


THE FUTURE OF THE DOLLAR IN LIGHT OF THE RISING ECONOMIC CAPACITY OF CHINESE TRADE

Taib Othman Abdurrazaq^A, Aysar Y. Fahad^B



ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 03 April 2023</p> <p>Accepted 04 July 2023</p>	<p>Purpose: This research deals with the major changes in trade balances between large countries, especially between the United States and China, in light of the continuous increase in the capabilities of the Chinese economy. This was reflected in the exchange value of foreign currencies to reflect this shift in economic balances. The aim of this study is to examine the relations between the rise of the Chinese economy and its currency, the Yuan, and the possible decline in the international dealings of the dollar.</p>
<p>Keywords:</p> <p>International Economic Relations; International Financing; Chines Economy; US Economy.</p>	<p>Methodology: The analytical descriptive approach was adopted to analyze the relationship between the increasing capacity of the Chinese economy and the decline in financial transactions in the US dollar.</p>
	<p>The theoretical framework: This research will deal with shifts in the economic balance of power by presenting an analysis of the reality of both the United States and China and analyzing the dimensions of this shift on the overall international relations between different countries.</p>
	<p>Findings: The results of this research the fact that the volume of trade competition between the United States and China has increased, and despite the importance of sound economic policies that support international competitive advantage, the role of comparative advantage achieved by the abundance of factors of production is no less important than improving the country's commercial performance.</p>
	<p>Research practical and social implications: The research is of great importance by showing the size of the relationship between the future of the dollar in commercial dealings with it and the rise of the Chinese economy and the conditions it will impose among all countries dealing in dollars.</p>
	<p>Originality/value: The research has great that it analyzes changes in the contemporary international balance of power with the emergence of new international trade powers.</p>
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O FUTURO DO DÓLAR À LUZ DA CRESCENTE CAPACIDADE ECONÔMICA DO COMÉRCIO CHINÊS

RESUMO

Objetivo: Esta pesquisa trata das principais mudanças nos saldos comerciais entre grandes países, especialmente entre os Estados Unidos e a China, à luz do aumento contínuo das capacidades da economia chinesa. Isso se refletiu no valor de câmbio das moedas estrangeiras para refletir essa mudança nos saldos econômicos. O objetivo deste estudo é examinar as relações entre o crescimento da economia chinesa e sua moeda, o Yuan, e o possível declínio nas negociações internacionais do dólar.

^A PhD in International Economics. Assistant Professor. College of Business Economics, Al-Nahrain University. Baghdad, Iraq. E-mail: dr.taib@ced.nahrainuniv.edu.iq Orcid: <https://orcid.org/0000-0002-0784-3700>

^B PhD in International Economics. College of Administration and Economics, Al-Iraqia University. Baghdad, Iraq. E-mail: aysar.fahad@aliraqia.edu.iq Orcid: <https://orcid.org/0000-0002-8993-8462>

Metodologia: Foi adotada a abordagem analítica descritiva para analisar a relação entre a capacidade crescente da economia chinesa e o declínio das transações financeiras em dólar americano.

Estrutura teórica: Esta pesquisa tratará das mudanças no equilíbrio econômico de poder, apresentando uma análise da realidade dos Estados Unidos e da China e analisando as dimensões dessa mudança nas relações internacionais gerais entre diferentes países.

Conclusões: Os resultados desta pesquisa mostram que o volume da concorrência comercial entre os Estados Unidos e a China aumentou e, apesar da importância de políticas econômicas sólidas que apoiem a vantagem competitiva internacional, o papel da vantagem comparativa obtida pela abundância de fatores de produção não é menos importante do que melhorar o desempenho comercial do país.

Implicações práticas e sociais da pesquisa: A pesquisa é de grande importância por mostrar o tamanho da relação entre o futuro do dólar nas negociações comerciais com ele e a ascensão da economia chinesa e as condições que ela imporá a todos os países que negociam em dólares.

Originalidade/valor: A pesquisa tem grande valor por analisar as mudanças no equilíbrio de poder internacional contemporâneo com o surgimento de novas potências comerciais internacionais.

Palavras-chave: Relações Econômicas Internacionais, Financiamento Internacional, Economia Chinesa, Economia dos EUA.

EL FUTURO DEL DÓLAR ANTE LA CRECIENTE CAPACIDAD COMERCIAL DE CHINA

RESUMEN

Propósito: Esta investigación aborda los grandes cambios en las balanzas comerciales entre los principales países, especialmente entre Estados Unidos y China, a la luz del continuo aumento de las capacidades de la economía china. Esto se ha reflejado en el valor de cambio de las monedas extranjeras para reflejar este cambio en las balanzas económicas. El objetivo de este estudio es examinar las relaciones entre el crecimiento de la economía china y su moneda, el yuan, y el posible declive del comercio internacional en dólares.

Metodología: Se ha adoptado un enfoque analítico descriptivo para analizar la relación entre la creciente capacidad de la economía china y la disminución de las transacciones financieras en dólares.

Marco teórico: Esta investigación abordará los cambios en el equilibrio de poder económico presentando un análisis de la realidad de Estados Unidos y China y analizando las dimensiones de este cambio en las relaciones internacionales generales entre distintos países.

Conclusiones: Los resultados de esta investigación muestran que el volumen de la competencia comercial entre Estados Unidos y China ha aumentado y, a pesar de la importancia de unas políticas económicas sólidas que apoyen la ventaja competitiva internacional, el papel de la ventaja comparativa obtenida por la abundancia de factores de producción no es menos importante que la mejora de los resultados comerciales de un país.

Implicaciones prácticas y sociales de la investigación: La investigación es de gran importancia al mostrar la magnitud de la relación entre el futuro del dólar en las negociaciones comerciales con él y el auge de la economía china y las condiciones que impondrá a todos los países que comercian en dólares.

Originalidad/valor: La investigación tiene gran valor para analizar los cambios en el equilibrio de poder internacional contemporáneo con la aparición de nuevas potencias comerciales internacionales.

Palabras clave: Relaciones Económicas Internacionales, Finanzas Internacionales, Economía China, Economía Estadounidense.

INTRODUCTION

Background

Nearly 50 years after the US ended the Bretton Woods system, the dollar remains the world's dominant currency. Today, the dollar is used in nearly 85% of all foreign exchange transactions. Nearly two-thirds of all reserves held by central banks are in dollars. The definition of global reserve currencies indicates that they are those currencies that dominate the basket of other currencies that make up central bank

reserves of foreign currencies, and are widely used outside their countries of origin in physical transactions, as well as by international financial markets in contracts, trades and financial instruments. A large number of countries also link their currency exchange rates to those global reserve currencies.

Since the beginning of international trade and finance, there have been three global reserve currencies: the Dutch guilder, which prevailed during the period from the seventeenth to the early nineteenth century, the British pound sterling, which prevailed in the nineteenth and early twentieth centuries, and then the US dollar, which gained dominance after World War II.

The superiority of the dollar protects the US economy from shocks originating abroad. Regardless of the state of the global economy, the dollar is seen as an attractive investment. When the US economy is strong, investors pump money into the US market, which increases demand for the dollar and boosts the currency's position. Indeed, when the global economy is weak or its outlook uncertain, investors also pour money into the US market, which in turn leads to an appreciation of the dollar. The strong position of the dollar insulates US consumers from the volatility of global markets and protects their standard of living.

The reason of this research comes from the rise of the Chinese economy is of great importance at the global level, and the growing importance of the Chinese currency (the yuan) is in line with the importance of the Chinese economy. China is the only major economy in the world that did not contract. Data from the Chinese Bureau of Statistics showed an economic recovery that exceeded analysts' expectations in the fourth quarter of last year, with a growth rate of 6.5% on an annual basis.

Approach of the Research

The research Justification: The rise of the Chinese economy has become a realistic reality that may make it the first economy in the world after a few years, and this entails a weakening of the status of the US economy and its currency, the dollar, which is the first currency in the world. **The importance of the research:** The importance of the current research stems from its role in explaining the relationship and connection between the future of the dollar and dealing with it, the rise of the Chinese economy and the conditions it imposes among all countries. **The research hypothesis:** There is an inverse correlation between the rise of the strength of the Chinese economy

and the Chinese currency, the yuan, in international transactions, and its trading volume, with the status of the US dollar and its global circulation. **The Objective of the research:** Knowing the relationship between the rise of the Chinese economy and its currency, the yuan, and the possible decline in the international dealings of the dollar. **Research Methodology:** The inductive approach and the analytical descriptive method were adopted. **Research Structure:** The research was divided into two chapters and a conclusion, the first chapter dealt with the US economy and the dollar and its global importance. It included two chapters, the first about the US economy and its global importance, the second about the dollar and its global importance, and the second chapter dealt with the Chinese economy and its global role in two chapters, the first about the Chinese economy and its importance, the second chapter about the Chinese yuan and its value, and the third chapter about the future The dollar in light of the rise of the Chinese economy, and then the conclusion and sources.

METHODOLOGY: THE US ECONOMY AND THE DOLLAR (IMPORTANCE AND GLOBAL ROLE)

The American Economy and its Global Importance

First: the development of the American economy

The United States of America dominated the global stage for at least half a century and still has a tangible and prominent presence in the world. Its gross national product (GNP) was (7690) billion dollars in 1998. It is the internal base for most transnational companies and the interface for global political decision-making such as the United Nations and the International Monetary Fund. the World Bank, and the World Trade Organization. Its large population makes it the third most populous country after China and India, as it exceeds (275) million people, and the working population reaches 134 million, characterized by high productivity. As for its productivity, the American per capita share reaches (30) thousand dollars in goods and services, (Schiller, 2000, 32), but the evidence and indicators show that the United States of America is moving towards decline despite the manifestations of global leadership. as a third economic group. As a result of the continuing link between developing countries and developed countries in terms of the division of labor, developing countries continued to be exposed to the influence of the laws of the capitalist system and to be affected by its fluctuations (Najmuddin, 30, 2014).

The American economy has emerged as a dominant force in the global economy, and the United States of America has used this strong position to create an international political and economic alliance based on the help of Germany and Japan, and in an attempt to bring about rapid growth in Western Europe and in East and Southeast Asia, to confront the Soviet and Chinese threats and with the onset of a decline The Soviet economic performance in the late sixties, a new economic challenge began to appear in East Asia in the form of cheap, high-quality export commodities, which began to flood the American market, and threatened to create a serious deficit in the trade balance. This problem was exacerbated by the rise in oil prices in 1973 and 1974, and the difficulties that accompanied The transition from an industrial economy to another based on services and technology in the field of information and media, (Salem, 2000, 30). In the years following World War II, the United States of America was based on three economic advantages (Lesterthrow, 1995, 31):

1. The American market in 1950 was nine times larger than the second largest market, which is the United Kingdom market, so the American industry enjoyed the advantages of economies of scale.

It is superior in the technological field.

That American workers were more skilled than those abroad, higher education was high among its population, superior skills led to the use of technology, and as a result costs were lower.

The strengths possessed by the American economy represented by the following, (Marshall, 1998, 34):-

- a) The high degree of technological and productive innovation, which is due to the interest in research and development.

- b) Production, labor and local financial markets were competitive, diversified, rich and large, all attracting physical and human capital, stimulating innovation and producing commodities of relatively reasonable cost and with more effective conditions for the efficient functioning of institutions.

2. An increase in the number of people over the age of sixty compared to those under twenty, and this means that the ability of society to work will decrease, and the ability of the state to collect tax will decrease due to the decrease in the tax base, which means an increase in the budget deficit due to

the decrease in tax revenues, (Al-Musafer, , 2000, 31).

3. The Asian crises, the Mexico crisis, and the Russia crisis affected the American economy by virtue of its interventions and major companies. Therefore, the decline in the exchange rate of the dollar and oil prices did not lead to an increase in American exports, in addition to a decrease in demand in most capitalist countries.

Second: The causes of the US trade deficit

With the growth of the US economy and its development compared to other countries, US imports rose faster than its exports, but this natural situation was amplified by the strange combination of its fiscal and monetary policies, as it combined high interest rates, tax cuts, and the increase in expenditures, and the decline in international competitiveness led to The US current account deficit for the year 2002 reached 5% of GDP, and debt exceeded 20% of GDP.

Table (1): US trade balance for the period (2011-2021) (Million dollars)

Years as at 12/31	US Trade Balance	as a percentage of GDP
2011	-725,447.0	24
2012	-730,446.3	23.9
2013	-689,469.9	23.2
2014	-734,482.3	23
2015	-745,483.0	21
2016	-735,326.0	19.8
2017	-792,395.9	20.3
2018	-870,358.4	20.8
2019	-845,759.2	19.7
2020	-902,318.1	17
2021	-1,076,810.2	20.1

Source:

Third: the global importance of the US economy

This financial expansion was evident in the US economy, as the amount of savings began to decline, and this affected the global economy as well as the US economy, through several main channels (Batini, et al., 2004, 33):

1- This expansion led to an increase in economic activity abroad, and the global economy benefited through the effect of the demand side through the so-called (financial multiplier) in the short term, as the increase in income appeared in the form of an increase in demand for global commodities, which

led to an increase in imports, And then increase production abroad (Fahad, Abdurrazaq, 2022: 14).

2- In the medium term, the imbalance will reduce private consumption (the reason for the rise in private saving to compensate for the decrease in public saving) or reduce private investment or both through the crowding out effect, and then the growth of productivity and income will decline.

3- Changes in tax rates affect the incentives in the American economy, whether to work or save, because the United States of America is one of the very few industrialized countries that failed to give some form in the merger of its companies and the personal income tax system, and this absence in the merger produced the difficulty For American companies to compete against foreign imports or in foreign markets, whether through American exports or through foreign direct investment, as America has become a less attractive location for three-quarters of foreign companies, (Hubbard, 2002, 34).

4- Fiscal expansion put pressure on the current account situation in the short term and led to an increased need to service the high US debt and debt payments to the rest of the world (Batini, et al., 2004,33).

5- The financial expansion led to an increase in consumption and a decrease in savings more than an increase in investment, as net savings were 1% or 2% in 2004, and led to an investment orientation towards the non-commercial goods sector that does not generate an increase in exports and does not serve external debt. Abnormal interest rates and large foreign competition from manufactured commodities changed the investment situation in America towards these non-commercial sectors, which appeared in the form of a gradual increase in local real estate prices in and around major American cities (33, 2002, Lawrence).

6- The problem does not lie only in interest payments on foreign debt, so that they have an impact on American consumption or investment, but rather we find that residents in America gain a high percentage of returns on their foreign investments at a rate that is higher than those foreigners who live in America and earn from their personal investments, as the net Foreign liabilities are very low (less than 0.1% of GDP) in 2002, and as a result, foreign investors were prevented from accumulating assets in dollars, which raised the value of

the dollar, ((Wang, 2004,34), and this also negatively affected the trade balance.

This led to an increase in the exchange rate of the US dollar compared to the currencies of the trading partner countries, which led to a decrease in the prices of US imports compared to its exports, in a way that led to an increase in the US trade balance deficit. Most of these imports were from China, as shown in the following table.

Table (2): US imports and exports to and from China and the trade balance for the period (2011-2022)

U.S. trade in goods with China Million USD			
	Exports	Imports	Balance
2011	104,121.50	399,371.20	-23,359.60
2012	110,516.60	425,619.10	315,102.50-
2013	121,746.20	440,430.00	-318,683.80
2014	123,657.20	468,474.90	-344,817.70
2015	115,873.40	483,201.70	367,328.30
2016	115,594.80	462,420.00	-346,825.20
2017	129,997.20	505,165.10	-375,167.90
2018	120,281.20	538,514.20	-418,232.90
2019	106,481.20	449,110.70	-342,629.50
2020	124,543.80	432,683.40	-308,139.50
2021	151,442.20	504,935.40	-353,493.20
2022	153,837.10	536,754.10	-382,917.00

Source: Macro-trends Data Download, <https://www.macrotrends.net/historical-data-downloads>

The Second Topic: The Dollar and its Global Importance

The stages of development of the dollar

As difficult as it was for the dollar to come out into the open, it was the journey of its rise to the top of the global economic system over the first decades of the twentieth century.

After the dollar was printed and circulated, the currency was not covered with gold (which means that you cannot exchange paper currency for gold whenever you want), another five decades separated from a wave of recession that the US economy had not witnessed before, called the “Great Depression” in 1929 and lasted for years. She pushed with her the late US President Franklin Roosevelt to cancel the coverage of the dollar with gold in 1933, before he retracted his decision the following year with a relative adjustment to the price of the dollar, and the situation continued until the United States led international efforts to sign the "Bretton Woods" agreement in 1944 (the conference was held in state of New Hampshire and was attended by 44 countries from around the world, and it lasted for more than 22 days), which is that

decisive station in the international and American economy and the establishment of a new global economic order after World War II (1939-1945), as it resulted in the emergence of international financial institutions, and on It is headed by the World Bank and the International Monetary Fund.

According to economists and stakeholders, that station was "the actual beginning of the dollar's global dominance over all international economies, and its transformation from a local currency into a global currency that came to the top of commercial transactions between countries in the new world order after Bretton Woods," in which the United States and its currency came. green on his head." (Zaidan 2013 - p. 32)

According to the outputs of Bretton Woods, global international trade was organized and it was agreed to apply some conditions and restrictions to it, the most prominent of which was the adoption of the US dollar as a main reference for determining the price of other countries' currencies. The International Monetary Fund and the International Bank for Development and Development were formed, and accordingly the 44 countries depended on the US dollar to determine the value of their currencies internationally.

Meanwhile, the United States owned 75% of the world's gold after the end of World War II, and the dollar was the only currency in the world covered with gold (the rest of the countries gave up covering their currencies with gold after inflation occurred in their economies), which prompted a large number of countries The world has worked to accumulate US dollars with the aim of replacing them with gold in the future as a reserve, and several countries have begun to use the dollar currency as a foreign exchange reserve, as the member states agreed between 1945 and 1971 to maintain the exchange rates of their currencies against the dollar at a time when an ounce of gold was then equal to 32 dollars.

This system is known as the "Bretton Woods" system and it lasted until 1971, when the US government decided to stop converting the dollar and other countries' dollar reserves into gold. Since then, the member states of the Fund have remained free to choose any system for pricing their currency against other currencies, except for resorting to gold. And the US dollar is now drawing its strength from the volume of demand for its purchase to use it as a reserve currency or to pay the price of trade, as the prices of several commodities that are traded globally are priced in dollars.

Also, because of the large size of the US market as a trading partner, many countries buy dollars or keep them to pay off their debts to the United States, and many countries keep them as additional reserves to gold. (Bukhari, 2010, 32)

The reasons for the dominance of the dollar

The writer quotes expert John Blassard that there are four main reasons that explain the dominance of the dollar in international trade (Mortada, 32, 2020):

- 1- The stability of the US economy, which is the primary reason for investment and confidence in the dollar.
- 2- Supporting exports, as Asian countries in particular accumulated dollars to protect their own currencies from a low exchange rate.
- 3- The overwhelming presence of the dollar in global treasuries as a result of the excessive issuance of US debt securities.
- 4- In order to avoid facing the problem of local debt in dollars, as happened in 1997 during the Asian crisis, some countries take exchange risks into account by purchasing the American currency.

THE CHINESE ECONOMY AND THE YUAN (IMPORTANCE AND GLOBAL ROLE)

The Chinese Economy and its Importance

The development of the Chinese economy

China is characterized by a vast market with a population of more than 1.3 billion people, an area of 9.5 million square kilometers, a gross domestic product of \$900 billion, an average annual growth rate ranging between (10-13)% during the nineties of the last century, and an estimated trade balance surplus of more than \$40 billion for the year 1997, and has huge reserves of coal, oil, and gas, and is characterized by a stable economic environment, high savings rates, and flexible and effective institutional systems (Al-Saadoun, 2004, 30). China is based on a dual economy, a newly industrialized, rapidly developing section, and a semi-stagnant section that is unable to compete globally. It also has wide patterns of rural economy patterns in successful projects in the city (Hurst and Thompson, 2001, 30).

China has lived under the feudal system for more than two thousand years and then gradually turned into a semi-feudal society, due to its exposure to successive

foreign invasions, which made poverty a general condition in this country, so the Chinese revolution came as an objective response to the suffering of the Chinese people who were suffering from underdevelopment of the productive forces, and severe class struggle, social and cultural backwardness, low productivity, and low health and educational standards (Taqa, 2001, 31).

Throughout the ages, China was mainly an agricultural country that relied on the work of millions of peasants and landless workers. In the eighties of the last century, the number of Chinese farmers was more than 800 million people, and this number exceeds the population of the United States of America, Japan, Germany, France, and Britain combined, (Ferjani, 1987, p. 30). China constitutes a distinguished model in the countries of the eastern camp, and it belongs to the developing countries among the communist countries, and it ranks third in the volume of military expenditures, which amounts to more than 40% of the state budget, and it has played an important role at the regional and international levels (Silver, 1980, 31).

China went through several stages of modernization and reform (Othman and Al-Thamer, 2001, 31):

- 1- The first phase (1978-1984): This stage focused on the countryside, because agriculture is the basis of the national economy.
- 2- The second phase (1984-1991): The focus was on reforms in cities and enhancing the effectiveness of economic institutions. The reform at this stage has been rolled out across the country.
- 3- The third stage (2010-2019): According to (al-Sadiq and al-Bulbul, 2000), most of the reforms after 2010 were concentrated as follows:
 - a) Transforming government commercial companies into decentralized companies so that they can take their export and import decisions.
 - b) Reducing restrictions on foreign exchange. The double exchange rate has been abolished, and now China follows the system of convertibility of its currency (the Yuan) almost completely for the purposes of calculating current transactions.
 - c) Many administrative restrictions and special restrictions on trade were replaced by a more transparent system of customs tariffs, quotas and licenses, and the level of these tariffs was reduced many times, especially during the eighties and nineties.

The characteristics of the Chinese economy and the reasons for rapid growth

China applies a mixture of economic systems (that is, a socialist capitalist mixture), in the sense that it allows the private sector to grow and develop, but at the same time it takes into account social justice and non-exploitation, and many countries have begun to follow the path of the Chinese economy itself. The annual growth rate of GDP reached 9% during the past two decades, as it was faster than the global average and even faster than Japan and the newly industrialized countries in Asia. One million people bid farewell to poverty, according to what was stated by the National Development and Reform Commission (TNDARC, 2004), 31, as the number of poor people decreased from 358 million in 1990 to 208 million in 1997 using the minimum poverty rates of one dollar per day (Stiklitz, 2003, 30).).

Table (3): China's growth rates for the years 2010, 2014, 2017, 2020

Year	growth rates
2010	7.8
2014	9.2
2017	14.7
2020	17.8

Source: Imf/International Financial Statistics Year book, p.224 (IMF, 2003, 33)

China achieved the remarkable achievement compared to the general slowdown in global growth, especially in trade, during that period, by following appropriate economic recipes.

And that there are several factors that supported the Chinese economy and increased its strength (Agha et al., 1982, 30), the most important of which are:

- 1- It has a modest nuclear force and maintains a conventional armed forces numbering five million people, so that the forces of other developing countries are very small for them.
- 2- It has better protection from wide fluctuations in the total agricultural production, as it grows a large number of diverse crops under various climatic conditions.
- 3- China has significant mineral and energy resources, if compared to the United States of America, but their exploitation is slow.

The figures for the indicators of the Chinese economy are stronger in their significance than any words, and the extent of the magnitude of this economy can be ascertained through the following table:

Table (4): The most important indicators of the Chinese economy in 2022

Indicator	numbers
population	1413 million
GDP	\$17.734 trillion
annual inflation rate	2.1%
total annual exports	\$306 billion
total annual imports	\$228 billion
in hard currency reserves	3184 billion dollars

Source/ <https://ar.tradingeconomics.com/china/indicators>

According to what Threw, 1995 stated, the most important main reasons for the Chinese success, in addition to the above, are:

- 1- The Chinese have proven that it is possible to save and invest a high percentage of their GDP (approximately 40%). This means that foreign investment is important, but not essential, due to the high domestic savings rates, and if it is exposed to capital flight, it will not affect it.
- 2- There is an effective government in China that is able to design strategies. The transition from a centralized economy to a market economy is difficult without a government. In industry, China limited its market experiences to markets in special economic zones, instead of applying market rules in general, i.e. a gradual move towards the market. The transfer of agriculture to the private sector, which began with its reforms and then the service sector, led to the transfer of limited retail trade, and then this in turn led to the transfer of manufacturing industries to the private sector and the expansion of the scope of the market.
- 3- Chinese immigrants brought with them the money, technology, knowledge and direct contacts necessary to play the capitalist game.
- 4- China has some very large facilities and 72% of Chinese workers work in collective farms and 18% in large state enterprises.
- 5- The Chinese economy was exposed to a state of excess supply in the mid-1990s, as it began to face deflationary prospects and stagnation in consumer spending, and to bring about a specific shift in policy, an amount of 100 billion yuan of debt-covering bonds was issued as a preliminary measure to stimulate domestic demand in 1998, and this was for him It had an impact on raising the economic growth rate by approximately 1.5% to 2%.

This Chinese rise affected the US economy in many aspects and economic variables (Burstein and De Keza, 2001, 30), the most important of which are:

- 1- The US trade deficit with China has become a huge economic issue, exceeding the deficit with Japan, and China has become America's number one trade problem.
- 2- That very large quantities of labor-intensive industries have already completely moved to China (such as children's toys / textiles / plastics / consumer electronics / hand tools), and other cheap manufactured tools.

The Chinese Yuan and its Global Importance

The competitive advantage of the Chinese economy

The International Accounting Law stipulates that the total deficits in the world must be added to the total surpluses. If a country (such as China) had a trade surplus, then other countries (for example, America) must have a deficit problem (Stecklitz, 2003, 30), and this is what has been achieved in recent times.

We may find that the most obvious factor in explaining this is the exchange rate, as it creates a problem in trade when the value of the currency rises exaggeratedly. Therefore, changes in exchange rates affect the trade balance because of what they require in terms of changes in relative prices, and then affect the macroeconomic in general.

The best evidence for the role of the exchange rate came in the United States of America, as the depreciation of the currency was followed by an improvement in commercial performance, and otherwise when the value of the currency rose, which was evident in its trade dealings with China. In recent years, US exports decreased in all production totals, and so were there is an increase in the volume of imports, and that the dollar remains strong has led to a distortion of competitiveness, especially if it is measured by the exchange rates of currencies in other countries. Thus, a new challenge has emerged facing the US economy, as it has emerged that approximately \$100 billion of America's total trade deficit is in its dealings with China results from the inability of the US dollar to depreciate against the Chinese yuan, and the reason for this is that China pegs its currency to the dollar in order to stimulate export competitiveness, and at the same time, China allows its currency to move against the dollar quickly and effectively through the Chinese Central Bank buying an excessive amount from the dollar and US Treasury bills, (Sterling, 2004, 33). As the Chinese yuan seems to maintain its financial link to the dollar until recently, and the yuan

exchange rate has declined by approximately (8%-10%) against the dollar in recent years, as the devaluation of the Chinese yuan with the effect of ripple in other currencies gave a recovery. The Chinese economy is strong under the conditions and crises of other countries, (WESAP, 2000, 34), so that China had a surplus in the current account and not in the trade balance only, and that the rapid growth of labor productivity and the low cost of labor supported by the large number of unskilled labor supported international competitiveness. China during the period of depreciation of the effective nominal exchange rate (currency appreciation), as these factors compensated for the effect of the devaluation of the currency in stimulating exports and commercial performance in the periods of the appreciation of the yuan, and the relative stability of the effective real exchange rate since the beginning of the nineties gave another explanation for the growth of exports (Nikola et al., 33).

China refused to adopt a flexible exchange rate until the end of the eighties of the last century, as it believed that the flexible exchange rate requires strict control over the freedom of movement of capital, which is one of the hallmarks of the modern economy, and that the Chinese government does not believe that it is able to allow the freedom of movement of its capital and then. The difficulty of defending its exchange rate at that time, in addition to its inability to manage a sound economic policy, because the fixed exchange rate means monetary policy determined by the central government, (Lawrence, 35, 2002). And after the Chinese economy felt its high potential and in light of the economic and political conditions and conditions of the trading partner countries, the gradual trend towards a flexible exchange rate began, and the Renminbi Yuan (RMB) exchange rate began to become more flexible recently (Ali et al, 2022).

The structuring of China's foreign exchange began in 1988 and included three periods (TNDARC, 2004, 35):

- 1- The first period (1988-1990). During this period, China devalued the RMB against the dollar from 1:3.7 to 1:5.3. included several measures, namely:
 - a) Unifying commercial and non-commercial exchange rates.
 - Allowing foreign currency trade in swap centers.
 - b) Allowing bank deposits in foreign currency.
 - c) Allowing foreign exchange business for local commercial banks.

- 2- The second term (1991-1993) included:
- Adopt a managed floating exchange rate of the RMB.
 - Selling dollars in exchange centers in order to stabilize the price on the black market in the second half of 1993.
 - Devaluation of the Yuan against the dollar.

Now in recent years, China cannot move very quickly in terms of reforming the foreign exchange policy system, but it is making efforts to boost domestic demand to help rebalance the economy.

And that the major developed countries must bear a greater responsibility. Through consultation, not protectionism, and that China's move last year to allow the yuan to appreciate a limited amount against the dollar and to adopt a policy of controlled float "reflected a willingness to further reform the exchange system." The Chinese government is also trying to boost domestic consumption to help reduce its dependence on investment and exports

Table (5): Consumer spending relative to Per Capita for China and America (%) for different years

china				US
Growth Rate	Per Capita	Spending	Year	GDP/US Consumer Spending
13.34%	\$4,497	\$6,804.92B	2021	84.1
-2.50%	\$3,972	\$5,610.74B	2020	83.8
6.43%	\$4,083	\$5,604.60B	2019	82.8
8.32%	\$3,850	\$5,352.55B	2018	82.1
9.54%	\$3,571	\$4,744.77B	2017	82.8
8.94%	\$3,280	\$4,344.47B	2016	84.6
8.70%	\$3,028	\$4,178.28B	2015	100.7
9.19%	\$2,802	\$3,845.40B	2014	140.4
8.86%	\$2,582	\$3,429.38B	2013	142.2
9.21%	\$2,388	\$3,019.26B	2012	141.5
15.05%	\$2,201	\$2,637.02B	2011	145.7

Source: T. Todd Smith and Mr. Garry J. Schinasi, Portfolio Diversification, Leverage, and Financial Contagion , IMF/IFS working paper 85, 2000,p.345,33

The proportion of consumer spending in China is lower than that of the United States of America, due to the increase in income of the latter, which encouraged higher imports.

China has made arrangements for jumps in the foreign currency and its reduction in order to stimulate exports, control imports of luxury goods, as well as increase control and restriction that coincided with the increase of swap centers, and as a result, the volume of foreign currency transactions through exchange centers

increased more than official transactions and led to Real exchange rate depreciation, nominal exchange rate rising rapidly (Xiapu 35, 2002)

Table (6): China's real and nominal exchange rate for various selected years

the year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
nominal (official) exchange rate	6.77	6.46	6.31	6.19	6.14	6.22	6.64	6.75	6.61	6.91	6.90	6.44
The real exchange rate	78.56	81.67	87.92	89.50	96.85	102.17	104.07	99.21	98.79	97.93	98.62	101.24

Source: T. Todd Smith and Mr. Garry J. Schinasi, Portfolio Diversification, Leverage, and Financial Contagion , IMF/IFS working paper 85, 2000,p.345,33

Table (7): Official foreign currency reserves (trillion dollars) for the period (2010-2021)

years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
China	2.85	3.18	3.13	3.82	3.84	3.33	3.01	2.99	3.17	3.22	3.36	3.43
USA	4.88	5.37	5.74	4.48	4.34	3.83	4.05	4.51	4.49	5.16	6.28	7.16

Source: Bank for international settlements/73 rd. annual report/ April 2002 – March 2003/ p.86, 33

The Future of the Dollar in Light of the Rise of the Chinese Economy

The United States of America is the largest market for Chinese products and the sixth largest supplier to China, but it suffers from a trade deficit amounting to (891) billion dollars during the year 2018, which is the largest in the world since 1975 as a result of the increase in imports over exports, and that (65%) of this The deficit is due to trade with China, and it is noted that the deficit rate has increased despite the United States of America's policy of trade protectionism, as the main reason for the increase in the trade deficit with China is primarily due to China's ability to produce goods at a lower cost than similar products manufactured by the United States. Such as the low level of wages, which makes the price of Chinese products low for the foreign importer, in addition to the low exchange rate of the Chinese yuan against the US dollar (WTO, 2019, 33).

The volume of China's exports of goods to the United States of America amounted to approximately (451.6) million dollars in 2019, while the exports of the United States of America to China amounted to about (106.447) million dollars, and thus the deficit in the trade balance of goods is approximately (345) million dollars for the year 2019 for China, www.census.gov, 33

THE GLOBAL IMPACT OF THE US-CHINESE TRADE DISPUTE

The effects of the conflict can be analyzed globally through the following indicators:

The Impact of the Conflict on International Trade

As for the European Union, in which mature economies suffer from many problems, such as the demographic problem represented by the aging of the population, and political problems such as Britain's exit from the European Union, which led to a decline in GDP growth and the occurrence of inflation, the trade war between the United States of America and China has significantly affected the manufacturing sector based on Export, which is the engine of growth in the European Union. Therefore, policy in the European Union works to provide government support to the agricultural and industrial sectors. As for the impact of the trade conflict on other economies such as Canada, Mexico and Japan, which suffer from weak growth in their gross domestic product and their dependence on exports of advanced industries such as the automotive industry, this Countries are actively seeking to maintain their trade relationship with the United States of America, just like Europe, where they suffer from the negative effects of the decline in demand in China, and thus the impact of the trade dispute is on the total demand for the goods of both parties and then its impact on the global economy, and this is what called The World Trade Organization to lower expectations of global trade growth year 2019 to its lowest level in a decade.

In its 2018 report, the European Commission lowered its forecast for economic growth in the European Union from 4.2% to 3.8%, which suggests that the impact of the trade dispute between the United States and China is not limited to them only. Economic recovery is derailed and growth opportunities are curbed in the medium term. The fund also announced in 2019 that the current tariffs between the United States and China on each other's goods could be imposed since 2018, with expected tariffs of (25%) on approximately \$267 billion of products. The Chinese tariffs that the United States threatened to impose would reduce global GDP by 0.5% in 2020, and the International Monetary Fund said that imposing the tariffs that Trump threatened to impose would lead to a loss of more than \$455 billion in global gross economic output in 2020. 2018 According to the Fund's experts, the following

conclusion was put forward: If the two poles of global trade, America and China, do not end their economic war, the global economy will lose about (1.52) trillion countries. R in addition to the unexpected loss of Britain's exit from the European Union. The Fund also estimated the worst scenarios for this conflict, where the global market will shrink by 17%, in addition to a decline in global gross domestic product by (1.9%), and then the global economy is exposed to economic setbacks greater than those that occurred in 2008, and that international trade will face the greatest challenges In 2019, the International Monetary Fund warned of the growing possibility of escalating and sustainable trade conflicts, threatening to derail economic recovery and curb growth opportunities in the medium term (Abdel-Wahhab, 2019).

The Impact of the Conflict on the Investment Environment

The safe environment is one of the most important pillars that attract investment, unlike which investors and capital flee away from any country facing economic, political or military conflicts or any direct threat to investment, as investors do not like the state of uncertainty and instability, especially since the features of the conflict between the United States of America and China unclear to them,

According to the International Monetary Fund and some economic institutions, there are many negative effects expected in the event of the continuation of this trade dispute between the United States of America and China, in addition to the decline in economic growth and exports of the two countries, which has destabilized the investment environment. Foreign direct investment flows from the United States of America to China declined from (14) billion dollars in 2017 to (13) billion dollars in 2018.

Likewise, foreign direct investment flows from China to the United States declined from (29) billion dollars in 2017 to become (5) billion in 2018. The International Monetary Fund also warned of the consequences of the escalation of trade tension between the United States and China, as the gross domestic product of the United States of America will decrease. by (0.9%) and the decrease in Chinese domestic product by (0.6%), and then the global GDP decreased by (0.4%).) trillion dollars, as the global market will shrink by (17%), in addition to the unexpected loss from Britain's exit from the European Union (Abdel-Wahhab, 2019).

Analyzing the Impact of the Conflict on Some Activities

The US-Chinese trade dispute threatened the economic recovery of both countries, as the conflict poses a major challenge to growth in the United States of America and Chinese growth based on export. The exports of the United States of America to China were affected as a result of the customs duties imposed by China on goods imported from the United States of America, and their value decreased from (12.4) billion dollars in 2018 to (10.4) billion dollars in 2019, at a rate of (19%). The imposed by the United States of America on Chinese goods in the American markets made the prices of these goods rise, which made the American companies pay these customs duties as well as the American consumer, and the loss incurred by the American companies and the American consumer is estimated to be about (51) billion dollars, which is equivalent to (27% of the gross domestic product of the United States of America. As a result, the real income decreased in the United States of America, and the level of well-being represented by the consumer surplus, which represents the difference in the prices of Chinese products before and after the imposition of customs duties, decreased (Mikets, Arafa, 2006).

RESULTS AND DISCUSSION

Conclusion

The distinction of China in the global markets, especially in the markets of the United States of America, was due to the great role that China played in exchange rate policies through great supervision of the criticality of capital, and it also strengthened its international competitiveness as well, and the abundance of cheap labor. As well as the devaluation of the currency must be the direction of most of the currencies of the trading partner countries, and not only the direction of a limited number of countries. The devaluation of the dollar towards the European currencies and the Japanese currency did not achieve the desired benefit from it, as long as the Chinese currency (the yuan) remained low in its direction, which He encouraged China to take advantage of its opportunity to influence the global markets, especially since China's pegging of its currency to an internationally strong currency such as the dollar is one of the most important policies that supported its trade potential, as the depreciation of its currency compared to the dollar made its goods seem cheaper in the US markets. Despite the importance of sound economic policies that support international

competitive advantage, the role of comparative advantage achieved by the abundance of factors of production is no less important than improving the country's commercial performance.

Economic success in global markets is not only reinforced by internal conditions, but the economic conditions of neighboring countries and trading partner countries must be taken into consideration. For example, the rise in the real income of American workers encouraged the influence of Chinese products into the American markets and also included an increase in the volume of American imports. International competitiveness may not be significantly related to productivity, as technological development may shift factors of production from one sector to another, and lead to a decrease in the commercial performance of the former, despite the fact that productivity does not decrease.

RECOMMENDATIONS

Supporting international dealings in the yuan in addition to the dollar in order to avoid fluctuations in one of the two currencies that would negatively affect our national economy. Accepting international settlements in other currencies, such as the yuan, and not relying on the dollar only. Adopting an exchange rate system that is compatible with the economic level of the country. The flexible exchange rate, for example, requires high capabilities in facing the consequences of its rapid fluctuations. Linking local currencies to US dollars means that these countries, including developing countries and subject to fluctuations. It is important for these countries to work on forming a basket of different currencies that have global acceptance in international trade exchanges to make their trade more stable and in a way that reduces trade disputes related to exchange rate fluctuations. Orientation towards economic reform alone is not enough to promote development in economic and competitive performance. Rather, it is necessary to move towards rebuilding productive structures and organizing them with efficient administrative methods. Exploiting areas that have a comparative advantage in some factors of production to enhance competitiveness through the establishment of productive projects that contribute to supporting the country's foreign trade in various currencies.

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