

Yuan Versus United States Dollar: the Defective Bipolar China–United States Relationship

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Abstract

The chosen currency regime places a state within the international economic order. Therefore, the exchange rate is a key to creating an internal financial system and opening it up to foreign participants. In this paper we would like to show the differences between China and the USA and examine their impact on potential changes on the distribution of power in the international system. We will also try to prove that this field is a missing link in preventing the final launching of a symmetrical bipolar system which will finally force China to accept the rules of a Washington Consensus instead of following its own patterns. The case study method will be used in order to compare market data and assess the role of currencies for the given model.

Keywords: globalisation, power, financial markets, currency regimes

“It doesn’t matter if the cat is black or white, so long as it catches mice” – this famous Deng Xiaoping quote marked the beginning of economic changes in China. It was a step toward the new economic order: two systems in one country. At this time, in the early 1980s, the Chinese GDP per capita placed China amongst the poorest countries in the world – in 1981 it was only 195.6 USD (according to the World Bank data, countries whose annual GDP per capita was on a par with China were Chad, Guinea-Bissau and Uganda) based on World Bank Data for GDP per capita. But after nearly 40 years of constant development, China has significantly moved up to the level of middle income countries. In 2014, Chinese GDP per capita stood at USD 7,590. The scale of improvement can be seen when compared with the data of the above mentioned countries – Chad: USD 1,024.7, Guinea-Bissau: USD 659.5 and Uganda: USD 714.6. But the real level of success can be seen when comparing total GDP changes over this period of time. In 1981 the Chinese GDP stood at 6.01% of U.S. GDP (at current prices). But in 2014 it improved to 59.44%¹ – making China’s economy the second biggest in the world. Summing up – in 40 years China had become the second global economic power. However, the one ‘fly in the ointment’ was the lack of internationalisation of its currency. As shown in Table 1, the Yuan does not play a major role in global foreign exchange turnover. In 2016, the Yuan’s share in the global FX turnover stood at a mere 4%. The gap is especially visible when comparing it with the share of USD (87.6%), Euro (31.4%) and Yen (21.6%). The data shows an increase in the usage of the Yuan, which is attributed mainly to an increased level of offshore trades (Triennial Central Bank Survey, 10).

Table 1. Foreign exchange market turnover by currency and currency pairs, 2010 and 2013 and 2016 (net-net basis, daily averages in April, in per cent).

Selected currencies				Selected currency comparisons			
Waluta	2010	2013	2016	Pary walut	2010	2013	2016
USD	84,9%	87,0%	87,6%	USD/EUR	27,7%	24,1%	23,1%
EUR	39,1%	33,4%	31,4%	USD/JPY	14,3%	18,3%	17,8%
JPY	23,0%	19,0%	21,6%	USD/GBP	9,1%	8,8%	9,3%
GBP	12,9%	11,8%	12,8%	USD/AUD	6,3%	6,8%	5,2%
AUD	7,6%	8,6%	6,9%	USD/CAD	4,6%	3,7%	4,3%

¹ Own calculation based on World Bank Data of GDP per capita in current \$.

CAD	5,3%	4,6%	5,1%	USD/CNY	0,8%	2,1%	3,8%
CHF	6,3%	5,2%	4,8%	USD/CHF	4,2%	3,4%	3,6%
CNY	0,9%	2,2%	4,0%	USD/MXN	bd	2,4%	1,8%
SEK	2,2%	1,8%	2,2%	USD/SGD	bd	1,2%	1,6%
NZD	1,6%	2,0%	2,1%	USD/KRW	1,5%	1,1%	1,5%
MXN	1,3%	2,5%	1,9%	USD/NZD	bd	1,5%	1,5%
SGD	1,4%	1,4%	1,8%	USD/HKD	2,1%	1,3%	1,5%
HKD	2,4%	1,4%	1,7%	USD/SEK	1,1%	1,0%	1,3%
NOK	1,3%	1,4%	1,7%	EUR/GBP	2,7%	1,9%	2,0%
KRW	1,5%	1,2%	1,7%	EUR/JPY	2,8%	2,8%	1,6%
TRY	0,7%	1,3%	1,4%	EUR/CHF	1,8%	1,3%	0,9%
RUB	0,9%	1,3%	1,1%	EUR/CHY	bd	0,0%	0,0%

Source: *Triennial Central Bank Survey. Foreign exchange turnover in April 2016*, Table 2, s. 10, Table 3, s. 11 *Bank for International Settlements*, September 2016. Web. 29 January 2017, <http://www.bis.org/publ/rpfx16fx.pdf>.

Looking back, we can observe the rising importance of the Yuan in international turnover. In 1998, the Chinese currency was ranked 30th, in 2001 – 35th, in 2004 – 29th, in 2007 – 20th, and in both 2010 and 2013 it was 10th (Triennial Central Bank Survey, 8). Although usage of the Yuan has increased over time, the current level of its use proves a local rather than a global character. The data published by BIS on a triennial basis include FX spot transactions and FX derivatives (Triennial Central Bank Survey, 8). The share of FX spot transactions versus derivatives remains generally unchanged over time (in 2010 FX spot transactions stood at 37%, in 2013 at 38%, and in 2016 at 32.6%) (Triennial Central Bank Survey, 10).

The rising economic power of China has been achieved without exposing internal financial markets to international participants. But it raises the question: what kind of bipolarity are we dealing with? The strengthening of the economy in the local and global arena depended on the financial markets of other countries: mainly the United States and Eurozone countries. But the question: how long will this modus operandi not be detrimental to China's economic development or political ambitions? – has become increasingly relevant in the 21st century, especially as the role of the financial aspect of economic life and its increasing complexity has a more significant role than any time before. It seems to be almost impossible for China to operate this way in the future and to be a superpower in a bipolar system.

Table 2. Reserve currencies statistics (export, import and FX turnover) as of 2013

Reserve currencies	Export in \$ bn.	Import in \$ bn.	Share in FX market turnover based on BIS data as of April 2013 (and April 2016)
USD	2 218.98	2 758.33	87% (87,6%)
EUR	4 330.2	3 993.3	33% (81,4%)
JPY	830.34	955.46	23% (21,6%)
GBP	814.74	868.49	11.8% (12.8%)
CNY	2 355.59	2 120.21	2.2% (4%)

Source: *Export of goods and services (BoP, current \$)*, World Bank Data. Web. 3 May 2016; *Import*. World Bank Data. Web. 3 May 2016, <http://data.worldbank.org/indicator/BM.GSR.GNFS.CD>; *Triennial Central Bank Survey. Foreign exchange turnover in April 2016, Bank for International Settlements*, September 2016. Web. 29 January 2017, <http://www.bis.org/publ/rpfx16fx.pdf>

The huge discrepancy between the usage of the U.S. dollar and Chinese Yuan raises the question about the reasons of such a significant disproportion in currency turnovers – especially when comparing the export and import data of these two countries. The turnover of these currencies on the FX markets shows a significant gap: USD covers almost 90% of global foreign exchange turnover while the Yuan has a paltry 2% coverage (keeping in mind that the total turnover equals 200% as it is calculated in currency pairs (Triennial Central Bank Survey, 10). There are other questions too: Why is China, as an economic power, slowing the process of currency internationalisation? Why does China strive for having the Yuan among the reserve currencies at the same time? What are the goals of Beijing? Is the path of the Beijing Consensus a real alternative to the Washington Consensus or just a path to it?

Jeffrey A. Frieden has described the importance of the foreign exchange rate:

the exchange rate is the most important price in any economy, for it affects all other prices. The exchange rate is itself set or strongly influenced by government policy. Currency policy therefore may be a government's single most significant economic policy [...]. Currency policies have both benefits and costs, and create both winners and losers [...]. Currency politics reflects the importance of the mass-consumer public, role of elections, organisation of economic groups, power of particular interests, time horizons of voters and politicians, and the responsiveness of political institutions to pressures along with virtually all other features of a national political economy (Frieden, pp. 1–3).

For the CPC, the FX policy is the source of power and the main tool allowing rulers to govern the country (when properly used). The efficiency of an exchange rate becomes a political tool rather than a purely economic one in an authoritarian system. And it's also a field in which the game between rulers and voters

takes place. The currency policy in China is rooted in the political development of the late 1980s and early 1990s. The Tiananmen Square protests, the fall of the Soviet Union, the changes in the political order in Eastern Europe were all characterised by the protest against or collapse of one-party states (Halper, 140–43). The collapse of the Soviet Union became the most relevant case study for CCP leaders. The findings were presented to the CCP leaders in the mid-1990s. The dogmatic ideology, the non-active party members and an isolated, non-competitive economy were highlighted as the most important causes of the Soviet Union's collapse (Halper, 142).

Such findings have helped to articulate the priorities of China's political system and strengthened the legitimacy of the Communist Party of China's (CPC) transformation. In 2000, as a result of the transformation of priorities, President Jiang Zemin presented the Three Representation Theory, which was officially accepted by the 16th National Congress of Communist Party of China in 2002 (Zemin).

Jiang Zemin promoted the view that the CPC should learn to represent such interest groups as (Halper, 145):

- the creative forces of society – intellectuals, students, and private sector entrepreneurs,
- a developed contemporary culture,
- the interests of the vast majority of society.

The increasing productivity of the domestic economy and constant growth of exports were vital factors in achieving these new goals. Another factor that was regarded as key to future success was the exchange rate.

Currency policymakers face two interrelated choices: the exchange rate regime and the level of the exchange rate. Although the decision-making process appears to be simple as it only requires making two choices (Frieden, 2):

- choosing between a fixed or floating rate,
 - choosing between currency appreciation or depreciation,
- its consequences affect almost every member of society.

The variety of choices among the currency regimes (Table 3) and the political decisions about the goals which should be supported by a given currency regime does not make the final decision easy. Both fixed and floating regimes have their pros and cons.

The interaction between the voters and the currency regime also goes through a monetary policy channel. The level of inflation will influence the real value of savings on the one hand, but also the cost of credit on the other. These transformation channels (FX rate and monetary) support one group of voters but have an adverse impact on other groups. The complexity of this political choice comes from the existence of a trilemma which says that only two out of the following three are possible: financial integration, a fixed exchange rate, and monetary policy independence (Frieden, 5–7).

Table 3. Brief characteristics of different currency rate regimes based on the classification of Atish R. Ghosh, Anne-Marie Gulde, Holger C. Wolf.

Currency Regime	Main Characteristic
Dollarization	A foreign currency is used as legal tender. Monetary policy is delegated to the anchor country.
Currency Board	The exchange rate is pegged to a foreign currency, with the regime and parity enshrined in law [...].
Monetary Union	A group of countries which uses a common currency issued by a common regional central bank.
Traditional Peg	The exchange rate is pegged to a fixed par value to a single foreign currency or to a basket of currencies [...].
Crawling Peg	The exchange rate (fixed) is determined in a rule-based manner, typically adjusting to a predetermined rate or as a function of inflation differential.
Band	Exchange rate is allowed to fluctuate within a certain range. Endpoints are defended through interventions [...].
Float with discretionary interventions (managed floating)	Exchange rates are free to move according to supply and demand. Authorities may intervene but are not bound by any intervention rule [...].
Pure Float	The FX rate is determined in the FX market based on daily supply and demand, and generally without official interventions.

Source: Ghosh, Atish R., Gulde Anne-Marie, Wolf, Holger C., *Exchange Rate Regime. Choices and Consequences*. Cambridge: The MIT Press, 2003, pp. 40–41.

When the economic prescriptions – known today as the Washington Consensus – were formulated in 1989 (Halizak, 23–25), only a small percentage of countries (less than 10%) have implemented the floating rate regime (Table 4). In addition, the knowledge of and studies on floating regimes in practice were not as broad and deep as they are today.

Table 4. *De jure* classification of exchange rate regimes 1970–1999 (in % of total observation).

Currency regime	1970–1979	1980–1989	1990–1999
Hard Peg	84.8%	68.4%	46.6%
Soft Peg	11.0%	22.5%	26.4%
Floating	4.3%	9.1%	27%

Source: Ghosh, Atish R., Gulde Anne-Marie, Wolf, Holger C.. *Exchange Rate Regime. Choices and Consequences*, New York: The MIT Press, 2003, p. 45.

25 years later, the picture is different. In 2014, the hard peg was adopted by 13.1% of countries, the soft peg was adopted by 43.5% of countries with the floating regime being implemented by 34.0% of the countries and 9.4% of the countries using other

(mix) types of currency regimes (Annual Report on Exchange Arrangements and Exchange Restriction 2014, 8). This evolution illustrates the growing popularity of both floating and soft regimes over hard peg regimes. It should be noted that the floating regime has been adopted in the most developed economies – such as Australia, Great Britain, Canada, Chile, Japan, Mexico, Norway, Poland, Somalia, Sweden, United States of America and the EMU countries (Annual Report on Exchange Arrangements and Exchange Restriction 2014, 7).

The roots of the Washington Consensus reform package are directly linked to the Brady Plan (Williamson, 15). The plan, which takes its name from U.S. Treasury Secretary Nicholas F. Brady, was designed to address the debt crises problem of developing countries, (IMF and Emerging Markets. *Five Fat Years: Recovery from the Debt Crises 1990–1994*, 411). The plan was mainly dedicated to Latin American countries but was finally adopted to solve the government debt of other heavily indebted countries like Bulgaria, Costa Rica, Dominican Republic, The Philippines, Ivory Coast, Jamaica, Jordan, Yugoslavia, Croatia, Hungary, Morocco, Nigeria, Panama, Rumania, Poland and Slovenia (IMF and Emergin Markets. *Five Fat Years: Recovery from the Debt Crises 1990–1994*, 414–415). The policy, adopted by so many countries, has quickly gained international status.

In 1989, as the political conditions in Eastern Europe and the Soviet Union were changing rapidly, the People’s Republic of China was on a cautious path to a better economic future. External fluctuations helped to smooth the changes in China, especially regarding the internal stability of the country. The scale and complexity of new challenges resulted in the country designing its own plan of strategic development, dubbed the Beijing Consensus. This long-term plan was consistent with the Chinese path of changes and the values described in the Book of Changes. For a thousand years, the Chinese have seen changes as a long term and very smooth process which stems from the culmination of changes between ying and yang forces (I-Ching, 23). The theory of the *Three Represents* expresses a Chinese way toward the social and economic change of the entire civilisation. Based on the mono-party system, it takes care to better the lives of the majority of society instead of promoting only selective groups of voters (as happens in democratic societies).

The differences in economic priorities exist in many countries, but the macro-economic and financial processes are based on the same principles. The CPC had adopted its own vision of development, but already in 2010 Yang Yao noted that the Chinese economy was founded on the neoclassical economic theory (Yao). Yao stressed that more than 80% of public companies have been privatised or listed on the stock exchange, public expenditure for redistributive purposes is minimized in order to control inflation with the largest part of budget spending supports infrastructural projects (Yao).

The Chinese economy is one of the world’s top two economies. As such it is crucial for global growth. But contrary to its economic importance, the Chinese

financial infrastructure is local more than global (in BIS statistics, the Yuan has been classified as an emerging market currency (BIS Triennial Survey, 4)). The main reason lies in the chosen currency regime and lack of internationalisation of the Yuan (Annual Report on Exchange Arrangements and Exchange Restriction 2014, 8). Despite the current status of the Yuan-denominated system, strategic development can be observed in the following areas:

- a constant development of internal financial markets and their internationalisation in the long run;
- the development of China’s network of financial connections on a global scale;
- marketing activity stressing the importance of the Chinese in financial fields.

The Chinese domestic financial system consists of a wide range of financial markets such as: the FX market (including CNY FX spot, FX forward and FX swaps transactions), the credit market (based on SHIBOR quotations), bond market and stock exchanges. Such an infrastructure is typical for the capital economy where the prices of financial instruments and assets are prone to volatile and rapid changes caused by economic data or politics, despite the will and expectations of CPC leaders. In the summer of 2015, a 30% drop of equity prices triggered CSRC action to freeze prices for half a year despite the fact that more than 80% of equity belonged to individual investors (China Daily/Reuters).



Chart 1. Shanghai Index Quotation: January 2013–December 2016
Source: SHCOMP Equity [Go], Bloomberg [access 14.02.2017]

Despite the administrative steps taken against market participants, the CSRC injected USD 32.21 billion into newly launched mutual funds with a simple strategy: to buy equities on market dips in order to stabilise the market (China Daily/Reuters). After the first lock-up period equities dropped yet again (Chart 1) bringing about a permanent ban on the sale of equities for all sellers classified as big investors (Hughes, Wildau). Such administrative measures run contrary to the concept and purpose of financial markets. Such solutions may work in the short run, but in the long term they are very costly for the whole economy. If China wants to have a healthy and efficient financial infrastructure, it has no other choice but to follow the Washington Consensus patterns in the future.



Chart 2. USD/CNY (juan on shore): January 2013–December 2016
 Source: CNY Currency [GO], Bloomberg [access 14.02.2017]

Establishing its own international financial institution system has become another and more secure method of increasing China’s influence. This strategy recalls United States activity when creating the Breton Woods system. Recently China has established the New Development Bank (in 2014) and the Asian Infrastructure and Investment Bank (in January 2016) (What is the AIIB?) which has been very positively evaluated by experts from the Centre for Strategic and International Studies due to the scale of financial needs – USD worth 3.7 quintillion on a yearly basis (Runde, Savoy, Rice, 4), and the participation of Germany and Great Britain despite

the lack of involvement of the USA and Japan (Runde, Moser and Nealer 6). The future may see the Chinese financial network acting as a counterbalance to the power of western institutions such as the IMF and the World Bank.

The idea of creating the Chinese Yuan offshore market (CNH) and the pressure to achieve reserve-currency status by the Yuan onshore market (CNY) smack of marketing activities rather than a step towards financial development due to the Chinese currency’s lack of full convertibility.



Chart 3. USD/CNH (Yuan offshore): January 2013–December 2016
 Source: CNH Currency (GO), Bloomberg [access 14.02.2017]

The offshore Yuan market was launched in Hong Kong back in 2004 (Hong Kong Monetary Authority, 5). Singapore, London and New York became the next financial centres with the highest offshore Yuan turnover. The offshore market works 24 hours a day while the onshore market works from 4.30 a.m. to 6.30 p.m. The longer trading hours for the offshore Yuan create an impression of independence and easy access (contrary to the onshore market). Although discrepancies do exist, in practice the correlation is strong and comes via a conversion mechanism (Funke, Shu, Cheng and Eraslan, 9–10). The data of the Triennial Central Bank Survey of foreign exchange (where the turnover of the onshore market and offshore market is treated as one) shows that trading on both markets is rather small (but rising) when compared to the usage of USD (Table 1) or the value of exports.

In 2015, the IMF agreed to incorporate CNY into the basket of international reserve currencies. This was possible because the Yuan would be used as a unit of accounts backed by the economic power of China, and not by its usage in international financial markets. This is illustrated by the new structure of Special Drawing Rights (SDR) composition (Table 5). The share of USD remained almost unchanged (41.73% vs. 41.9% before) with the biggest reduction affecting the Euro, whose share dropped from 37.4% to 30.93%.

Table 5. The structure of the SDR basket

	Before 1.10.2016	Since 1.10.2016
USD	41.9%	41.73%
EUR	37.4%	30.93%
CNY	-	10.92%
JPY	9.4%	8.33%
GBP	11.3%	8.09%

Source: *Special Drawing Rights (SDR)*. IMF Factsheet. Web. 3 May 2016, <http://www.imf.org/external/np/exr/facts/sdr.htm>

The dominance of the USD (in both market turnover and SDR structure) shows the leading role of the dollar as the global reserve currency. A study of the Canadian dollar offers some interesting findings. Formally the CAD does not play a role as an official currency reserves unit but it does so in practice (as shown in Table 6).

Table 6. Structure of the Allocated Foreign Exchange Reserves – world level aggregation

Currency	USD	EUR	GBP	JPY	CAD	AUD	CHF	inne
2000	71.12%	18.29%	2.75%	6.06%	na	na	0.27%	1.49%
2010	73.81%	25.71%	3.93%	3.65%	na	na	0.13%	4.42%
2015	64.16%	19.73%	4.85%	3.63%	1.87%	1.92%	0.28%	3.16%
Q3 2016	63.28%	20.29%	4.5%	4.48%	2.0%	1.94%	0.20%	3.30%

Source: *IMF Data: Currency Composition of Official Foreign Exchange Reserves (COFER)*. <http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>

United States government bonds are often called *safe haven assets*. Financial institutions buy them as a hedge against risk in any type of global political uncertainty, dubbed as the *flight to quality* strategy. *Safe haven* status is based on the long term *track record* of a currency and comes from the subjective perception of various market participants (financial institutions or private investors). Such a status may only be attained by testing market liquidity and accessibility to it, and can never be achieved via administrative decisions. To illustrate this the USD is the most liquid

and secure currency in the world. As long as the Yuan is not fully and freely convertible, the financial markets will continue to be unipolar.

The assets of a given country are kept in the accounts of this country. From an operational point of view, dollars and dollar denominated assets are kept in the USA and cleared by the Federal Reserve. Chinese currency reserves are mainly denominated in U.S. dollars, which may be frozen if war broke out. But even without this worst-case scenario – especially that the selected default of U.S. Treasuries is very unlikely from a formal point of view (Eichengreen 2005, 16), the domination of the dollar is indisputable and confirmed by the BIS data (Table 1). What could bring about changes to the current state of affairs?

In order to achieve a status similar to the Dollar, the Yuan needs to gain full convertibility and ultimately become a free-floating currency. But these two decisions are fundamental issues for Chinese economic policy. Are the Chinese leaders ready for such changes? Do they comply with Xi Jinping's targets? Gideon Rachman sees a new and radical direction in Xi Jinping policy – called *the great rejuvenation* of the Chinese nation (Rachman, 7). Before Xi Jinping, China followed Deng Xiaoping's path of encouraging collective leadership as exports and investment headed toward double digit growth and foreign policy utilised the *right momentum strategy* instead of active diplomacy (Rachman, 7). Xi Jinping's vision of his own leadership and his goals for the future are different. It is based on utilising his strong personality and strengthening his own role in governing the country. In terms of the economy, he promotes internal consumption rather than exports. In foreign policy, he sees China as an active player that is able to face down the dominance of the USA in the Asia and Pacific Region (Rachman, 7). Does the new policy require changes in China's currency policy?

Manuk Ghazanchyan, Janet G. Stotsky and Qiangian Zhang's analysis shows that China together with other countries such as Bangladesh, Bhutan, Brunei, Fiji, Laos, Maldives, Burma, Nepal, Singapore and Vietnam didn't implement the floating currency regime in the years 1980–2012 (Ghazanchyan, Stotsky and Zhang, 31). But at the same time, they experienced economic growth led by private and public investments, despite not having a free floating currency. Growth was also supported by low financial risk and high FDI inflow. The study shows that on the one hand the free-floating currency regime helps to speed up growth. However, current account liberalisation may have a negative impact during periods of currency crises (Ghazanchyan, Stotsky and Zhang, 20).

If the currency regime is not the key driver of GDP growth and new Chinese goals support internal consumption and stable economic growth, which currency regime supports such goals? The analysis of Masahiro Kawai and Shinjina Takagi shows that the prevention role of currency policy plays an increasingly important role in discussions about suitable currency regimes for developing countries (Kawai, Takagi, 267). The stabilisation effect of a currency regime attracts the same attention

as other aspects of economic policy such as the development of international trade, a policy to attract FDIs or to support economic growth (Kawai, Takagi, 267). These discussions not only take place in Beijing but in Washington as well.

Operationally and formally China seems to be very close to fulfilling all of the requirements necessary to implement a free-floating currency regime and complete liberalisation of its current and capital accounts (Duttgupta, Fernandez, and Karacadag, 28). In order to prepare the economy for full openness, the currency policies of leading export countries have been carefully analysed by academic society in China. Japan and Germany are two favourite subjects of such analyses. In 2015, based on their macroeconomic and monetary experience, the China Development Research Foundation issued a report on the preferable currency regime for China (Bin, 222–242). The recommendation leans toward the implementation of a free floating regime (Bin, 242) with any changes being introduced smoothly and fully controlled by the Beijing authorities. Eventually this should result in a gradual strengthening of the Yuan against different currencies (and not only against the USD). These changes would mean acceptance of the Washington Consensus rules in the future.

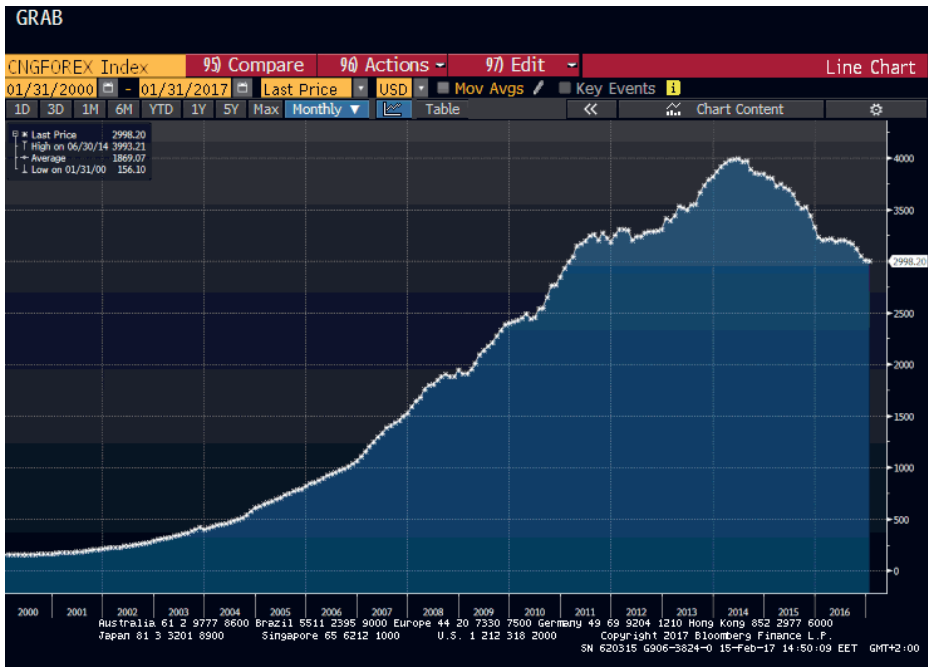


Chart 4. Foreign Currency reserves in China 2000–January 2017
 Source: CNGFOREX Index (GO), Bloomberg [access 14.02.2017]

It seems that the target (a free-floating regime) was set and agreed as a long term strategic target. But this strategy has to confront market realities. In January 2017, the China foreign currency reserves dropped below the three trillion dollar level. This meant that the country's foreign reserves had dropped by 25% in just two years (Chart 4). Reserves had peaked in September 2014 when they stood at almost 4 trillion USD. This sharp drop in foreign reserves triggered a government reaction in the shape of an official restriction against dollar purchases and transfers abroad (the measures also affected FDIs which had always been treated as one of the flagships of the Beijing Consensus path of development (Wildau, Sanderson, Hornby). This happened a mere two months after the Yuan's entrance into the basket of official reserves currencies. The changes on the FX market, stock exchanges, and the trends in currency reserves illustrate that financial markets follow Washington consensus patterns.

As was mentioned before, the currency policy is one of the most important government policies regarding their electorate.

For China, the challenges lie in the structure and origin of the international financial architecture. The financial system has mainly been designed by the USA after World War Two. China is forced to act within this system while designing its own system in order to comply with the internal policy of the CPC. This dichotomy creates tensions on many levels.

The scale of administrative interventions after the selloff on the stock market in 2015 shows that the party is not satisfied with the turbulence caused by the financial markets which have been directly criticised by official party policy. But market volatility and financial crises are integral parts of the financial market's behaviour. They may lead to the changes of the ruling party in democratic countries if they are not solved successfully. Yet this scenario cannot take place in China. Xi Jinping's goals do not leave space for financial turmoil, which would almost certainly take place after implementation of a free-floating regime. But without such a test the Yuan cannot replace the Dollar as the most liquid and secure currency in the world. It cannot at present reach a similar level of utilisation in different financial functions which the US Dollar now serves. This status can only be attained by convincing the participants of financial markets (politically and economically independent) through the conducting of a long term transparent, predictable and successful economic policy. And finally, by following the Washington Consensus rules. The findings of Barry Eichengreen, Livia Chitu and Arnauld Mehl show that in this post-Breton Woods era the interaction and credibility of conducted policy play a more important role (Eichengreen, Chitu, Mehl, 19–20) as demonstrated by the statistical data regarding the US Dollar's dominance in the global financial system. If such a test does not take place, economic bipolarity will prove elusive in the financial market sector.

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