

The Impact of Sino-US Trade Frictions on US Dollar Hegemony

Jiancong Hou*

School of Traffic Engineering, Yellow River Jiaotong University, Jiaozuo 454000, Henan, China

*Corresponding author's e-mail: 17637865558@163.com

Abstract

Since 2018, Sino-US trade frictions have escalated into a four-dimensional composite conflict encompassing "tariffs-finance-industrial chain-currency", profoundly impacting the global monetary system. This paper constructs a Dollar Hegemony Index (DHI) and a Sino-US Trade Friction Index (TMFI). Based on quarterly panel data of the world's top 30 economies from 2018Q1 to 2024Q4, we examine their impacts and transmission mechanisms. The study finds that Sino-US trade frictions significantly weaken US dollar hegemony, with prominent stage heterogeneity. De-dollarization in emerging markets plays a mediating role, accounting for approximately 32.7%. The conclusions binary dichotomy, revealing the characteristic of US dollar hegemony as "superficially stable yet fundamentally weakening", and providing empirical support for RMB internationalization and risk risk mitigation.

Keywords

Sino-US Trade Frictions; US Dollar Hegemony; De-dollarization; Mediating Effect; Stage Heterogeneity.

1. Introduction

The 20th National Congress of the Communist Party of China and the 20th Central Financial and Economic Affairs Commission have explicitly put forward the strategic deployment of steadily advancing the internationalization of the RMB and preventing external financial risks. The global monetary system is currently undergoing profound transformations. Data from the International Monetary Fund (International Monetary Fund [IMF], 2025) show that the US dollar's share of global official foreign exchange reserves has dropped from 71.5% in 2000 to 57.6% at the end of 2024, yet it still maintains an absolute dominant position. Meanwhile, China-US Sino-US trade frictions frictions have continued to escalate since their outbreak in 2018, with financial sanctions, industrial chain decoupling and currency games becoming the new focal points[1].

Existing literature presents significant disagreements on the relationship between the two. One school of thought argues that the US dollar's hegemony is unshakable due to its network effects and path dependence [2]. The other school contends that trade frictions have accelerated the global de-dollarization process [3,4]. The root causes of these disagreements lie in three major deficiencies: first, most studies adopt a single indicator to measure US dollar hegemony, failing to comprehensively reflect its dual characteristics; second, they remain stuck in the unidirectional logic of "trade flows → currency status" without exploring the financialization transmission mechanism; third, they have not analyzed heterogeneous effects in conjunction with the evolution of friction phases.

The marginal contributions of this paper are reflected in three aspects. First, it constructs multi-dimensional and quantifiable comprehensive indices of US dollar hegemony and trade frictions, breaking through the limitations of single indicators. Second, it systematically reveals the internal transmission mechanism through direct and indirect channels and conducts empirical

tests. Third, it performs subsample regressions by friction phases and discovers significant differences in the magnitude of impact across different stages, providing a new perspective for understanding the dynamic evolution of US dollar hegemony.

2. Literature Review and Research Gaps

2.1. Connotation Definition and Measurement Methods of US Dollar Hegemony

The origin of the theoretical system of US dollar hegemony can be traced back to the Hegemonic Stability Theory proposed by Kindleberger, the core proposition of which is that hegemonic countries ensure the stable operation of the international monetary system by supplying international public goods to the global market[5]. Eichengreen further expanded this research thread in 2011 by proposing the theory of network effects and path dependence, which systematically explains the internal logic of the self-reinforcing international status of the US dollar[2]. Krugman first revealed the self-reinforcing mechanism of vehicle currency selection through a general equilibrium model, laying a micro-foundation for the study of currency network effects[6]. Chinn and Frankel pioneered the construction of a quantitative analysis model for currency international status, establishing indicators such as economic scale and trade openness as the core variables for measuring the global influence of a country's currency[7]. Gopinath further emphasized that the dollar's dominance in global trade pricing forms a critical pillar of its hegemonic status, which is more stable than its reserve and payment functions[8].

Domestic scholars' research perspectives mainly focus on deconstructing the support system of US dollar hegemony and judging its long-term evolution trend. Yu clearly defined the essence of US dollar hegemony, pointing out that its core is the special ability of the United States to extract excess international returns by relying on its control over the international monetary system[3]. Zhang innovatively proposed the "reserve-payment-pricing" three-dimensional support system of US dollar hegemony, comprehensively analyzing its operating mechanism and internal connections[4]. Guan argued that the current global de-dollarization process is still in a shallow development stage, mainly limited to the two fields of trade settlement and foreign exchange reserve adjustment, and has not yet touched the core institutional foundation of US dollar hegemony[9].

2.2. Linkage Relationship Between Trade Frictions and the International Monetary System

Early studies by foreign scholars have confirmed that there is a close internal relationship between trade development and currency international status, with empirical evidence showing a significant positive correlation between a country's trade scale and the proportion of its currency used in international settlements[6]. Some scholars emphasized that the special attribute of the US dollar as a global vehicle currency gives it strong stability in trade frictions[8]. Other scholars argued that although trade frictions would promote regional currency substitution in emerging market economies, they have a relatively weak impact on the global dominant position of the US dollar in the short term[10]. Domestic scholars focus on the financial spillover effects of Sino-US trade frictions. Sheng and Qian pointed out that financialization has become a prominent feature of Sino-US trade frictions in the new era[11]. Rey's research on the global financial cycle further revealed that the dollar's hegemonic status allows the United States to export its monetary policy shocks to the rest of the world, exacerbating the financial spillover effects of trade frictions[12]. Subsequent empirical studies found that tariff frictions significantly increased the settlement proportion of RMB in Sino-US bilateral trade[13]. It has also been noted that the frequent implementation of financial

sanctions by the United States has accelerated the diversification process of China's foreign exchange reserve assets[14].

2.3. Research Review

Although existing studies have laid a solid theoretical analysis framework and empirical research foundation for this paper, there are still three core research gaps to be broken through: First, a systematic multi-dimensional measurement system covering the dual attributes of explicit dominance and underlying support of US dollar hegemony has not yet been constructed, and existing single indicators are difficult to fully characterize its complex features.

Second, most studies adopt a unidirectional linear analytical paradigm and fail to deeply analyze the multi-level transmission paths and internal mechanisms through which Sino-US trade frictions affect US dollar hegemony against the background of in-depth financialization.

Third, few studies have conducted heterogeneity tests combined with the dynamic evolutionary stage characteristics of Sino-US trade frictions, resulting in insufficient pertinence and explanatory power of empirical conclusions.

This paper will carry out systematic theoretical and empirical analysis targeting the above research gaps.

3. Theoretical Mechanism and Research Hypotheses

This chapter constructs a dynamic game equilibrium analytical framework of "sustaining force-eroding force" for the resilience of US dollar hegemony. Through formal deduction of a simplified micro-agent decision-making model, it formalizes the core transmission paths, clarifies the internal connections between direct and indirect channels, proposes testable research hypotheses, and systematically addresses the endogeneity issue of reverse causality.

3.1. Theoretical Core of US Dollar Hegemony Resilience: "Sustenance-Erosion" Dynamic Equilibrium

The resilience of US dollar hegemony can be defined as the anti-decline capacity of the US dollar to maintain its core position in global reserves, payments, and pricing under external shocks such as trade frictions and the proliferation of financial sanctions, relying on historically formed institutional dividends and network effects[2,6]. In essence, it is the result of a long-term dynamic game between hegemony-sustaining forces and hegemony-eroding forces. The sustaining forces originate from the network externalities and path dependence of currencies, encompassing the scale advantage of the SWIFT global settlement network, the global safe asset monopoly position of the US Treasury market, the inertia of US dollar pricing for commodities, and the endorsement of political and military alliances. These forces possess extremely strong short-term rigidity and constitute the underlying logic for the "apparent stability" of US dollar hegemony. The eroding forces, on the other hand, stem from the fundamental contradiction between the public good attribute of the US dollar system and the national self-interest of the United States. The US instrumentalization of the US dollar and its actions to undermine global division of labor through trade frictions continue to overdraw US dollar credit[14]. Moreover, these forces first accumulate in emerging markets with low dependence on the US dollar and high sanction risks, becoming the core driver of the "underlying loosening" of US dollar hegemony[9,10].

A simplified equilibrium equation is constructed as:

$$DHI_t = \alpha S_t - \beta W_t + \epsilon_t$$

where DHI_t represents the comprehensive index of US dollar hegemony in period t , and S_t and W_t denote hegemony-sustaining force and hegemony-eroding force respectively. In the short term, $\alpha > \beta$, meaning the global dominant position of the US dollar is difficult to shake rapidly. From a long-term perspective, β_{EM} for emerging markets is significantly higher than the global average level, with their US dollar reserve holdings and trade settlement shares accelerating their decline, ultimately presenting an overall characteristic of "stable on the surface but loose at the core". The 32.7% mediating effect calculated in this paper is precisely the direct empirical manifestation of the rapid accumulation of eroding forces in emerging markets.

3.2. Direct Transmission Mechanism: Formal Deduction based on Microscopic Decision-Making

3.2.1. Trade Settlement Currency Substitution Effect

A representative export enterprise profit maximization model under a two-country dual-currency framework is constructed, incorporating tariff costs τ induced by trade frictions and US dollar settlement sanction risk costs δ . The derivation yields the critical condition for enterprises' settlement currency choice: when the expected loss from US dollar settlement sanctions exceeds the exchange rate risk difference between the two currencies, enterprises will proactively switch to local currency settlement. Proposition 1: Each unit increase in the intensity of Sino-US trade frictions will lead to a synchronous rise in the expected cost of US dollar settlement, thereby promoting the increase in the share of local currency settlement and eroding the international payment and pricing functions of the US dollar at the root.

3.2.2. Financial Sanction Trust Shock Effect

A mean-variance utility model for central bank reserve asset allocation is constructed, introducing a geopolitical sanction risk premium ρ that is positively correlated with the intensity of US financial sanctions. After solving for the optimal allocation ratio of US dollar assets, it is concluded that: Proposition 2: An increase in the intensity of US financial sanctions will significantly depress the risk-adjusted rate of return of US dollar assets, forcing central banks of various countries to reduce their holdings of US dollar reserve assets and directly weakening the international reserve function of the US dollar[14].

3.3. Indirect Transmission Mechanism: Complementary Effect of Coordinated De-dollarization in Emerging Markets

Coordinated de-dollarization in emerging markets is the core indirect channel through which Sino-US trade frictions impact US dollar hegemony. It is not a substitute for the two direct channels but a mutually reinforcing relationship of two-way complementarity. A single direct channel is constrained by currency network externalities and suffers from coordination failure, making scattered individual substitution behaviors difficult to form systemic shocks[2]. However, Sino-US trade frictions provide a common interest basis for coordinated actions among emerging markets. By signing bilateral local currency settlement agreements, promoting the interconnection of regional payment systems, and establishing multilateral currency swap mechanisms, they collectively reduce currency conversion costs, amplify the impact effects of direct channels, and form a positive feedback loop of "micro individual substitution - meso policy coordination - larger-scale substitution"[3,4]. Proposition 3: The higher the degree of de-dollarization coordination among emerging markets, the greater the negative impact intensity of trade frictions on US dollar hegemony.

3.4. Research Hypotheses and Reverse Causality Discussion

Based on the above theoretical derivation, three core hypotheses are proposed:

H1: After controlling for factors such as US economic fundamentals and the level of euro internationalization, the intensity of Sino-US trade frictions is significantly negatively correlated with the level of US dollar hegemony.

H2: The impacts exhibit obvious stage heterogeneity, with the influence intensity during the financial sanction-dominated period and the industrial chain + currency game period being much higher than that during the pure tariff friction period.

H3: De-dollarization in emerging markets plays a partial mediating role between the two.

In response to the reverse causality query that "the decline of US dollar hegemony triggers the US to initiate trade frictions", this paper excludes it from three aspects: First, all friction escalations during the sample period were actively initiated by the United States, with time nodes earlier than the significant decline in the comprehensive index of US dollar hegemony. Second, the US domestic political cycle is an important exogenous driver of trade frictions and can be used as an instrumental variable to control endogeneity. Third, the heterogeneity test results show that only financial sanctions and industrial chain decoupling shocks are significant, which is inconsistent with the predictive logic of reverse causality.

4. Empirical Research Design

4.1. Sample Selection and Data Sources

This paper selects the world's top 30 economies ranked by annual GDP from the first quarter of 2018 to the fourth quarter of 2024 as the research sample. The sample covers both advanced economies and emerging market economies, which can well represent the overall pattern of the global economy and monetary system. All empirical data in this paper are derived from official databases published by authoritative institutions such as the International Monetary Fund (IMF), Bank for International Settlements (BIS), Society for Worldwide Interbank Financial Telecommunication (SWIFT), United States International Trade Commission (USITC), and the Ministry of Commerce of China.

4.2. Variable Definitions

4.2.1. Explained Variable: US Dollar Hegemony Composite Index (DHI)

Table 1. Dollar Hegemony Index (DHI) Indicator System

Primary Dimension	Secondary Indicator	Measurement Method	Data Source	Entropy Weight
Explicit Dominance	Dollar share of global foreign exchange reserves	Dollar reserve assets / Total global official foreign exchange reserves	IMF COFER Database	0.32
Explicit Dominance	Dollar share of global cross-border payments	Dollar payment amount in SWIFT / Total global cross-border payments	SWIFT Tracker RMB	0.21
Explicit Dominance	Dollar share of global foreign exchange transactions	Dollar foreign exchange trading volume / Total global foreign exchange transactions	BIS Triennial Survey	0.15
Explicit Dominance	Dollar share of global commodity pricing	Commodity transaction volume denominated in dollars / Total global commodity transactions	World Bank, Bloomberg	0.12
Underlying Support	Dollar reserve share in emerging markets	Dollar reserve assets in emerging markets / Total official foreign exchange reserves in emerging markets	IMF COFER Database	0.1
Underlying Support	Local currency settlement share among BRICS	Local currency settlement volume among BRICS / Total bilateral trade among BRICS	BRICS New Development Bank	0.06
Underlying Support	Local currency settlement share in China-ASEAN trade	Local currency settlement volume in China-ASEAN trade / Total China-ASEAN bilateral trade	People's Bank of China	0.04

This paper constructs the US Dollar Hegemony Composite Index from two primary dimensions: "Explicit Dominance" and "Underlying Support ", which includes a total of 7 secondary indicators. The entropy weight method is adopted for objective weighting. The index ranges from 0 to 1, with a larger value indicating stronger US dollar hegemony. The specific indicator composition and weights are shown in Table 1.

4.2.2. Core Independent Variable: Sino-US Trade Friction Index (TMFI)

This paper constructs TMFI covering four dimensions: "tariffs-finance-industrial chains-currency", including 6 secondary indicators. The entropy method is similarly used for weighting and synthesis, with the index ranging from [0,1], where larger values indicate higher friction intensity. The specific indicator composition and weights are shown in Table 2.

Table 2. Sino-US Trade Friction Index (TMFI) Indicator System

Primary Dimension	Secondary Indicator	Measurement Method	Data Source	Entropy Weight
Tariff Friction	Average tariff rate of mutual imposition between China and US	Weighted average tariff rate imposed on each other's exports	USITC, General Administration of Customs of China	0.28
Tariff Friction	Share of trade volume covered by tariff imposition	Trade volume of goods subject to additional tariffs / Total Sino-US bilateral trade	USITC, General Administration of Customs of China	0.17
Financial Sanctions Friction	Frequency of financial sanctions events	Number of financial sanctions imposed by US on Chinese entities/individuals	US Treasury OFAC	0.22
Financial Sanctions Friction	Trade volume involved in dollar settlement restrictions	Annual trade volume of Chinese enterprises restricted from dollar settlement	People's Bank of China	0.13
Industrial Chain + Currency Competition	Share of output value in industries with industrial chain decoupling	Output value of US export control industries / Total output value of industries related to Sino-US bilateral trade	US Department of Commerce BIS	0.12
Industrial Chain + Currency Competition	RMB cross-border settlement substitution rate	RMB settlement volume in Sino-US bilateral trade / Total Sino-US bilateral trade	People's Bank of China	0.08

4.2.3. Control Variables and Mediating Variable

Control variables include US economic growth rate, euro internationalization level, and global economic policy uncertainty. The mediating variable is the degree of de-dollarization in emerging markets, expressed as 1 minus the dollar reserve share in emerging markets.

4.3. Model Construction

4.3.1. Baseline Regression Model

A two-way fixed effects panel regression model is constructed to test the overall impact:

$$DHI_{it} = \alpha_0 + \alpha_1 TMFI_{it} + \sum_{k=1}^3 \beta_k Control_{kit} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where i represents the economy, t represents the quarter, μ_i and λ_t represent individual and time fixed effects respectively, and ε_{it} is the random disturbance term. Cluster-robust standard errors are used for estimation to address heteroscedasticity and serial correlation issues.

4.3.2. Mediating Effect Model

The three-step method proposed by Wen Zhonglin et al. (Wen et al., 2005) is used to test the mediating effect[15]:

Step 1: Estimate the baseline regression model to test whether α_1 is significant;

Step 2: Estimate the regression model of the mediating variable on the core independent variable;

Step 3: Include both the core independent variable and the mediating variable in the regression model simultaneously.

5. Empirical Results and Analysis

5.1. Baseline Regression Results

Table 3. Baseline Regression Results

Variable	Pooled OLS	Individual FE	Time FE	Two-way FE
TMFI	-0.092***	-0.105***	-0.118***	-0.127***
	-0.021	-0.024	-0.026	-0.029
US_GDP	0.035**	0.038**	0.041**	0.044**
	-0.015	-0.016	-0.017	-0.018
EUR_INDEX	-0.076***	-0.081***	-0.085***	-0.089***
	-0.022	-0.023	-0.025	-0.026
EPU	0.028*	0.031*	0.034*	0.037*
	-0.015	-0.016	-0.017	-0.018
Constant	0.682***	0.675***	0.668***	0.661***
	-0.031	-0.033	-0.035	-0.037
Individual FE	No	Yes	No	Yes
Time FE	No	No	Yes	Yes
Observations	840	840	840	840
R ²	0.215	0.247	0.273	0.305

*Note: Cluster-robust standard errors in parentheses; *, **, *** indicate significance at 10%, 5%, and 1% levels respectively.

Table 3 reports the results of the baseline regression. The regression results of the Pooled OLS model, individual fixed effects model and time fixed effects model all show that the coefficient of the Sino-US Trade Friction Composite Index (TMFI) is significantly negative. The regression results of the two-way fixed effects baseline model (column 4 of Table 3) indicate that the regression coefficient of TMFI is -0.127, which is significantly negative at the 1% statistical level. This means that for every 1-unit increase in the intensity of Sino-US trade frictions, the US Dollar Hegemony Composite Index decreases by an average of 0.127 units, validating Research Hypothesis H1 of this paper. The regression results of the control variables are consistent with theoretical expectations: improvements in US economic fundamentals provide support for US dollar hegemony, the euro is the primary competitor of the US dollar, and rising global economic uncertainty strengthens the safe-haven attribute of the US dollar.

5.2. Stage Heterogeneity Analysis

Table 4. Stage Heterogeneity Analysis Results

Variable	Tariff Friction Period (2018Q1-2020Q4)	Financial Sanctions Period (2021Q1- 2023Q4)	Industrial Chain + Currency Competition Period (2024Q1- 2024Q4)
TMFI	-0.054**	-0.168***	-0.213***
	-0.023	-0.032	-0.041
US_GDP	0.032*	0.047**	0.053**
	-0.017	-0.019	-0.022
EUR_INDEX	-0.068**	-0.095***	-0.107***
	-0.027	-0.029	-0.033
EPU	0.031*	0.039*	0.045*
	-0.017	-0.02	-0.023
Constant	0.693***	0.652***	0.637***
	-0.039	-0.042	-0.046
Individual FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes
Observations	360	360	120
R ²	0.226	0.341	0.389

*Note: Cluster-robust standard errors in parentheses; *, **, *** indicate significance at 10%, 5%, and 1% levels respectively.

Table 4 presents the empirical test results of the heterogeneous impacts of Sino-US trade frictions across different stages. In the first stage characterized by tariff frictions (Q1 2018 to Q4 2020), the regression coefficient of the Sino-US Trade Friction Composite Index (TMFI) is -0.054, which is statistically significant at the 5% level. When the frictions evolve into the second stage dominated by financial sanctions (Q1 2021 to Q4 2023), the absolute value of this coefficient rises sharply to 0.168, while the significance level increases to 1%, and the intensity of its negative impact on US dollar hegemony is approximately 3.1 times that of the tariff friction stage. In the third stage featuring parallel industrial chain restructuring and currency game (Q1 2024 to Q4 2024), the regression coefficient of TMFI rises further to -0.213 and still maintains statistical significance at the 1% level.

The above empirical findings indicate that as the scope of Sino-US trade frictions gradually expands from the single dimension of tariff barriers to multiple dimensions including financial sanctions, industrial chain decoupling and monetary system game, its impact effect on the US dollar hegemony system presents a significant stepwise enhancement characteristic. From the perspective of the mechanism of action, tariff frictions mainly act on the flow level of international trade, with a relatively limited and indirect impact on the US dollar system; while financial sanctions directly erode the credit foundation of the US dollar as an international reserve currency[14], and industrial chain decoupling further weakens the US dollar's pricing dominance in global trade in bulk commodities and manufactured goods[8]. This empirical result of stage differences is fully consistent with Research Hypothesis H2 proposed in this paper.

5.3. Mediating Effect Test

Table 5 presents the results of the mediation effect test. In the first step of the baseline regression, the coefficient of TMFI is significantly negative. The regression results of the second step show that TMFI exerts a significant positive driving effect on the degree of de-dollarization in emerging markets (coefficient = 0.152, significant at the 1% level). In the third step, when both the core independent variable and the mediating variable are included in the regression

simultaneously, the coefficients of TMFI and the mediating variable are both significantly negative, and the absolute value of the TMFI coefficient is smaller than that in the baseline regression. The above results indicate that de-dollarization in emerging markets plays a partial mediating role between Sino-US trade frictions and US dollar hegemony, with the mediating effect accounting for approximately 32.7%, which validates Hypothesis H3 of this paper.

Table 5. Mediating Effect Test Results

Variable	DHI	EM_DED	DHI
TMFI	-0.127***	0.152***	-0.085***
	-0.029	-0.034	-0.026
EM_DED	-	-	-0.276***
	-	-	-0.062
US_GDP	0.044**	0.021	0.050**
	-0.018	-0.02	-0.019
EUR_INDEX	-0.089***	0.073**	-0.069**
	-0.026	-0.029	-0.028
EPU	0.037*	-0.028	0.029
	-0.018	-0.02	-0.019
Constant	0.661***	0.328***	0.752***
	-0.037	-0.041	-0.045
Individual FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes
Observations	840	840	840
R ²	0.305	0.258	0.362
Mediating Effect Share	-	-	32.70%

*Note: Cluster-robust standard errors in parentheses; *, **, *** indicate significance at 10%, 5%, and 1% levels respectively.

5.4. Robustness Tests

To ensure the reliability of the research conclusions, this paper conducts robustness tests through four approaches: replacing the measurement method of core variables, adjusting the sample interval, adopting the system GMM estimation method, and performing a placebo test. All test results remain consistent with the baseline regression results, demonstrating that the research conclusions of this paper possess sound robustness.

6. Conclusion and Policy Recommendations

6.1. Research Conclusion

Based on the quarterly panel data of the world's top 30 economies from Q1 2018 to Q4 2024, this paper systematically examines the impact effects and transmission mechanisms of Sino-US trade frictions on US dollar hegemony by constructing a comprehensive index and empirical models, and draws the following main conclusions:

First, Sino-US trade frictions exert a significant weakening effect on US dollar hegemony overall, and this conclusion remains valid after multiple robustness tests.

Second, the impact of Sino-US trade frictions on US dollar hegemony exhibits distinct stage heterogeneity. The negative impacts in the financial sanctions stage and the industrial chain + currency game stage are far greater than those in the tariff friction stage.

Third, de-dollarization in emerging markets plays a partial mediating role between the two variables, with the mediating effect accounting for approximately 32.7%.

The research conclusions of this paper reveal the essential characteristic of the current US dollar hegemony: "superficially stable yet fundamentally loosening". While the US dollar still maintains a dominant position in the traditional functional domains of international currencies, the supporting force from emerging markets is continuously weakening.

6.2. Policy Recommendations

Based on the empirical research conclusions of this paper, the following five targeted policy recommendations are proposed:

6.2.1. Taking the Mediating Mechanism of De-dollarization in Emerging Markets as the Starting Point, Establish a Strategic Priority of "Trade Settlement as the Lead and Reserve Adjustment as the Supplement"

Based on the empirical conclusion of this paper that de-dollarization in emerging markets exerts a 32.7% partial mediating effect, and that trade settlement has become the core carrier of de-dollarization in emerging markets, we should abandon the traditional strategy of evenly distributing efforts and concentrate more than 80% of policy resources on the core track of trade settlement.

Focus on RMB settlement for bulk commodities in emerging markets and China's competitive industries: Concentrate on bulk commodity categories with high import dependence in China, such as crude oil, iron ore and soybeans, and promote the signing of 5-10 year long-term local currency settlement framework agreements with major exporting countries including Saudi Arabia, Brazil and Russia. Simultaneously, improve the hedging and risk hedging mechanisms of RMB-denominated futures markets such as the Shanghai International Energy Exchange (INE). In China's export competitive fields such as electromechanical products and high-tech products, provide targeted support policies for enterprises adopting RMB settlement, including cross-border financing interest rate discounts and 24-hour expedited processing of export tax refunds.

Steadily advance the auxiliary process of de-dollarization of foreign exchange reserves: Avoid severe market volatility that may be triggered by concentrated reduction of US Treasury holdings. Integrate the optimization of foreign exchange reserve structure with the deepening of monetary cooperation in emerging markets, and gradually replace US dollar reserves with gold, euros and sovereign local currency bonds of major emerging economies. By expanding the scale of bilateral currency swaps, convert overseas RMB stocks into settlement and reserve assets in emerging markets, and build a virtuous cycle mechanism of "RMB export through trade - RMB return via reserves".

6.2.2. Based on the Phased Heterogeneity Characteristics of Trade Frictions, Construct a Gradient Dynamic Policy Response System

According to the empirically identified phased differences of "weak impact during the tariff friction period, strong impact during the financial sanction period, and super-strong impact during the industrial chain + currency game period", establish a dynamic and flexible policy adaptation mechanism, and set differentiated core objectives for different stages:

Tariff friction-dominated period (weak impact period): Laying foundations and expanding pilot sites. Focus on expanding the coverage of bilateral local currency settlement pilots, simplify the cross-border RMB settlement process for enterprises, and cultivate the RMB usage inertia of market entities. Moderately increase holdings of safe-haven assets such as gold, slightly optimize the proportion of US dollar reserves, and consolidate the basic support for RMB internationalization.

Financial sanction-dominated period (strong impact period): US dollar credit substitution and emergency liquidity provision. Accelerate the breakthrough of restrictions on US dollar settlement channels, and expand the coverage of the Cross-Border Interbank Payment System

(CIPS) in sanctioned countries. Increase the total scale of bilateral currency swaps to more than 1.5 trillion yuan to provide emergency liquidity support other than US dollars for emerging market countries. Accelerate the expansion of the Panda Bond market, unblock RMB return channels, and hedge market volatility caused by impaired US dollar credit.

Industrial chain + currency game period (super-strong impact period): Global pricing power competition and multilateral institutional cooperation. Promote RMB to cover the settlement of all links in the upstream and downstream of global industrial chains, especially in key industrial chain sectors such as chips and new energy. Join forces with BRICS countries and ASEAN to establish a regional local currency settlement and clearing alliance, and promote multilateral trade and investment to gradually break away from US dollar intermediation. Promote the inclusion of RMB into the core reserve and financing currencies of multilateral development banks, and weaken the underlying support for US dollar hegemony at the institutional level.

6.2.3. Address the Core Pain Points of Trade Settlement and Precisely Enhance the Scenario Adaptability and Risk Resistance Capacity of the CIPS System

The construction of the CIPS system must closely follow the empirical conclusion that "trade settlement is the core channel of de-dollarization", avoid blind expansion divorced from the needs of the real economy, and focus on solving the three core bottlenecks restricting cross-border RMB trade settlement:

Optimize customized functions for trade scenarios: Build customized payment and settlement modules for different trade modes such as large-volume batch settlement of bulk commodities, small-value high-frequency settlement of cross-border e-commerce and offshore entrepot trade. Use blockchain technology to realize full-process digital verification of trade documents, reduce the average cross-border settlement time from the current 2-3 working days to real-time arrival, and help enterprises reduce settlement costs by more than 30%.

Extend the coverage network to emerging markets with priority: Prioritize promoting direct access of commercial banks in key emerging markets such as countries along the Belt and Road Initiative (BRI), ASEAN and Latin America to the CIPS system, and strive to achieve direct participant coverage of the world's top 20 emerging economies by 2030. Deepen interconnection with local payment systems in emerging markets such as Russia's System for Transfer of Financial Messages (SPFS) and India's Unified Payments Interface (UPI), and build a complementary and symbiotic cross-border payment network.

Strengthen independent operation capability in extreme scenarios: Improve the disaster recovery system and emergency response mechanism of the CIPS system to ensure that it can independently support cross-border settlement operations between China and its core trading partners under extreme circumstances such as the interruption of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system, and consolidate the bottom line of financial security.

6.2.4. Leverage the Development Trend of Emerging Markets and Construct a Multilateral Currency Coordination and Risk-Sharing System

Integrate the scattered de-dollarization explorations in emerging markets into a systematic driving force. Promote the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) of BRICS countries to increase the proportion of RMB loans and bond issuances, and realize full coverage of local currency settlement among member states within the framework of the Shanghai Cooperation Organization (SCO). Jointly establish a regional monetary stability fund with major emerging economies, realize the interconnection of central bank local currency swap networks among various countries, and work together to address global systemic risks brought about by US dollar cycle fluctuations.

6.2.5. Seize the Strategic Window Period of "Stable on the Surface but Loose at the Core" and Coordinate the Pace of Reform Advancement and Risk Prevention and Control

Firmly grasp the critical strategic window period of "apparent stability but underlying loosening" of US dollar hegemony in the next 5-10 years, accelerate the construction of a multi-level offshore RMB market system, continuously promote the high-level opening-up of the domestic capital market, and enhance the global investment attractiveness of RMB assets. Adhere to the fundamental direction of serving the real economy and the general principle of pursuing progress while maintaining stability, and steadily and orderly promote high-quality convertibility of the capital account. Meanwhile, establish an early warning and disposal system for US dollar hegemony fluctuation risks, improve the macro-prudential management framework for cross-border capital flows, cut off the cross-border transmission channels of external financial shocks, and consolidate the national financial security barrier.

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