China continues to seek move away from US dollar

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China is continuing to chip away at dollar dominance of the global financial system and is seeking to enhance the role of its currency, the renminbi (yuan), by easing restrictions on its movement and by touting a major expansion of its internal market that will prove attractive to foreign investors.

These were the central themes of an address by Chinese Premier Li Qiang to the World Economic Forum's (WEF) summer meeting—sometimes referred to as the "summer Davos"—held in the north China city of Tianjin this week.

While not directly referencing the US and the actions of the Trump administration, Li said China would "open its doors still wider to the world," and warned of the "fragmentation" of global supply chains, casting China as a stabilizing force in the global economy.

He said policymakers were growing the nation "into a mega-sized consumer powerhouse on top of its solid foundation as a manufacturing power," and this would bring "vast markets to enterprises from all countries."

While there were a host of trade frictions, China would "move forward steadily and continue to inject more stability and certainty into the world economy" as he called on "all parties to avoid the politicization of economic and trade issues."

"Economic globalization will not be reversed; it will only carve out a new path. We will further integrate and connect with the global market," he said. "We will not and shall not return to closed off and isolated islands."

One of the aspects of this closer integration is the push by China for greater use of the renminbi, rather than the US dollar, in its international trade and financial transactions. The increased use of the Chinese currency has long been an objective of Beijing.

But as Bloomberg noted in a recent article, "what sets the latest push apart is timing: Chinese policymakers see erratic US decision-making and geopolitical tensions as the most favorable backdrop in years to promote the yuan."

The address by Li came a week after a speech by the governor of China's central bank, Pan Gongsheng, at a major economic forum at which he called for a "multi-polar" currency system in which "sovereign currencies coexist and compete with checks and balances."

His remarks were made a day after European Central Bank president Christine Lagarde had advanced the perspective for a "global euro" moment in an op-ed piece in the *Financial Times*—another expression of the push to move away from dollar dominance.

One of the barriers to an increased international role for the renminbi has been Chinese restrictions on capital flows. But steps are being taken to ease some of them. While they are far from turning the Chinese financial system into what would be required for the renminbi to function at the level of the dollar or even the euro, they do represent important moves.

These include easing capital controls, expansion of cross-border payment systems, and the development of new financial products that can attract foreign investors.

As Lynn Song, the chief Greater China economist at UNG Bank, told Bloomberg: "The measures to further integrate China with the global financial system feel like steps in the right direction, as China wants to make sure that the yuan is in the conversation of important global currencies."

But there is much further to go as Morgan Stanley economists pointed out in a recent note. "On the fundamental level, wider international use of the yuan rests on a robust economy and further progress in capital account convertibility."

Here the government faces two issues—boosting the domestic economy and the fear that if financial controls are loosened too much, there will be a shift of money out of the country causing destabilization.

Nevertheless, there is a palpable shift towards increased use of the renminbi and away from the dollar.

China's Cross Border International Payments System (CIPS), launched by the central bank ten years ago to facilitate cross-border payments with China outside the dollar framework, is steadily expanding to include more foreign banks, and extending to the Middle East, Central Asia, Africa and Singapore.

The CIPS system is becoming more attractive because of the decisions of the US to use its control of the dominant SWIFT international payments system to impose sanctions—the most graphic example being the sanctions imposed on Russia at the start of the Ukraine war.

Another source of tension is the push by the US to coerce countries through the use of tariff measures to start cutting their economic ties with China, to which Li referred in his speech.

"Some countries and regions," he said without directly naming the US and to some extent the European Union, "have interfered in market activity in the name of de-risking."

Bans on the use of technology are another aspect of the US-led push against China, and Li emphasized that "China's innovation is open and open-source." Noting that DeepSeek and Alibaba had made their large language models for artificial intelligence available around the world, he said, "We are willing to share indigenous technologies."

Remarks by other participants at the WEF summer meeting pointed to the enormous disruption resulting from the actions of the Trump administration, particularly regarding investment decisions.

Speaking during a panel section, Victor Lap-lik Chu, CEO of a Hong Kong-based investment firm, said: "If you were to build an additional plant today, you can't price your investment because you don't know what the actual pricing will be three or four years down the road. And there are feelings that if you invest in certain countries, you'll get pressure from other governments."

Even before the Trump economic war, global investment was declining, with a UN agency reporting that foreign direct investment fell by 11.5 percent in 2024 after dropping the previous year.

The Italian deputy minister for Enterprise and Made in Italy, Valentino Valentini, said the trade conflict raised geopolitical risks. He claimed the US was using tariffs as "a source of income in order to compensate for very heavy debt."

"In a geopolitical situation, that's really bad. A very famous French economist from the last century said, 'Where goods do not cross the border, armies do cross borders.' Given the current situation, we can't accept that."

On the other side of the world, the mounting US debt, which is one of the chief factors undermining confidence in the dollar and the efforts to shift away from it, are very much at the center of the conflict over Trump's "big, beautiful budget."

The Congressional Budget Office has said the version of the bill by the House would lift US debt by $2.4 trillion by 2034. The White House Council of Economic Advisers has claimed there would be a reduction of debt because of the growth stimulated by tax cuts.

Opponents of the budget from the Republican side want deeper cuts in spending on entitlements than those already provided for.

Their views were summed up by Wisconsin Republican Senator Ron Johnson last week: "What we're concerned about is an acute debt crisis. What we're trying to avoid is global creditors looking at the United States and saying you're a credit risk."