The ‘Petrocurrency’ Determinants in Growing Sino-US Confrontation: Implication for South Asia

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Abstract

The purpose of this article is to identify the areas where China’s internationally rising monetary and petrocurrency influence is likely to conflict with the US’s monetary as well as strategic interests. It is assumed that China’s creation of mutually financially supportive networks of economic, monetary, petrocurrency as well as highly innovative and expanding defence industrial structures are sources of generation and reinvestment of revenues and surpluses which are directly coming in conflict with the US’s international interests and especially in the South Asian region. In this perspective, this article poses the questions: what are the innovative developments in China’s refinement of its petrocurrency and its internationally extended arms industry? How are these leading to confrontation with the US? And lastly what are the impacts of this monetary and petrocurrency policies on the South Asian region? In the theoretical domain, this article addresses the role of the combination of monetary and strategic factors in growing confrontation between the two great powers and the possibilities of conflicts leading to changes in international polarity and order. It is argued that China appears to suggest that its new version of international order encourages economic competition among great powers; however, this newly emerging Chinese global monetary and geostrategic network has equal risks of leading to strategic confrontations and armed conflict between China and the US as well as South Asian states.

Keywords: Dollar Wall Street Regime (DWSR), Fiat Money, Dual-Embededdness, Peterodollar, Petroyuan, Defence Innovation, Reverse-Engineering Phase.

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Strategic Studies, Winter Issue, Vol. 42, No. 2, 2022: 19-37.
https://doi.org/10.53532/ss.042.02.00245

Introduction

This article develops a perspective from economics of defence to explain China's current global strategy which has been termed as regional hegemony comprising a combination of economic astuteness, monetary assertiveness and strategic benevolence. The primary claim developed is that while this strategy can be explained by observing a fundamental transition in Chinese grand strategy from military to economic competition with the United States of America (US) — which initially mutually benefitting both;[1] however, a few confrontational trends emerging during the US President Trump's administration led to financial and monetary competition and confrontation between the two powers. It is contended that these confrontations between the US and China intensified competitions in monetary, energy and military resources, further leading to magnification and extension of influence associated with these fundamental resources. In order to focus on the monetary aspect the nexus between a great power's internationally traded currency with high turn-over effect; its monopoly over import and supply over internationally traded oil and production and sale of conventional weapons shall be elaborated with the purpose to identify and explain the dynamics of internationally exercised influence through these resources. It is assumed that the aforementioned nexus had been developed since early 1970s by the US to employ its internationally robust currency (evolved as a result of huge demand in US's globally exported commodities and services) as well US's overbearingly expanding military industry, which had been complemented with the US's monopoly over trade in crude oil with its Middle Eastern allies. The term petrocurrency[2] has been employed to suggest the heighted value of such a great power's currency which is instrumental in exercise of influence in terms of trade in oil and weapons as well as in foreign policy. The dynamics of this influence shall be explained in the relevant section. US's petrocurrency has remained instrumental in extending monetary, diplomatic as well as strategic influence on allies as well as adversaries.

[1] Ahmed Ijaz Malik, "China's Financial Models and Economic Strategies: Implications for Sino-Pakistan Economic Collaboration," *Pakistan Horizon*, vol. 70, no. 3 (July 2017), 67-84.

[2] David E. Sapiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (New York: Cornell University Press, 1999) and Benjamin J. Cohen, *Currency Statecraft: Money, Rivalry and Geopolitical Ambition* (Chicago: University of Chicago Press, 2018).

It is further assumed that China and the US since the end of the Cold War have been engaged in mutually beneficial economic cooperation; however, China's gradually increasing economic and monetary influence, geostrategic as well as geo-economics influence has materialised in the creation of internationally influential monetary institutions, such as its Sovereign Wealth Funds; its transport and trade corridors, such as the One Belt One Road as well as gradually expanding international arms producing and trading industries. China has also developed its own petrocurrency-petroyuan and has complemented its value by relating it to internationally traded gold. It is argued that these trends are likely to initiate strategic confrontation with a potential for military conflict between the US and China. In order to substantiate these claims to support the argument, this study shall begin with a brief explanation of regional hegemony and relate this concept to the gradual rise of China while refining the focus on its transition from a strategic power to its systematic ascendency in international monetary resources as modes of international monetary influence. The modalities of monetary influence shall be elaborated by specifically focussing on China's domestic economic and monetary reforms and revealing the transformed nature of Chinese state and its economic polices especially hedging. Refining the focus on economic factors further, the study chronicles the growing influence of Chinese currency and highlights the nature of gradually evolving monetary conflict with the US's international interests. In this perspective, this study compares the influence of petrodollars and petroyuan by does not delve in the US's rise as an economic power in the post-Second World War era. In the perspective of monetary competition between the two powers is also imperative to note that China's extending international monetary influence is complimented with a gradual but consistent expansion in its defence industry, which in turn contributes to China's growing international influence.[3] The purpose of gradually explaining the aforementioned factors and dynamics is to suggest how China's monetary and military evolutions are coming in conflicts with the US's international strategic interests. The broader theoretical question this article addresses is: Is China's monetary, geostrategic and military ascendency likely to lead to armed conflict with the US and a change in international order? To address the specific trends in China's ascendency, this article focuses on the questions: What is China's innovative addition to

[3] Lucie Beraud-Sudreau and Meia Nouwens, "Weighing Giants: Taking Stock of the Expansion of China's Defence Industry," *Defence and Peace Economics*, vol. 32, no. 2 (2021), DOI: 10.1080/10242694.2019.162536

the influence its petrocurrency? How is this new trend likely to lead to military confrontation between the US and China? What are the likely outcomes of these confrontations for South Asia? The analysis of these trends is conducted by detailing the likely causes for a revival of strategic confrontation between the two powers by employing issues specific to South Asia, in order to display a gradually brewing confrontation between the two powers. The final section of this study shall divulge the changing nature of international order and conflict and the challenges faced by the US and China.

Fundamental Factors in China's Quest for Regional Hegemony

China's regional hegemony has been a culmination of China's Asia Dream, Chinese Exceptionalism, Tianxia and Neo-Confucianism that appear to have transfigured as a combination of assertiveness, benign pragmatism and benevolence in its relations with regional and global powers. This strategy evolved especially under the leadership of President Xi Jinping; as well as a reaction to rise of Trump Administration in the US. While Trump administration adopted a confrontational posture towards China, and systematically detached itself from commitments at international level; China filled the vacuum created by the US's deliberate low profile approach.[4] China also appeared to counter one of the fundamental problems of perceptions of its rise which was in the form of the influence of a predominant discourse emerging from the West. This discourse had primarily been based on the Cold War and post-Cold War theorisations that classified China through the lens and constructs such as Communist State, repressive regime, ideological rigidity, contributors to ecological degradation,[5] that contributed towards a misrepresentation of China's interests and regional as well as international role. Ironically, these discourses appeared to overlook the contradictions in the US and Russia's international policies on global issues such as war, ecological degradation

[4] Muhammad Nadeem Mirza, Hussain Abbas and Ahmed Ijaz Malik, "Is China Pursuing a 'Regional' Hegemony?: Strategic Sources of China's Assertive-Cum-Benevolent Behaviour," *Humanities and Social Sciences Review*, vol. 8, no. 6 (2020) 91-98.

[5] Daniel Wagner, *China Vision: China's Crusade to Create a World in its Own Image* (Connecticut: Country Risks Solutions, 2019), and Dexter Roberts, *The Myth of Chinese Capitalism: The Worker, The Factory and The Future of the World* (New York: St. Martin's Press, 2020) also recent works including Josh Chin and Liza Lin, *Surveillance State* (New York: St. Martin's Press, 2022).

and poverty eradication. However, China's grand strategy had been directed to fill the power vacuum at international level through building mechanisms and structures of collaborative cooperation such as the Asian Infrastructure Investment Bank, Shanghai Cooperation Organisation, Conference on Interaction and Confidence Building Measures in Asia and One Belt One Road (OBOR). These strategies primarily projected China's multilateral approach and use of soft power, which are characteristics of benevolent hegemony and are opposed to the image of a unilateral and acquisitionist/predatory hegemon. However, the discursive analysis of Chinese Presidential statements and official documents suggest that China's ambitions extend further from regional hegemony. As and move ahead from President Deng's image of China, it is perhaps the first time in the past two decades that image of 'China' and 'Asia' Dream have been projected. These images suggest aspirations to begin its geo-economics and strategic influence from Asia and extending it internationally with the objective to emerging as a leader in shaping the new world order and safeguarding international security.[6] As suggested earlier, this grand strategy was also a prudent reaction to President Trump's systematic effort to confront and portray China with a negative image [7] on the issues ranging from environmental degradation, strategic bargaining as well as global human security arising due to the COVID 19 pandemic. These trends drastically transformed current international strategic dynamics as post-Cold War and post-9/11 international order categorised Russia as strategic contender to the US's hegemony, while China appeared to display aspirations for geo-economics and monetary influence at the international level.[8] In view of these global transitions and perceptions of change; China appears to promote an originally new image of international structure and order. The philosophical bases of Chinese notion of Tianxia are related to the idea of politics based on image of an all-inclusive and internationally accepted system of institutions. This approach suggests that instead of state (as is the case in the traditional Western Political Thought), the globalised world should be the unit of analysis creating a world of all. However, China's regionalism appears a combination of economic infrastructural development

[6] Mirza, Abbas and Malik, "Is China Pursuing a Regional Hegemony," 93. Also, Xi Jinping, *The Governance of China*, vol. 1 (Shanghai: Shanghai Press, 2015).
[7] Mirza, Abbas and Malik, "Is China Pursuing a Regional Hegemony,".
[8] Ahmed Ijaz Malik, Muhammad Nadeem Mirza and Irfan Hussain Qaisrani, "Transitions in Global Polarity and the United States of America's Strategy Towards South Asia," *Humanities and Social Sciences Review,* vol.8, no.4 (2020) 1578-1587.

complimented with extension of regional geo-economics influence including Eurasia, Russia, South Asia and West Asia along with extension of maritime strategic and military influence.[9] China appears to be promoting primarily a geo-economics order with supporting geostrategic and geopolitical projects with financial support provided by establishment of regional institutions such as Silk Road Fund, AIIB and BRICS Bank.[10] Extending this approach further and focussing on the financial-monetary aspect of China's economic transformations; the rise and internationalisation of its petrocurrency and areas of conflict with the US's interests shall be explained.

China's Economic and Monetary Evolution

The China's modern economic model has distinctively evolved as 'State Capitalism' with a novel dual-embeddedness supported by creation of Sovereign Wealth Funds, strategy of hedging[11] and exercise of monetary influence through the creation of petroyuan as among the foundational strategies. While hedging comprises selective cooperation and confrontation; embeddedness includes the capitalisation of non-market forces with a selective degree of allowances complimented with institutionalisation and selective suppressing of the overall market forces. The Chinese modern version of 'dual-embeddedness' creates an economic strategy where state exemplifies the political-economic order of the 'Chinese State' with a specific ideology and purpose; while institutionalising state apparatus where the domestic economic, monetary as well as the military industries become mutually supportive in domestic revenue and foreign exchange generation. This fundamentally economic strategy appears to materialise the mutually dependent practices as a simultaneous cooperative, competitive as well as confrontational approach to the Western-led neoliberal order. Hedging entails both engagement and resistance when dealing with opportunities and risks emanating from another power.[12] An integral motive of China's overall economic strategy had been to raise its currency, renminbi to the

[9] Mirza, Hussain, Malik, 92-98.
[10] Mirza, Hussain, Malik, 92-98.
[11] John D. Ciorciari and Jurgen Haacke, "Hedging in International Relations: An Introduction," *International Relations of the Asia-Pacific*, no. 19 (2019) 367-374.
[12] Evelyn Goh, "Understanding "hedging" in Asia-Pacific Security," *PacNet*, Pacific Forum CSIS 43, (August 2006) 1-2, https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/media/csis/pubs/pac0643.pdf

status of a reserve currency. China began experimenting in this domain during 2005 to 2008, when with a relative appreciation in response to international pressure of renminbi in relation to the US dollars; China fastened renminbi against a basket of international currencies instead of the US dollar and hence led to a managed floating exchange rate. At the higher stage of transforming along the lines of globalised neoliberalism, Chinese market with increasing capitalistic characteristics — albeit with a modern Sinic ideology[13] remained unencumbered, appearing to present its own version of an international economic model, perhaps as an alternative to supply-side economics.

As a materislisation of this model, Chinese government promoted domestic spending, fiscal policy of four trillion renminbi, lowering rate of interest domestically, offering mega loans, revitalising real estate, banking and stock markets and while being economically connected with the US after its accession to WTO, managing to counter the tremendous fallouts of the US subprime mortgage problem. These drastically innovative policies were intended to induce spending and possibilities in demand side, creating and managing aggregate demand, especially during 2009 and 2010.[14] The Chinese State also intervened to protract its managed float currency policy by restricting the capital flows, making it difficult for domestic entrepreneurs to invest abroad.[15] As a part of dual-embeddedness, mixed ownerships in the State Owned Enterprises were expected to provide enhanced space for foreign firms, endorsing a gradual move towards internationalisation: the Chinese firms were supported to invest in foreign markets, and new tax revenue sources were proposed as fiscal reforms, in order to support the diversification of the specific sectors from where local

[13] Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (Cambridge: Cambridge University Press, 2008)

[14] Ming Zhang, “The Impact of the Global Crisis on China and its Reaction,” *Real Instituto Elcano* ARI 62, (2009) http://www.realinstitutoelcano.org/wps/wcm/connect/7f3587804f018af4aad8ee3170baead1/ARI622009_Ming_Global_Crisis_China_Reaction.pdf?MOD=AJPERES&CACHEID=7f3587804f018af4aad8ee3170baead1

[15] Wayne M. Morrison, “China, and the Global Financial Crisis: Implications for the United States,” Washington, Congressional Research Service 2009, https://fas.org/sgp/crs/row/RS22984.pdf

governments could extract extensive revenues.[16] Contrary to the criticisms against huge loans and Chinese Stock exchanges including Shanghai and Shenzhen maintained these preferential treatments by prudently balancing through dual-embededdness and maintaining the stability in stocks.[17] Chinese stock markets comprising markets-A, state owned which make up eighty per cent of the stock market shares; markets-B, providing access to foreign institutions and retail investors to trade; and markets-H operating in Hong Kong, have benignly been designed to squeeze dollars systematically out of their business while attracting trade and simultaneously preventing speculations.[18] By 2017, the shareholding of foreign banks had consistently been increasing and China engaged with foreign financial services institutions to deliver credit rating services, despite of the fact that these agencies such as Moody’s and Standard and Poor’s remain infamous for their biased credit ratings.[19] The cap to amounts of foreign shareholdings had been lifted in 2018, in September 2019 the quota limits to Qualified Foreign Institutional Investors have been dismantled, and the shares of Chinese bond markets had tremendously increased.[20] Gradually, China’s financial and non-financial corporations have increased in numbers as publicly traded companies showing confounding average revenues,[21] while domestic investments in Sovereign Wealth Funds are evidences of continual growth in financial markets and high returns on Financial Assets as well as increased ability to exercise economic influence on economic, defence and foreign policy decisions.[22] These aspects of dual-embeddedness also suggest an economic outcome in the growth of renminbi as a reserve

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[16] Ling Chen and Barry Naughton, “A Dynamic China Model: The Co-Evolution of Economics and Politics in China,” *Journal of Contemporary China*, vol. 26, no. 103 (2016) 14.
[17] Joshua Kurlantzick, *State Capitalism: How the Return of State is Transforming the World* (Oxford: Oxford University Press, 2016) 93-114.
[18] Johannes Petry, “Same Same, But Different: Varieties of Capital Markets, Chinese State Capitalism and the Global Financial Order,” *Competition & Change* (2020) 1-26.
[19] Christopher M. Bruner and Rawi Abdelal, “To Judge Leviathan: Sovereign Credit Ratings, National Law, and the World Economy,” *Journal of Public Policy*, vol. 25, no. 2 (2005) 191-217.
[20] Jiaxin Zhang and Qingqi Wang, “The Role of Chinese Financial Industry in Promoting Reform and Opening up and Serving the Real Economy in the New Era,” *Pluto Journals World Review of Political Economy*, vol. 10, no. 3 (2019) 342-359 https://www.jstor.org/stable/pdf/10.13169/worlrevipoliecon.10.3.0342.pdf?refreqid=excelsior%3A2fd09c4b5db0498488f59fd13430daca
[21] Ibid.
[22] Malik, “China’s Financial Models and Economic Strategies,” 67-84.

currency[23] and a systematic, almost aggressive, move towards its internationalisation. However, the most significant development in past decade, in addition to the mutual monetary complementation in the form of revenue generation and reinvestment between defence and monetary institutions is the combination of Chinese currency and oil resources, further intensified, in the form of the creation petroyuan and move towards its systemisation and gradual internationalisation for international defence related and economic interests. China's Asia-specific geostrategic and geo-economics projects including BRI, CPEC, Silk Road Fund and AIIB and partner states in these projects are likely to be affected as a result of China's new economic approach. This may demand the partner states to transform their domestic economic infrastructures and policies[24] as well as foreign relations,[25] especially with respect to the US.

Evolution and Internationalisation of Petroyuan

In post-Cold War and post-September 11, 2001 (9/11) eras, China appears to have emerged as an economic power, competing, cooperating and in places balancing the US's global monetary control, where the global market system has been navigating, consolidating and exercising influence persistently due to its reliance on money for three key functions: a. medium of exchange, b. unit of account and c. store of value.[26] The US dollar appears to have maintained monetary hegemony for overall the past one hundred year; but primarily since the creation of Liberal International (post-Second World War) Economic Order, it has effectively managed the three aforementioned functions. However, recognition of dollar as fiat currency was the result of US President Nixon's administration efforts to transform the Bretton Woods System and establishing a Dollar Wall Street Regime

[23] A reserve currency is a foreign currency held by Central Banks and monetary institutions to participate in the global economy such as through international transactions and investments.
[24] Malik, "China's Financial Models and Economic Strategies," 73-84.
[25] Scott L. Kastner, "Buying Influence?: Assessing the Political Effects of China's International Trade," *Journal of Conflict Resolution*, vol. 60, no. 6, 980., And Sarah Eaton and Zhang Ming, "A Principal-Agent Analysis of China's Sovereign Wealth System: Byzantine by Design," *Review of International Political Economy*, vol. 17, no. 3 (August 2010) 481-506.
[26] Paul Krugman and Robin Wells, *Macroeconomics* (New York: Worth Publishers, 2018) 506.

(DWSR) in August 1971,[27] making a free-floating exchange rate system and dollar being a dominant fiat currency which is not backed by a valuable commodity such as gold or silver; in turn, closing the gold window which meant that US did not need to relate, validate and/or discipline dollar with gold or any other commodity and dollar's global value and status could be influenced solely by the US treasury. Modern international markets continue to use US dollar as fiat currency with the US government maintaining control over its printing and setting its value.[28] Since Bretton Woods, US dollar has remained the leading currency, most widely employed in the world market with more than half of all of the international bank's reserves in US dollar and around forty to fifty percent of all global debts issued in US dollar. With the creation of DWSR, and end of US dollar convertibility into gold and other reserved assets; dollar further turned into a fiduciary currency as the standard of internationally dealt cheques, banknotes and drafts. Subsequently, the hegemonic status of dollar was created through agreement in 1974 with Saudi Arabia obligating the trading parties that all future oil purchases were supposed to be conducted in US dollar and in addition the reserves of the money generated were to be transferred through the North American US dollar based financial and banking systems leading to the evolution of petrodollar.[29] Nixon Administration had directed the US private banks that they must 'recycle' US dollar in exchange for oil through Organisation for Petroleum Exporting Countries (OPEC).[30] This process began in 1975 when other oil producing countries of the Middle East also joined the petrodollar 'regime'; and through the agreements between OPEC and the US, these states were obligated to trade their oil for US dollar. While traded oil had been priced exclusively in US dollar, the process was instrumental in institutionalising petrodollar recycling,[31] and making the member states dependent on the US and its petrodollar system. However, there was a significant pay-off for Saudi Arabia (apparently an influential player among Middle Eastern oil trading states) as it received military protection and backing in regional armed conflicts such as Yemen. This process prudently

[27] Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (London, New York: Verso, 1999) 19-38.
[28] Krugman and Wells, 509.
[29] Charles W. Kegley Jr., and Eugene R. Wittkopf, *World Politics: Trends and Transformation*, (London: St. Martin's Press, 1993) 209-296.
[30] Gowan, 8-18.
[31] Vassilis Fouskas and Bulent Gokay, *The New American Imperialism: Bush's War on Terror and Blood for Oil* (London: Greenwood Publishing Group, 2005) 18.

merged the strategic military aspect (arms supply), with oil and systematically magnified the US's monetary influence through the extension of a primarily domestic Wall Street, internationally. With the US as the greatest importer of oil, the oil producing states provided huge volume of oil as well as dollar (to be recycled) to the US, and with the Middle Eastern states purchasing the US made weapons in dollar; a systematic process of recycling of petrodollar was institutionalised where in practice, the US has been extracting cheap oil from these state and paying them in weapons while dollar making exponential monetary gains at all stages [32] and its hegemony had been maintained through the US's preservation of its own and Saudi Arabian oil 'interests' through justifications and employments of wars in the Middle East. [33] The US dollar's influence in the form of increased dealings in global debts and security has multiplied the US's monetary influence and systematically suppressed competition currencies (during the Cold War Years) from Deutsche mark, French franc, British pound/sterling and Japanese yen; and more recently including ruble and yuan. While the US remained successful in enhancing dollar's status and maintained a supply for its industry, which has remained the most advanced; gold gradually had receded as a denomination, in view of the newer modes and mechanisms of economic value. While US's international economic order was structured in such a manner which did not demand gold as store of value; China, since the end of the Cold War had gradually been accumulating a substantial amount of internationally traded gold and according to current estimates [34] holds greater amount of gold as compared to the US.

As a significant shift in post-9/11 era; China has exceeded the US as the biggest oil importer, [35] and appears to emerge as a competitors to petrodollar, especially since June 2017 when China and Russia agreed that

[32] Kegley Jr., and Wittkopf, 227.
[33] Ahmed Ijaz Malik, *US Foreign Policy and Gulf Wars: Decision Making and International Relations* (London: I B Tauris, 2015).
[34] Dominic Frisby, "China Almost Certainly Owns More Gold than Us – Here's Why That Matters," *Money Week*, (3 March 2022), https://moneyweek.com/investments/commodities/gold/603131/how-much-gold-does-china-own
[35] "International Energy Agency, Oil 2018: Analysis and Forecast to 2023," https://iea.blob.core.windows.net/assets/4ac1a454-1a4f-4024-886a-7dc573c8215d/Market_Report_Series_Oil_2018.pdf

oil purchases could be made in yuan[36] this appeared as the evolution point of petroyuan, through which China continues making oil deals with Russia, Iran, Venezuela and Angola. Perhaps emulating the US's efforts of elevating dollar in 1970s; China in March 2018 had set conditions for all trading contracts in oil (as an asset). In future all of China's partners dealing through Shanghai International Energy Exchange require to accept yuan as the standard as well as a yuan's rate to be fixed at the time of the legalisation of the contract; while the same rate to sustain even though the bought and sold asset (oil) may be delivered at a later time. This appears a strategy to enhance yuan's the store of value and perhaps as a new strategy to elevate it as the standard of differed payment (since China being the greatest international holder of gold) these (oil benchmarks) contract/ 'futures' have been backed by gold[37] to give these 'futures' greater security; as in principle of the contract, sellers could claim gold (at any particular stage) for yuan received from China. This also remains an incentive to international oil companies to speculate the amount of oil that may be able to buy annually at an agreed price. Ironically for the US, states that deal in petroyuan are most likely to escape the US sanctions. So China appears to be setting conditions for purchases in oil in yuan and directly relating them to the volume bought and sold and trying to influence Saudi Arabia.[38] If a deal with Saudi Aramco materialises, there will be a tremendous impacts for petrodollar in case Aramco provided oil to the refinery and the payment is made in yuan.[39] Chinese clients will be expected to have more yuans instead

[36] Sumeet Chatterjee, "Exclusive: China Agrees Taking First Step to Pay For Oil in Yuan this Year," *Reuters,* (29 March, 2018) https://www.reuters.com/article/us-china-oil-yuan-exclusive-idUSKBN1H51FA
[37] Damon Evans, "China Sees New World Order with Oil Benchmarks Backed by Gold," *Nikkei Asia*, (1 September 2017) https://asia.nikkei.com/Economy/China-sees-new-world-order-with-oil-benchmark-backed-by-gold Also Rajesh Bhayani, "China to Bring Back Gold in International Settlement with New Oil Futures," September 2017, *Business Standard*, https://www.business-standard.com/article/international/china-to-bring-back-gold-in-international-settlement-with-new-oil-futures-117092500288_1.html
[38] Sam Meredith, "China will 'Compel' Saudi Arabia to Trade in yuan – and That's going to affect the US dollar," *CNBC,* (11 October 2017), https://www.cnbc.com/2017/10/11/china-will-compel-saudi-arabia-to-trade-oil-in-yuan--and-thats-going-to-affect-the-us-dollar.html
[39] "Saudi Aramco Agrees to JV Deals for $10bn Refinery," *Arabian Business,* (22 February 2019) https://www.arabianbusiness.com/industries/energy/413815-saudi-aramco-agrees-chinese-jv-deal-for-10bn-refinery

of dollars[40] and the pattern of global commodity consumption may be expected to move towards a purchase of Chinese commodities and technologies; and similar to the US's earlier experience the surplus will be reinvested in China's real estate, stocks, Sovereign Wealth Funds (SWF) as well as the growing international defence industry which continues to generate profits through extensive dual-embeddedness and reverse-engineering innovations, paving room for further investments, production, sales and surplus creation.[41] However, this will also mean for China to provide equal opportunity and freedom to foreign investors. South Asian states are likely to face tremendous challenges as a result of these new economic dynamics.

While India remains in a beneficial strategic position, having an economic alliance with the US, expanding India's small arms industry and defence related business ties;[42] the possibility of extending trade and geo-economics alliance with China will demand it to include yuan in its dealing with China which will affect its ties with the US. While Pakistan, which already faces a dissonance in relations with the US where it has vocalised concerns about Sino-Pakistan collaboration due to CPEC[43] leading to reaction from China.[44] However, the relative stagnation in Pakistan's collaborative projects with China, primarily CPEC, is more likely to benefit in attracting more investment coming from China and ability to invest in Chinese banking system, regarding Chinese petroyuan backed by gold as well as experiencing an enhanced purchasing ability in Chinese commodity market; and may not suffer tremendous economic costs in fluctuations of the values of Chinese currency as compared to similar fluctuations in dollar.

[40] Henning Gloystein, "Shanghai Crude Futures Eat Into Western Benchmarks as China Pushes Yuan," *Reuters*, August 31, 2018, https://jp.reuters.com/article/china-crude-oil-futures/rpt-analysis-shanghai-crude-futures-eat-into-western-benchmarks-as-china-pushes-yuan-idINL3N1VM2S1

[41] Beraud-Sudreau and Nouwens, 151-177.

[42] Ahmed Ijaz Malik, "Post-2005 US Grand Strategy towards Iraq: From Shock and Consociational Democracy to War against the Islamic State," *IPRI Journal* (Winter 2018) 59-61.

[43] "Ambassador Wells' Remarks on the "China Pakistan Economic Corridor," The Wilson Centre, Washington DC (23 November 2019), https://pk.usembassy.gov/ambassador-wells-remarks-on-the-china-pakistan-economic-corridor/

[44] "Alice Wells' Remarks About CPEC 'Repetition of Old Slander': Chinese Foreign Ministry," *Dawn*, November 26, 2019. https://www.dawn.com/news/1518969

China receives large amount of capital inflows and runs large trade surplus. The depreciated value of renminbi as compared to dollar has been highly significant because the low value of renminbi gives China the competitive advantage, as its exports become relatively cheaper, increasing its trade and the trade surplus (on which China's economy is dependent). Moreover, if the currency 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 a relatively mercantilist policy, selling renminbi and buying the US dollar.[45] Although this may well be regarded among trends in creation of fiat money and engaging in propriety trading,[46] the selling of renminbi increases the supply of it with respect to demand and buying of dollar; in turn, depreciating renminbi and appreciating the US dollar. China is cognisant of the fact that internationalisation of renminbi, to counter the dollar circulation in energy markets can be possible either through the liberalisation of financial market, or through the expansion of yuan denominated oil trade. China has been the largest consumer and importer of energy (crude oil and gas), and has initiated a mechanism to instrumentalise oil purchases in yuan through oil future contracts are the first contracts that allow the direct participation of the international investors.[47] Most pertinently, 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 future contracts are likely to expand rapidly, as in September 2018, 15.9 million barrels per day (mb/d)[48] has already surpassed the Brent Crude oil (UK Benchmark) future contracts volume and mostly likely to overcome West Texas Intermediate (WIT) (US Benchmark) future contracts as well.

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[45] Eswar S. Prasad, *The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance*, (New Jersey: Princeton University Press, 2014) 65.

[46] Ahmed Ijaz Malik, *US Foreign Policy and the Gulf Wars*, 95-96. And Jane D'Arista, *The Evolution of US Finance*, vol. 1 (New York: M. E. Sharpe, 1994) 32.

[47] Maha Kamel and Hongying Wang, "Petro-RMB? The Oil Trade and the Internationalization of the Renminbi," *The Royal Institute of International Affairs*, vol. 95, no. 5, (September 2019) 1133.

[48] Mamdouh G. Salameh, "Will the Petro-yuan be the Death Knell for the Petrodollar?," *USAEE Working Paper* 338, no. 18 (April 2018)1-5, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3157740

By increasing its oil contracts with Russia, Iran, Venezuela and Indonesia in yuan, China has been successful in encouraging Iran to accept trading in yuan thus evading the impacts of the US sanctions that were directed towards hindering Iranian Nuclear Program and its support/assistance to several organisations that had been declared terrorist. The US initiated financial warfare with Iran and severed international banking and payments, debarring Iran to trade in dollar for oil exports. In turn, Iran turned to China for the financial help, initiating new Silk Road and vigorous oil trade with China, mainly in yuan.[49] Iran being a significant player at the cusp of the Middle East and South Asia, in a possible geo-economics and geostrategic alliance with China can create new options (Iran, Pakistan, India pipeline) for Pakistan, India as well as Afghanistan.

Similarly, Russia and Venezuela count themselves as a part of petroyuan sphere, to overcome the sanctions imposed by the US. The imposition of sanction on Russia (after annexation of Crimea in 2014 and Ukrainian Intervention in 2022) and being an influential energy power, Russia has been supporting China to counter petrodollar and appears willing to back the idea of dollar-free international global trade. In addition, the possibility that Saudi Arab and other OPEC members may accept oil sales in yuan to China shall pose a challenge to the US,[50] as according to *Wall Street Journal* (WSJ), Saudi government appears dissatisfied with reinstitution of Iran's nuclear deal by Biden Administration; and dialogue between Saudi Arab and China had begun in March 2022, for oil trade in yuan.[51] This may also serve as a strategy for Saudi Arabia to raise its status as the largest oil exporter; while also countering its oil resource based competition with Russia. In 2020, Russia and Saudi Arabia, despite

[49] Lan Cao, "Currency Wars and Erosion of Dollar Hegemony," *Michigan Journal of International Law,* vol.38, no. 1(2016) 100-101.

[50] John A. Mathews and Mark Selden, "China: The Emergence of the Petroyuan and the Challenge to US Dollar Hegemony," *The Asia Pacific Journal,* vol. 16, no. 3, (April 2018): 1-3, https://apjjf.org/2018/22/Mathews.html

[51] Summer Said and Stephen Kalin, "Saudi Arabia Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales," *The Wall Street Journal*, March 15, 2022, https://www.wsj.com/articles/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541

COVID-19 pandemic, and price cuts, exported 1.7 mb/d to China.[52] Similarly, Russia is expected to deliver coal and crude oil, paid in yuan, in April and May 2022;[53] both having fundamental impacts for the US financial system, dollar maintaining the status of a reserve currency and functioning of Dollar Wall Street Regime.[54] Although the probability of petroyuan to rise appears imminent; majority of Chinese oil trade agreements since 2018 have been bilateral. Consequently, internationalisation of renminbi depends on trade among China and states, which remains limited.

Internationalisation of renminbi faces constraints as China's reserves are still dollar denominated, according to World Bank out of the 3.357 trillion reserves, 3.230 trillion reserves are denominated in dollar and the rest are the gold reserves, thereby increasing its dependence on stability and credibility of dollar. Moreover, the development of financial market in the China has to be the key determinant for renminbi'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 behind the major reserve economies debt market. The low market capitalisation and low GDP in China as compared to the US. China's GDP reported in 2021 is 14.7 trillion dollar, whereas US GDP is 22.7 trillion – twice of China's GDP,[55] owing to the restricted capital flows and rigid/ tightly managed exchange rates. The GDP growth and debt security market are more likely attainable through open capital market and flexible exchange rates.[56] Similarly, China has to make its economy more internationally accessible, as its financial institutions remain rudimentary and essentially closed to the other South Asian states and their financial institutions should be allowed to invest in China with relative freedom. Liberalising the foreign investors' access to

[52] "China's Crude Oil Imports From Saudi up 8.8% y/y in March, UAE Shipments Jump," *Reuters,* April 20, 2021, https://www.reuters.com/business/energy/chinas-crude-oil-imports-saudi-up-88-yy-march-uae-shipments-jump-2021-04-20/
[53] "China Calls Out U.S. Dollar Dominance As It Buys Russian Coal With Yuan," *ZeroHedge*, Oil Price.com, May 1, 2022. https://oilprice.com/Energy/Coal/China-Calls-Out-US-Dollar-Dominance-As-It-Buys-Russian-Coal-With-Yuan.html
[54] Gowan, *The Global Gamble.*
[55] "Gross Domestic Product", *Fred Economic Data,* August 26, 2021. https://fred.stlouisfed.org/series/GDP
[56] Prasad, *The Dollar Trap*, 244.

financial market within China will require the flexible exchange rate to adjust large volume of capital flows.[57] In order to avoid growing debt and financial bubbles, China has diversified its trade, regulated financial growth and surplus, implying that renminbi's international role may be different from the US financial model where open markets and currency convertibility as a prerequisite may not be necessary;[58] instead non-dollar denominated shares of commodities may be created. Through institutionalisation by development of Asian Infrastructure Investment Bank (AIIB, similar to World Bank) and formation of a relatively new bloc BRICS (association of five major emerging economies, Brazil, Russia, India, China and South Africa); China has been striving to gain a status of international economic power and in case of gaining monetary ascendency over US dollar reserves; chooses to shun dollar, this will most likely increase volatility of dollar, reducing its credibility and value, leading to possible capital flight worsening the current global recession. The South Asian states will face a fundamental challenge to negotiate with the existing reality that a major bulk of international bank's reserves remain in US dollar and approximately forty to fifty per cent of all global debts remain to be issued in US dollar.

Conclusion

The primary competing factors among the US and China are oil, internationally traded shares, non-dollar denominated shares of commodities, internationalisation of petrodollar and petroyuan and expanding Chinese international defence industry. The global trends capable of intensifying the role of these factors are lingering global recession (demanding labour, employment and capital spending), climatic catastrophes including recurring global zoonotic epidemics (with China being the one of the epicentres) and the incidents of war (Russia's invasion of Ukraine) with the likelihood of recurrence of conventional wars at Baltic and European theatre (growing tensions between Serbia and Kosovo). This article has explained

[57] Benjamin Cohen, *Currency Power: Understanding Monetary Rivalry*, (New Jersey: Princeton University Press, 2015) 232. And Barry Eichengreen, *Exorbitant Privilege: The Rise and fall of the Dollar and the Future of the International Monetary System* (New York: Oxford University Press) 142.

[58] Jonathan Krishner, "Dollar Diminution and New Macroeconomic Constraints on American Power," in *Sustainable Security: Rethinking American National Security Strategy*, eds., Jeremi Suri and Benjamin Valentino (New York: Oxford University Press, 2016), 16.

the added dynamic to the influence of petrocurrency, where petroyuan has been connected with gold. In addition, the globally expanding is contributing the China's financial as well as strategic influence. It has been argued that these two significant trends are likely to clash with US's global strategic as well as monetary interests with the confrontations likely to lead to armed conflict between the two powers. While the monetary competition between the US and China has been developing over the past two decades; the above mentioned global trends appear to have intensified the interleaved nature of China's monetary as well as defence industry for generating revenues, diversifying production and finding markets for internationally traded shares and weapons. Ironically, China's expanding military industry and the extent of its increasing international influence remains strongly secretive; appearing surreptitious to the US and West, although this does not conceal the fact that China's sound domestic Civil-Military Integration, dual-use of technologies, conversion processes, creation of organisations such as China North Industries Group Corporation (NORINCO) and Aviation Industry Corporation of China (AVIC) display a mutual financial cooperation and revenue generation form civilian as well as military related projects.[59] It is highly likely that China's new pattern of interleaved petrocurrency-geostrategic evolution will conflict with the US's grand strategy and its interests in South Asia, especially its economic, strategic (nuclear) and military (small arms industry) alliance and cooperation with India. In case of heightened military tensions, India may deploy its strategic arsenal along Pakistan and China. As discussed earlier, India will face the challenges in existing alliance with US and possibilities of geo-economics cooperation with China. As also discussed earlier, Pakistan, as well as Iran are more likely to benefit from China's new petrocurrency-geostrategic evolution and see the possibilities of transport and trade corridors materialising and viably supported financially; however, both Pakistan and Iran will face challenges in the form of reactions from the US as well as Saudi Arabia. While Indo-US defence cooperation has revived and expanded, post-US withdrawal from Afghanistan remains unstable and recent war in Ukraine has revived the need for states such as Pakistan to maintain defence through alliances and military support. With the US support to India and China's rising defence industry, Pakistan is more likely to ally with China for its military as well as economic interests. In addition, one of the irritant issues at South East Asian scene is Sino-US confrontation

[59] Beraud-Sudreau and Nouwens, 151-177.

over Taiwan. Taiwan is likely to rise as an irritant between the US and China and has the ability to lead to military confrontation between them. The US's alliance with Japan, South Korea, India, Philippines and Taiwan and the presence of the US military in the region accentuates Sino-US tensions in the region and complicates the issue of Taiwan. President Xi Jinping's 'New Security Concept' suggests a non-allied, non-interventionist, non-confrontational constructive partnership between the South Asian states and has become a fundamental determinant of China's emerging grand strategy.[60] However, China has at the same time occupied South China sea islands including Spartly and Paracel and strategic locations such as Fiery Cross, establishing naval and technological assets and missile systems.[61] Russia's invasion of Ukraine and the West's response shows that the US may not directly engage in case the tensions in Taiwan's case escalate to armed conflict; however, the US and the West offered support to Ukraine against Russia with the aim to primarily weaken Russia, [62] as it was stated by the US Secretary of Defence, Lloyd Austin. In case of China extending its military influence over Taiwan; the US is more likely to respond with military force.

China remains a significant power at the world state and with professed international objectives suggesting the creation of an economically competitive order,[63] an alternative Beijing Consensus[64] and coherent defence industry. While China's appears to have progressed in gaining international geo-economics, geostrategic and monetary influence, this study has concluded that China appears to be on the road to attain an edge in monetary and defence ascendency over US, for which China shall require a revolutionary-innovative transformation to compensate for the deficiencies in monetary and military sphere — transforming the future course of rivalry between the US and China where risks of armed conflict shall be heightened.

[60] Aileen S. P. Baviera, "China's Strategic Foreign Initiatives Under Xi Jinping," *China Quarterly of International Strategic Studies*, vol. 02, no. 01 (2016): 57–79.
[61] Mirza, Hussain, Malik, 93-98.
[62] Missy Ryan and Annabelle Timsit, "U.S. wants Russian military 'weakened' from Ukraine invasion, Austin says," *Washington Post*, 25 April 2022 https://www.washingtonpost.com/world/2022/04/25/russia-weakened-lloyd-austin-ukraine-visit/
[63] John Wong, "A China-Centric Economic Order in East Asia," *Asia Pacific Business Review*, vol. 19, no. 2 (2013): 286-296.
[64] Joshua Cooper Ramo, *The Beijing Consensus* (London: Foreign Policy Centre, 2004).