contracts. The appeal of a super-sovereign currency stems precisely from the insurmountable shortcomings of sovereign currencies. Morrison Bonpasse (2006) compared a super-sovereign currency with a multi-currency system and pointed out that a super-sovereign currency had the advantages of low cost, of low risk, and of avoiding the imbalance of international payments and currency crises. Zhou (2009) stated that the financial crisis had revealed the problems in the existing international monetary system, and argued that an international reserve currency should be created to stabilize the global economy, with this international currency decoupled from sovereign countries and its value kept stable in the long run. Li (2012) pointed out that the hazards associated with an international monetary system dominated by the US dollar alone would be fully exposed in periods of economic crisis. During the US sovereign debt crisis, Li maintained, the international monetary system needed to be adjusted and a super-sovereign international monetary system to be built. Huang (2009) emphasized that the most comprehensive and thorough method of international monetary reform would be to establish an “international reserve currency” disconnected from sovereign countries. Huang also believed that international monetary reform must be gradual; before the establishment of a “world dollar,” the development of international monetary diversification needed to be promoted. Robert Mundell (2012) pointed out that one of the weaknesses of the current international monetary system was the lack of a real international standard currency. At the theoretical level, this article systematically analyzes the disadvantages of employing a sovereign currency as the world currency from the perspective of Marx’s theory of the functioning of the international monetary system, and provides a theoretical basis for the process of RMB internationalization. It has important reference value and educative significance, revealing the disadvantages of using a sovereign currency as the world currency and making possible a correct view of the inclusion of the RMB in the Special Drawing Right (SDR) currency basket and in the new electronic currency of eSDR.

## **The Unfairness of the Unipolar World Monetary Pattern**

The main significance of a unipolar world monetary model is that the currency of a particular country functions as the world currency. This creates two poles in the world monetary system. One of these poles is the country that issues the world currency, and that can obtain huge sums in seigniorage from currency issuance and

inflation tax revenue by virtue of the change to the law of circulation of paper currency. During the period of paper currency circulation, the currency of the international currency-issuing country will not be withdrawn from circulation on account of too much currency being in circulation. The currency issued by the international currency-issuing country can thus serve as an international currency in circulation around the world, bringing the currency issuer a huge amount of international seigniorage. The other pole is the countries using the world currency, which will unconditionally pay seigniorage to the world currency-issuing country as long as they participate in international market trade. These other countries are compelled to bear the changes in the value of the world currency, and to passively accept losses caused by the economic policies of the country that issues the world currency. They can do nothing in the face of economic policies formulated by the currency issuer that considers only its own interests while taking no care of others. If excessive issuance of the international currency results in currency devaluation, all the countries of the world will share in the sacrifice, which is equivalent to paying an inflation tax to the currency-issuing country. For the latter country, the advantages of such a unipolar world monetary model outweigh the disadvantages. Other countries not only have to pay international seigniorage to the issuer, but are also passively affected by any changes that the issuer introduces to its economic policies.

This article will first look more deeply into the changes to the law of currency circulation that occur in the period when a paper currency circulates. During this period the paper currency loses its regulatory function as a reservoir, with gold coins and convertible currencies flowing into and out of circulation automatically. Meanwhile, the paper currency in circulation cannot be withdrawn if the amount of money circulating is excessive. If this is the case, the excess money in circulation will cause the paper currency to be devalued, bringing a rise in prices and the phenomenon of inflation. Conversely, deflation will emerge if there is insufficient money in circulation. However, the essence of money demand is the demand for money exercised by the real economy, regardless of changes to the monetary system. In examining the law of currency circulation when paper money is functioning as the means of circulation, gross domestic product (GDP), an indicator of economic growth, can be used to measure the real economy's demand for money. To exclude the impact of market prices on economic growth,  $Q$  can be used to express economic growth, and the currency supply, i.e., the currency circulation, is expressed by  $M$ . The retail price index for the whole society, fully reflecting price levels, is expressed by  $P$ , and the turnover rate is expressed by  $V$ .  $Q$ ,  $M$ ,  $P$ , and  $V$  can be regarded as functions of time  $t$ . The law of currency circulation can be expressed by the following formula:

$$\frac{PQ}{V} = M.$$

After variation, it can be obtained as:

$$PQ = MV.$$

If we take the logarithm of both sides and take the derivative of time, the formula can be obtained as:

$$\frac{1}{P} \frac{dP}{dt} + \frac{1}{Q} \frac{dQ}{dt} = \frac{1}{M} \frac{dM}{dt} + \frac{1}{V} \frac{dV}{dt}.$$

The velocity of currency circulation is constantly changing, but the annual change is very small.  $V$  can be considered as a constant over a short period of time, so we then have:

$$\frac{dP}{P} + \frac{dQ}{Q} = \frac{dM}{M}.$$

When the time is very short and the value of  $\Delta t$  is very small,

$$dP \approx \Delta P, dQ \approx \Delta Q, dM \approx \Delta M,$$

so we then have

$$\frac{\Delta P}{P} + \frac{\Delta Q}{Q} = \frac{\Delta M}{M}.$$

Given:

$$\frac{\Delta P}{P} = p', \frac{\Delta Q}{Q} = q', \frac{\Delta M}{M} = m',$$

it follows that  $p' + q' = m'$ , where  $p'$  is the rate of price change,  $q'$  is the economic growth rate, and  $m'$  is the rate of monetary change.

After the mathematical balance transformation of the basic relationship of the three indicators has been carried out, the relationship of the growth rates can be obtained. That is, the growth rate of the money supply is equal to the sum of the economic growth rate and price growth rate. In economic terms, economic growth rate and price growth rate determine the growth rate of the money supply.

Second, the currency-issuing country obtains a huge amount of international seigniorage when the economic growth rate  $q'$  is consistent with the rate of change of currency  $m'$ . In the period of paper money, the growth of the money supply also has a certain countereffect on the economic growth rate and price growth rate. The value created by various countries is increasing all the time due to the continuous improvement of their scientific and technological levels. Even if the world currency-issuing

country keeps increasing the amount of currency in circulation, prices in the world market will not rise and the value of the excess currency will not depreciate so long as the increase in the amount of currency in circulation is equal to the increase of commodities in the world market. In other words, the currency-issuing country will receive a huge amount of international seigniorage when the economic growth rate  $q'$  is consistent with the rate of change of currency  $m'$ . Under the current monetary system, the United States, as the issuer of the world currency, thus obtains huge international seigniorage revenue. The denomination of the US dollar as a credit currency is much higher than the actual value of the dollar produced, and the part where the denomination is higher than the cost of production is the seigniorage. For example, a dollar denomination can represent the price of a dollar, and the seigniorage for producing a dollar is 90 cents if the cost of producing a dollar of currency is 10 cents. For a country, the cost of manufacturing currency is negligible compared to the denomination of the currency, and the amount of base currency of a country is the seigniorage revenue of that country. Seigniorage earned by other countries holding their own currencies in the international market is international seigniorage. With the US dollar acting as the world currency, the US dollars issued excessively can flow out of the United States and enter other countries in many ways, and the wide circulation of the US dollar and the large quantity of dollars in the international arena have resulted in a huge amount of international seigniorage for the United States. In the foreign exchange market, with a daily trading volume of \$6.6 trillion, 88.3% of transactions are in US dollars (Stoithard 2014). As the world currency, the US dollar gains huge international seigniorage revenue. The United States can issue dollars to pay creditors directly, and creditors must accept them. The dollars in the hands of creditor countries cannot be circulated domestically, and the safe and reliable form of deposit is to buy US treasury bonds, which in turn lends the money to the United States. However, once there are negative consequences, the world will share the sacrifice with the United States. If the excessive currency issuance leads to inflation, the consequences are not borne by the United States alone, but by the whole society of the United States and other dollar-holding countries around the world. If the whole society of the United States does not want to bear the burden, the United States can transfer the excess dollars to other countries in various forms.

Third, the change in currency change rate  $m'$  will cause a change in price change rate  $p'$  when the economic growth rate  $q'$  remains unchanged, and the currency-issuing country obtains a huge inflation tax. Through this process the US dollar, as a currency, will bring international inflation tax benefits to the United States. When the United States issues currency, this represents a liability of the United States to all countries and their citizens that use the dollar. As more money is issued, this liability will decrease. The core interests in the United States find it advantageous to have oil prices remain high, and the dollar weak. A rise in oil

prices directly consumes the dollar savings of Europe, Japan, China, and other countries with market economies. Emerging market countries, including China, are energy-subsidized, and a rise in oil prices will cause them to experience domestic cost-push inflation, which in turn will lead to a deterioration in their domestic economic situation and cause international financial capital to withdraw from them. The US dollar enters a country when the country's economic momentum is strong, and flows out when the country's currency depreciates. This in turn leads to a significant decline in the dollar reserves of emerging market countries on the one hand, and a significant decline in their external liabilities on the other. Over the years China has suffered from cost-push inflation, with rising prices and the emergence of "Kidding Mungbean," "Brutal Ginger," "Spend Your Money," "Insane Oil," etc. One of the main reasons for the rapid rise of prices in China is external inflation. The huge quantities of US dollars flowing into China have created a reverse mechanism forcing the People's Bank of China to issue more money; this has caused the amount of money in circulation to exceed the actual demand, and, eventually, has initiated inflation. The RMB has depreciated at home, but appreciated in the international market, which aligns with the choice of the United States to keep the dollar relatively weak. During the financial crisis the United States carried out four rounds of expansionary monetary policy, starting up the printing press in order to stimulate domestic economic development and promote employment. The United States not only exploits the value created by the economic growth of countries throughout the world, but also exports inflation to them through its loose monetary policy. For the United States, loose monetary policy not only stimulates domestic economic development, but also relieves the pressure of foreign debt. Hegemonic status gives the United States the ability to manipulate currency, which provides it with greater opportunities to benefit from international seigniorage and inflation tax.

### **The Instability of the Unipolar World Monetary Pattern**

According to Marx, the chief function of a world currency is to act as a means of payment in the settling of international balances (Marx 2010a, 154). With the continuous development and improvement of the credit system, the function of money as a means of purchase has shrunk while its role as a means of payment has expanded. "In England, coin is almost entirely confined to the sphere of retail trade and to petty transactions between producers and consumers, whereas money as means of payment predominates in the sphere of large commercial transactions" (Marx 2010b, 375–376). The functioning of a country's sovereign currency as a means of payment is based on a certain credit system. The currency symbol itself needs to be objectively recognized by the society concerned, and

the paper currency is recognized by reason of its forced circulation. The fact that a paper currency can act as a means of payment stems from the strong credit base of the currency-issuing country. Meanwhile, the fact that payments can be made in this currency can promote rapid economic development and save large quantities of money. As the world currency, the US dollar maintains its strong momentum and appreciation, providing a powerful credit base for its international function. Nevertheless, the United States has been plagued by its inability to solve the Triffin problem. Since the breakup of the Bretton Woods system, the dollar has continued to face the same problem. For the dollar to be accepted in international markets and serve as a reserve currency, the United States must export dollars to ensure the quantities needed for the development of trade in countries around the world. At the same time, the US dollar as an international currency must keep its stability; this has to rely on the economic strength of the United States, and further requires the United States to be a long-term trade surplus country. The United States finds itself in a dilemma, compelled to choose between running a trade surplus and a trade deficit. At the moment, the United States is choosing to maintain a trade deficit and to export currency to other countries to ensure that there are enough dollars to function as the world currency. But to ensure the value of the dollar, the United States can only rely on its political strength, its pricing power in the financial markets and the power of its discourse in international financial institutions. Meanwhile, it is proving impossible to prevent many countries around the world from settling their foreign trade in bilateral currencies. Between March 11, 2009, and April 22, 2015, for example, China signed bilateral currency swap agreements with 30 countries or regions for a total of RMB 3,110.2 billion. Many countries and regions have since renewed their agreements with China and increased the size of their currency swaps. By the end of 2019, China had signed bilateral currency swap agreements with 39 countries and regions for a total value of more than RMB 3.7 trillion (International Monetary Institute of Renmin University 2020).

When a currency functions as a means of payment, a certain time lag is involved. In the case of commodities, the first stage consists of sale on credit or advance payment, which is called the beginning of the period. Then follows the exchange of currency and delivery of commodities, which is known as the end of the period. If the value of the currency depreciates as this process unfolds, the purchasing power of the currency for which the commodities have been obtained on credit will be less at the end of the payment period than at the beginning; this is beneficial to the purchaser that pays at the end of the process, but not to the seller providing the goods on credit. In the case of advance payment, the currency depreciation is favorable to the prepaying party, and unfavorable to the later payer. When independent monetary credit is employed, a decline in the value of the currency is

beneficial to the debtor and not to the creditor. Conversely, a rise in the value of the currency benefits the creditor and not the debtor. Countries will hold a certain quantity of US dollars to repay their debts when these become due, so as to complete the payment function in the international market. The United States has chosen to export dollars so as to guarantee the quantity of dollars required for the dollar to function as the world currency, and this also causes the dollar to depreciate in value. In international markets, the depreciation of the US dollar is favorable to debtors and unfavorable to creditors. The United States, as a debtor to most countries in the world, is the biggest beneficiary under the weak dollar policy. For instance, China as the largest creditor of the United States lends its huge dollar reserves to the United States through the purchase of treasury bonds and other marketable securities, which is unfavorable to China as the dollar depreciates.

At the same time, the making of international payments is routinely associated with crises. There are many problems in the current international monetary system. The indiscriminate emission of currency by the US Federal Reserve has triggered currency wars, and frequent currency crises have led to a continuous depreciation of the dollar, causing further debt crises. As a result, there is an urgent need for countries around the world to create a super-sovereign currency with valuation, settlement and reserve functions to avoid the damage caused by the continuous depreciation of the US dollar, and to maintain the long-term stability of currency values.

## **The Instability of the Multipolar World Monetary Pattern**

Within a multipolar monetary pattern, multiple currencies enter the international market and take on the functions of world currencies, thus avoiding the arbitrary emission of currencies by issuing countries that occurs under a unipolar world monetary model. Nevertheless, there can only be one currency in the world that performs the functions of a world currency at the international level. This is clear from the characteristics of the measure of value as set out in Marx's account of international monetary functions, in which the duality of the measure of value is a crucial determinant.

As Marx pointed out, "Money as a measure of value, is the phenomenal form that must of necessity be assumed by that measure of value which is immanent in commodities, labour time" (Marx 2010a, 104). "An object may have a price without having value" (112). Although paper currency and credit currency have no value, they can still function as the value measure of money, and can provide an expression of the prices of other commodities. If the value of money changes, or even if the value of money is zero, this will not affect its function as a monetary measure of value. However, a change in the value of the currency will cause the



problem of dual measures of value when two currencies with the same status are in circulation. The change of commodity value from gold to silver and vice versa depends each time on the relative value of the two metals, which is constantly changing. For this reason, the determination of relative value is a constant process. In other words, there are two prices for commodities in a market, the gold price and the silver price. When the relative value of gold currency and silver currency changes, parties can choose different currencies as the trading medium for buying or selling commodities. For two currencies to coexist stably, the relative value of the gold price and silver prices of a commodity must be equal to the relative prices of gold and silver. When the prices of commodities expressed in gold are equal to the prices expressed in silver, people will have the same preference for gold and silver. However, the premise behind the prices of gold currency and silver currency being equal is that the exchange ratio of gold and silver is constant and fixed. Only when the exchange ratio of gold and silver remains unchanged can the gold price and silver price of the same commodity be stable. Gold and silver have a dual identity, as commodities and money. As money, gold and silver have fixed ratios. Their prices as commodities, however, fluctuate constantly with the supply-demand relationship in the market, which also reflects the law of value of commodities. Nevertheless, there is an irreconcilable contradiction between the fixed exchange rate of gold and silver currency and the changing price ratio of these metals as commodities. If the legal price ratio of gold currency is lower than the market price ratio of commodity gold, it indicates that gold is undervalued by the state-mandated exchange rate. When silver is overvalued by the state-mandated legal exchange rate, gold is called good money, while silver is bad money. Rational money holders who hold both gold and silver currency will choose to use silver to trade in the market, and will hoard gold and wait for it to appreciate, resulting in a market dominated by silver money. This phenomenon, in which bad money drives out good money, is known as “Gresham’s Law.” It also determines that periods of gold and silver bimetallism, when gold currency and silver currency are in the same position, are brief, and that bimetallism is unstable. After a struggle between gold and silver, silver succeeds in crowding out gold and becomes the dominant currency. The history of the British currency system from the reign of Edward III to that of George II is described by Marx as “one long series of perturbations” (106). During this period, the ratio between the gold and silver values of money was in constant conflict with the actual change in the values of gold and silver as commodities. Between 1855 and 1857, the increased demand for silver in India and China led to a slight decrease in the value of gold. The nominal worth of the gold imported into France during this period was 41.58 million pounds more than the gold exported, while that of the silver exported from France was 34.704 million pounds more than the silver imported (106).

Marx (2010a, 153) stated: “In the markets of the world a double measure of value holds sway, gold and silver.” This situation is conditional on the fact that gold and silver enter the world market by taking off their national trappings and transforming themselves into metal bars or blocks; that is, the value of a commodity on the world market is measured by the weight of money. This prerequisite, however, can no longer be met through continuous development of the monetary system. The Bretton Woods system, or the Jamaican system, involves the exchange of various currencies for the world currency, after which the world currency is traded in the international market. This occurs under either a fixed exchange rate or floating exchange rate system, through which the world currency is exchanged for the currencies of other countries. If there are two currencies acting as world currencies, the fixed exchange rate system rests on the legal price ratio of the two currencies, which is necessarily inconsistent with the market price ratio of the two currencies. If a floating exchange rate system is used, the price ratio of the two currencies is adjusted frequently through the currency-issuing country buying or selling currency on the foreign exchange market. This ratio often deviates from the actual market price ratio. As a result, there will also be a duality of measures of value in the world market. As Marx concluded, “where two commodities perform by law the functions of a measure of value, in practice one alone maintains that position” (106). The Dutch guilder in the 17th and 18th centuries, the British pound in the 19th and the first half of the 20th centuries, and the US dollar from the second half of the 20th century to the present have all been international currencies. The evolution of the international monetary system indicates that there is usually only one complete world currency.

The existence of multiple international currencies, or of an international currency such as the US dollar, represents an unstable form of money, which will also affect the stability of the global economy. For this reason, a situation in which the RMB and the US dollar function as world currencies at the same time will be unstable.

## **The Paths to the Realization of a Super-Sovereign Currency as the World Currency**

The adoption of a super-sovereign currency as a world currency would help to alleviate the contradictions arising from the use of a sovereign currency in this capacity. There are two different realization paths that could lead to a super-sovereign currency serving as a world currency. One is the bottom-up realization path proposed by scholars, including Mundell (1961). This involves realizing local monetization across a small range, such as dollarization or euroization, and then creating optimal currency areas before establishing a unified world currency on

the basis of more extensive cooperation. Mundell's specific plan is to establish a multi-currency union based on stable exchange rates between the US dollar, the euro and the yen, as well as the Chinese RMB and the British pound, followed by the creation of INTOR (a combination of "international" and the French word *or*, meaning gold) as the world currency. The other path is that of top-down realization. A super-sovereign currency would be established directly to serve as the world currency, and would gradually be accepted by increasing numbers of countries through reforming the methods of functioning of the International Monetary Fund (IMF). One of the early phenomena that anticipate a super-sovereign currency is the SDR, which is an asset in the form of a supranational currency that can be used for international payment and settlement. Another idea is the international commodity reserve currency, which would be based on commodities and would serve not only to alleviate the price fluctuations of raw materials and primary products on the world market, but would also have a value basis. Of the two world currency realization paths, the bottom-up path would need to go through a stage in which multiple sovereign currencies existed, inevitably resulting in instability in the multi-level world monetary system. Sovereign countries that issued a world currency would be reluctant to give up this power, since it would yield them many benefits such as huge international seigniorage. In the meantime, there would also be trade frictions and currency wars between sovereign countries as they competed for the right to use the currency in the world market. For comparison, the ideal goal of the reform of the international monetary system would be "to create an international reserve currency that is decoupled from sovereign countries and can maintain long-term stability of currency value, so as to avoid the internal defects of sovereign credit currency as a reserve currency" (Zhou 2009, 8). After the 2008 financial crisis, countries around the world began to seek a super-sovereign currency to serve as a world currency, and the top-down path to realizing this world currency has become a common goal of international monetary system reform.

Under the top-down path to realizing a world currency, the primary task would be to establish a world central bank that would transcend the central banks of all individual countries. This agency would be responsible for issuing, regulating and managing super-sovereign currencies. At present, the organization most likely to evolve into a future world central bank is the IMF, which determines the voting power of member countries, their share of financial assistance, and the quantity of SDRs, in the form of "quotas," available to them. At the same time, the IMF assists member countries in establishing a multilateral payment system for regular transactions, providing temporary financial support, and eliminating foreign exchange controls that hinder world trade. The funds of the projected world central bank would be provided by member

countries. There is still a big gap between the IMF and the world central bank. To become the world central bank, the IMF would need to extend the same treatment to both developed and developing countries, while actively regulating their economic policies and improving the monetary operation mechanism of each country in response to the differences in their economic development levels and the lack of institutionalization and synergy between different countries. In addition, a super-sovereign world currency could avoid the internal risks of sovereign currency and regulate global liquidity while maintaining currency stability. The SDR is the most promising super-sovereign currency, but it has not become a widely used payment and settlement tool in trade and finance in the world market, on account of its limitations as a distribution mechanism and the restricted scope of its use. As a result, the functioning of the SDR as a price currency and means of settlement needs to be reformed and strengthened, establishing SDR issuing rules and improving SDR distribution methods. With the rise of the internet, and using blockchain technology, it has become possible to develop a decentralized, highly secure and creditworthy international digital monetary system. This will allow eSDRs to be issued, and a new set of transnational payment and settlement mechanisms to be constructed for the super-sovereign currency (Yao and Yang 2015). The eSDR can continue to embody the advantages of the SDR as a super-sovereign currency, and meanwhile there are incomparable advantages for the eSDR as a new digital currency compared with the SDR. The “decentralized authentication mechanism” of blockchain technology can guarantee that eSDRs will be impossible to forge, and the eSDR will lend itself to direct use for payment, financial transactions, and so on. The parties will be able to trade directly in a peer-to-peer financial network, with no third party involved. As a super-sovereign digital currency, the eSDR could gradually develop into a currency with a stable value, an orderly supply and an adjustable aggregate, thus maintaining global financial stability and promoting world economic development. However, there is still a long way to go to create a super-sovereign eSDR currency, since in practice there will be many unavoidable challenges, such as possible security vulnerabilities in blockchain technology, attacks from hackers, the proliferation of speculators, national political disputes, and even possible flaws in rule design, etc. A digital super-sovereign currency will serve as the future basis for the development of a world currency regardless of the problems and challenges. As a globalized and borderless network platform, the internet provides the foundation for the development of an efficient and low-cost global payment and settlement system. The establishment of global central banks and the issuance and management of super-sovereign currencies can maintain the fundamental stability of the global monetary system.

## The Correct View of RMB Internationalization

The disadvantages of using a sovereign currency as the world currency have made the establishing of a worldwide currency, outside the sovereignty of any particular country, an inevitable trend for the future (Cheng and Wang 2011). The diversified monetary system proposed by many scholars is no more than a necessary stage for the establishing of a super-sovereign currency, and is not a transitional stage for the development of this currency through the internationalization of multinational currencies and regional monetization. Meanwhile, the concept of a diversified monetary system provides a thorough exposure of the disadvantages of a sovereign currency as the world currency. After fully understanding the instability of the multipolar world monetary system, countries around the world are starting to explore the creation of a super-sovereign currency. For this reason, China must have clear ideas and strategies in the area of financial development. It must restrain the hegemony of the US dollar by actively promoting the development process of RMB as a reserve currency, and promote the reform of the international monetary system so as to establish a super-sovereign currency.

The internationalization of the RMB is the inevitable result of China's increasing economic strength and national credit. On November 30, 2015, the Executive Board of the IMF approved the addition of the RMB to the SDRs currency basket, to take effect officially on October 1, 2016. This was an important step for the entry of the RMB onto the international stage, and a significant milestone in the formation of a diversified monetary system. "A stable international monetary system can be established only if the RMB is included in the new mechanism or system" (Zhang 2011). The inclusion of the RMB in the SDRs currency basket, underpinning the official unit of account used by more than 180 member countries of the IMF, has greatly improved the status of the RMB in the international monetary field. At present, the share of the RMB in the SDRs currency basket ranks third in the world; more than 70 foreign central banks or monetary authorities have included RMB in their official foreign exchange reserves, and there is a continuous upward tendency. In January 2018, Germany and France, the two major economic powers of the European Union, announced the inclusion of the RMB in their foreign exchange reserves. According to the latest SWIFT report, international payments in RMB ranked fifth in the world in July 2021 (International Monetary Institute of Renmin University 2021). In order to promote the internationalization of the RMB, China has launched various measures such as the renewal of bilateral currency swap agreements with other countries, and nearly 40 countries have now signed currency swap agreements with China. The continuous internationalization of the RMB has enhanced the yuan's international influence, and China has a greater power of discourse in the international market. This,

however, does not mean that the RMB can replace the US dollar as the world currency, and nor does it mean that the RMB can function as the world currency together with the US dollar. The goal of RMB internationalization is not to make the RMB perform as the world currency together with the US dollar, but to restrain US dollar hegemony.

As the international status of the RMB increases, China is bound to be challenged by the United States and other developed countries in major areas such as trade and finance. The current dollar-centered world monetary system is a neo-colonialist financial means through which the United States exploits the world. In order to stimulate national consumption and solve the problem of overproduction, the United States has encouraged domestic residents to overdraw their consumption. In 2008 the chain of debt broke, resulting in the outbreak of the financial crisis of that year. Taking advantage of the role of the US dollar as the world currency, the US seizes the proceeds of international seigniorage tax and international inflation tax by issuing currency on a large scale, so that all countries around the world pay for the financial crisis of the United States. Any country that threatens the hegemonic status of the US dollar thus endangers the economic interests of the United States. Driven by those interests, the United States is compelled to try to create difficulties of many kinds for China's foreign trade and international finance, including cracking down on the RMB and reducing the scope of its use. The Sino-US trade war since March 2018 represents one of the economic means through which the United States has sought to crack down on the RMB, and as the internationalization of the RMB deepens, Sino-US trade frictions will escalate further. To thwart the attacks, China must maintain its high-quality economic development and establish a modern economic system, since stable economic development is fundamental to RMB internationalization. China should promote the use of the RMB in multiple fields such as trade and investment, improve financial supervision to avoid the impact of the duality of the measure of value in the multi-level world currency system, and view the process of RMB internationalization correctly. We can further improve RMB pricing and settlement methods, and keep the exchange rate stable over the short term. Then, with fundamental reforms to the international monetary system, the RMB will in the long run become an important part of the non-sovereign central international currency system (Liu and Cheng 2020).

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