

# Energy Finance Cooperation and Competition between China and U.S.

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**Abstract**—The oil dollar is at the center of the US hegemonic redistribution system. Maintaining the oil dollar pricing mechanism is not only conducive to maintaining its position in the international monetary system, but also has far-reaching significance for its control of the international oil market and the consolidation of US global hegemony. There are cooperation and competition between China and U.S. in this field. On the one hand, China has accelerated the internationalization of the renminbi and increased the use of the renminbi as an international energy currency, and expands the scope of international payment of Renminbi, increases the international recognition of “energy-renminbi” in BRI, and competes with the “Petroleum dollar”. On the other hand, it has accelerated the formation and improvement of the oil reserve and crude oil futures market, and has rid of the plight of China's lack of futures products such as crude oil, thus effectively coping with the fluctuation of oil prices.

**Keywords**—energy finance; petroleum dollar; oil renminbi

## I. INTRODUCTION

Energy finance is an important link in the distribution of interests in the global energy industry chain. The development of energy finance is closely related to the implementation of energy strategy. By using the local currency as the main denominated and settlement currency of international energy trade, the energy hegemonic power can maintain the position of its local currency in the international monetary system on the one hand, and gain a favorable position in the distribution of interests in the global energy industry chain on the other hand. [1]

There are cooperation and competition between China and U.S.. On the one hand, China has accelerated the internationalization of the renminbi and increased the use of the renminbi as an international energy currency, and expands the scope of international payment of Renminbi, increases the international recognition of “energy-renminbi” in BRI, and competes with the “Petroleum dollar”. On the other hand, it has accelerated the formation and improvement of the oil reserve and crude oil futures market, and has rid of the plight of China's lack of futures products such as crude oil, thus effectively coping with the fluctuation of oil prices.

## II. "PETROLEUM DOLLAR" AND AMERICAN HEGEMONY

At the beginning of the 20th century, the United States was the world's largest oil producer. At that time, most of the crude oil exported from the Gulf of Mexico was priced in dollars. The price of oil on the shore was equal to that of crude oil

produced in the Gulf of Mexico plus the cost of transportation, which has laid a historical foundation for the pricing of oil in US dollars. In July 1944, the United States led the establishment of the Bretton Woods system. The US dollar was linked to gold. The currencies of the countries in the world were linked to the US dollar with the fixed exchange rate, and the US dollar became the international base currency. The status of the US dollar was further enhanced. The Marshall plans was started in 1947. The biggest single expenditure of the plan is to use the aid dollars to purchase oil. The oil is mainly supplied by the United States, and the oil dollar mechanism has been further strengthened.

After the outbreak of the Vietnam War, the US balance of payments deteriorated. During the period, several US dollar crises broke out. Countries sold US dollars and snapped up gold, which drastically reduced US gold reserves. In 1971, the Nixon government announced the implementation of the "new economic policy" and stopped fulfilling the obligation to exchange the US dollar for gold. The US government and the Saudi Arabian authorities held high-level talks to discuss the use of the US dollar as a single currency for oil trading, and reached an agreement in 1974. Since then, the Saudi Arabian government has purchased \$2.5 billion in US government bonds with its surplus oil dollars. A few years later, the then US Treasury Secretary Michael Blumenthal reached a secret agreement with the Saudi Arabian government to ensure that OPEC members use the US dollar as the sole currency for oil trading.[2] These agreements marry the dollar with oil, and oil becomes the anchor of the dollar. After the collapse of the Breton forest system, the United States maintained and consolidated the hegemonic position of the dollar through the oil dollar.[3] The United States can get the following benefits from the oil dollar pricing mechanism. First, the international seigniorage is imposed. When the US dollar is the main medium of international oil trade, the United States can exchange oil resources by exporting dollars. The circulation of the US dollar is controlled by the US government, so the United States gains additional income. Second, affecting and controlling oil prices. Since the international oil trade is denominated in US dollars, the United States affects the US dollar exchange rate by adjusting its fiscal and monetary policies, which in turn affects international oil prices. Third, to maintain the international status of the US dollar. Because many countries need a large amount of oil imports, in order to pay for oil import costs, it must ensure a considerable portion of the US dollar in the foreign exchange reserves. This virtually maintains the dominant position of the US dollar as an international currency. [4]

The oil dollar is at the center of the US hegemonic redistribution system. Maintaining the oil dollar pricing mechanism is not only conducive to maintaining its position in the international monetary system, but also has far-reaching significance for its control of the international oil market and the consolidation of US global hegemony. The US allies mainly gain income and obey the leadership of the United States through three mechanisms: stable international currency, open market, and stable oil price.[5] The oil dollar has increased the impact of international financial markets on the international oil market and has become an important channel for risk transfer between the two. In order to absorb the circulation of oil dollars, the United States must expand its domestic financial market and provide investment vehicles with sufficient liquidity, profitability and security. The United States encourages financial innovation, providing investors with more investment vehicles in terms of quantity and variety, lower barriers to entry, and a more relaxed financial environment. Financial liberalization has greatly increased the degree of virtualization in the US economy, and the financial services industry and real estate service industry have become pillar industries, thus forming a new international division of labor. [6]

### III. THE INTERNATIONALIZATION OF THE RENMINBI AND THE "OIL RENMINBI"

The influence of the renminbi in the international economic and trade market is closely related to China's position and influence in the international political economy. China has now become the world's second largest economy and the largest trade body. The focus of China's economic development has gradually shifted from the trade sector to the financial sector. The internationalization of the renminbi is the main manifestation of China's energy financial strength. Through a series of domestic financial market and exchange rate mechanism reforms, the Chinese government has implemented a series of strategies of financial diplomacy, and has made great progress in the reform of the reserve currency, the establishment of a network of monetary partners, and participation in multilateral financial institutions. China has established the status of renminbi in the international world.[7]

At present, the renminbi has been included in the International Monetary Fund's (IMF) Special Drawing Rights (SDR) currency basket, with a weight of 10.92%, which is one of the five major currencies in the SDR currency basket. As the status of the renminbi as the reserve currency is gradually recognized, more and more central banks and monetary authorities use the renminbi as their reserve assets. In the first half of 2017, the European Central Bank increased the foreign exchange reserves of renminbi in equivalent of 500 million euros. More than 60 countries and regions such as Singapore and Russia have included Renminbi in their foreign exchange reserves.[8]

In recent years, the Chinese government has promoted the internationalization of the RMB through four aspects, and has carried out monetary cooperation with different 52 countries in different content, forming a network of currency partners in the initial stage of the rise of the RMB.[9] (1) Expand the partners of local currency settlement. (2) Increase currency trading

partners. (3) Set up a network of currency clearing partners. (4) Signing a bilateral currency swap agreement.[10] The number of agreements has covered a large number of objects, and it has become one of the three major currency exchange networks in the world that is comparable with the US dollar and the Euro. [11]

The oil RMB and the internationalization of the RMB promote each other and influence each other. The internationalization of the renminbi is the basis for promoting the settlement of oil trade in renminbi. The expansion of the oil renminbi settlement area will also promote the process of internationalization of the renminbi. On the basis of expanding the construction of the use of renminbi in the onshore financial market and improving the RMB return mechanism, China has gradually expanded the influence of the RMB on oil and other commodity prices. [12]

In the oil trade, Russia was the first, followed by Iran, to use the RMB for settlement. The oil-producing countries such as the United Arab Emirates in the Middle East accepted the RMB as well. Subsequently, more developing countries used the RMB in bilateral trade. In September 2012, China and Russia signed a series of agreements, and Russia allowed China to purchase any amount of oil in RMB. Later, China's oil trade with some oil producers in Russia was settled by renminbi. On October 12, 2017, China Foreign Exchange Trading Center launched the RMB-to-Ruble transaction synchronous settlement business, based on the large-value payment system, which marked the official establishment of the RMB foreign currency synchronous settlement mechanism in China's foreign exchange market.[13] The Sino-Russian oil trade achieved no dollar trading. In September 2017, Venezuelan President Maduro announced that Venezuela would use the renminbi instead of the US dollar for oil pricing.[14] In face of U.S. sanctions, on August 20, 2018, the Iranian central bank's exchange rate website, Sanarate.ir, listed the euro (EUR), the United Arab Emirates dirham (AED) and the renminbi (CNY) as the three major exchange currencies. In January 2019, the Iranian central bank's share of the renminbi in foreign exchange reserves reached 15%. [15]

### IV. THE GAME BETWEEN "OIL DOLLAR" AND "OIL RMB"

In the process of promoting the internationalization of the renminbi, the United States regards the renminbi as a threat to the US dollar. On the one hand, it blocks the renminbi from increasing its share in the IMF. On the other hand, it forces the appreciation of the renminbi through intervention in China's exchange rate formation mechanism, and provokes a China-US trade war, disrupting the normal operation of the real economy, especially that of the export-oriented enterprises; in terms of energy geopolitics, the United States implements the Indian-Pacific strategy, sending aircraft carriers to the South China Sea to show off its muscles and creating the tension in the Taiwan Strait and the South China Sea.[16] With the hike of interest rate of US dollar, the United States tries to spur energy finance by geopolitics, allowing a large amount of renminbi to flow to the United States, thus achieving the goal of suppressing oil renminbi. China has responded calmly and proposed the "One Belt, One Road" initiative. China takes the

right opportunities to launch crude oil futures to build a petroleum RMB circulation system.

1. The share of the RMB in the IMF. With regards to the reform of the share rights in the IMF promoted by emerging economies such as China, there is a hindrance in the United States. In 2007, the global financial crisis broke out. Under the pressure of the financial crisis, the IMF member states reached a reform agreement in 2010, and the IMF's share would double. About 6% of the share would be assigned to dynamic emerging markets and under-represented development countries. China turned to rank among the third largest member states of the IMF, and India, Russia and Brazil were also jumped to the top ten.[17] The year of 2012 was the year of the US election. The Obama administration did not send the IMF reform plan to the Congressional voting process on the grounds that some members of Congress opposed the IMF reform. After Obama's successful re-election, he began calling for Congress to increase capital to the IMF, but was rejected by the US Congress in March 2013. On January 14, 2014, under the focus of all parties, the US House and Senate again rejected the IMF's 2010 reform plan. In December 2014, the US Congress simply refused to include reforms in the appropriations bill for discussion, as the result, the reform plan had to be postponed until 2015 for the US Congress to review again. Due to repeated veto and delay by the US Congress, the new round of IMF share review meeting scheduled for 2014 had to be delayed. Until the final moment at the end of 2015, the US Senate and the House of Representatives eventually approved the reform plan.[18] China's share rose from 3.996% to 10.92%,[19] whose ranking jumped from the sixth place to the third place.

2. The RMB exchange rate issue. In 2003, US Senate members Charles Schumer and Lindsay Graham proposed a bill against the RMB exchange rate. In March 2010, 130 members of Congress jointly pressured the government to demand the Obama administration to list China as a currency manipulator. In October 2011, the US Senate endorsed the 2011 Currency Exchange Rate Supervision Reform Program and launched a series of hearings on the RMB exchange rate to promote the appreciation of the renminbi, as a result, the matter of renminbi became a hot issue.[20] At the time, the then US President Obama had repeatedly stated publicly that, China manipulated the RMB exchange rate, which gave Chinese goods an unfair competitive advantage, and therefore, greater pressure should be exerted on China to promote the appreciation of the renminbi. In addition, the pressures of the executive authorities also came from ways including the China-US Heads of State Meeting, the visit of the US Treasury Secretary to China, the release of the international economic and exchange rate policy report, the SED and S&ED meetings, and the China-US Joint Commission on Commerce and Trade (JCCT).[21]

3. Trade disputes between China and the U.S.. After President Trump took office, the United States abolished a series of measures such as the Pacific Trade Agreement (TPP) to strengthen its trade protection. Since March 2018, the United States has provoked a global trade war. In particular, the growing trade disputes between China and the United States have cast a shadow on global economic growth. On July 6, the

Sino-US trade war officially entered a substantive phase, and each other imposed a 25% tariff on goods of 34 billion US dollars. On July 20th, Trump once again stated that the United States would levy taxes on China's products worthy of approximately \$500 billion and thus further escalated the trade war. The trade war has caused a sharp shock in China's stock market. As a result, cross-border trade settlement in the past few years has been relatively poor. As shown in the chart below, since 2016, the amount of China's cross-border trade settlement in RMB and its share in trade import and export have been declining, and the influence of RMB on international settlement has gradually declined.[22]

4. The geopolitical game between China and the United States. Considering China's huge economic scale and rising geopolitical influence, the impact of the rise of the renminbi will surpass that of the rise of the yen in the past, and it may threaten the hegemony of the dollar.[23] The United States has frequently exerted its energy geopolitics to maintain the dollar hegemony. After President Trump took office, he continued to maintain the U.S. influence in the Middle East, Central Asia, Africa, Latin America and other regions, and launched the Indian-Pacific strategy, created troubles on the South China Sea and on the Taiwan Strait issue. Through the frontier garrison and the establishment of a large and complex bilateral and multilateral alliance system, the United States attempts to control the offshore energy transportation line, and ignites energy finance with energy geopolitics. Moreover, it gradually withdraws from quantitative easing, supplemented by tax cuts and interest rate hikes. Recently, the US dollar has regained strength, thus allowing a large amount of money to flow to the United States. China launched the "One Belt One Road Initiative", proposing to promote the energy revolution, comprehensively strengthen international cooperation, achieve energy security under comprehensive open conditions, actively participate in global energy governance, enhance the voice of China in the global energy system, and achieve the change from followers to the influencer. As the game among the US, Europe, and Russia intensified in the Middle East, the situation in the Middle East was turbulent, and the United States frequently exerted its sanctions. In May 2018, US President Trump officially announced his withdrawal from the Iranian nuclear agreement and imposed the highest level of sanctions on Iran. Iran has abandoned the use of the US dollar as the currency for oil settlement in turn, and switched to the Euro, the United Arab Emirates Dirham and the Renminbi as the three major exchange currencies.[24] In September 2017, the Venezuelan President announced the use of a basket of currencies such as RMB, Euro, Japanese Yen and Russian Ruble in international payments to replace the US dollar as the international settlement currency, in order to get rid of the dependence on the dollar. As the issue of the oil dollar continues to emerge, some countries, including oil-producing countries and consumer countries, are seeking new ways of oil settlement, and the economic base on which the US dollar oil system depends is weakening.

In March 2018, China's first crude oil futures was listed on the Shanghai International Energy Exchange Center and became a major milestone in China's energy futures market. Since the listing of China's crude oil futures, it has withstood

the test of successive rounds of China-US trade frictions and the shift of the main contract. As of September 4, 2018, according to bilateral calculations, the total transaction volume of 112 trading days was 22.6543 million lots, and the daily average was 202,300 lots. The total turnover was 11.0365 trillion yuan and the daily average was 98.5 billion yuan. From the perspective of trading volume, China's crude oil futures are becoming more and more active, and the overall trend is promising. From the March 26th to the 26th of June, the trading volume had increased rapidly in this three months, and the average daily trading volume was smaller only than the two traditional benchmark market: the New York's WTI crude oil futures of United States and British Brent crude oil futures, ranking as one of the world's top three markets in trading volume.[25]

## V. SUMMARY

Energy finance is an important link in the distribution of interests in the global energy industry chain. The development of energy finance is closely related to the implementation of energy strategy. There are cooperation and competition between China and U.S.. In the current international energy political and economic structure, China should take advantage of its own strength and develop an energy discourse right corresponding to its own strength, should not go beyond its own strength basis, and keep the limit not to challenge the hegemony of the dollar, and realize the inclusive and common development of the oil renminbi and the oil dollar.

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