Days are numbered for US dollar order

By Elisa Barwick

The list of nations pursuing initiatives that effectively sideline the US dollar, and the broader "rules-based" economic framework along with it, is expanding rapidly. We are about to find out what impact this will have on the USA, which has never wanted for investment given the privileged position of its currency as the yardstick of all currencies; the dominant means of exchange for trade, conduct of international banking and repository for foreign reserves, and as a store of value and investment of last resort in a financial storm. With its more than US$30 trillion national debt, Federal Reserve balance sheet at US$9 trillion, and bloated "everything bubble", when money flows dry up it's not going to be pretty. With its mammoth trade deficit and dwindling local productive capacity, the USA will struggle to maintain its imports if its currency forfeits its global status.

The world's reserve currency was once backed by something real, but those days are long gone. After the dollar's supremacy was undermined by the destruction of the 1944-71 Bretton Woods monetary framework—when US President Richard Nixon unpegged the US dollar from gold and opened an era of untrammelled financial speculation—agreements were made in 1974 with middle-eastern oil producers (primarily Saudi Arabia) to transact the oil trade solely in US dollars to maintain its primacy, an arrangement which came to be known as the "petrodollar" system.

Russia and India have now agreed to bypass the US dollar in trade settlement. Russian deputy PM Manturov and Indian Prime Ministerial advisor Doval met 17-18 August. Photo: Twitter

But as US economist James K. Galbraith warned in a 5 May article, "The Dollar System in a Multi-Polar World", that advantage was also squandered. Federal Reserve Chairman Paul Volcker sacrificed the real economy in order to fight inflation ("Jackson Hole conclave: Crushing the real economy since 1978", *AAS*, 31 Aug.), setting up the eventual doom of the dollar-based world order. The US industrial base withered, wrote Galbraith, as the response to each successive economic and financial crisis favoured saving the financial order over the real economy. At that time there was no credible alternative to the dollar; but when China rose on the back of strong economic development, that quickly changed. The illusion of American strength has since rapidly dissolved, with its fast-deteriorating military prowess its only remaining claim to power. ("Leading economist: Say goodbye to era of banker control", *AAS*, 1 June.)

A turning point came with the commencement of sanctions against Russia after the people of Crimea voted to secede from Ukraine and join the Russian Federation in 2014. At that time China was already shifting away from the dollar, having signed a currency deal with Brazil to bypass the US dollar in the event of a crisis and a yuan-rouble swap agreement to increase trade with Russia. With the US campaign to decouple from China initiated by President Donald Trump after his 2016 election, the remaining dollar supremacy provided by the oil trade progressively evaporated. In 2015 Russian energy company Gazprom announced it would settle all oil trading with China in yuan. As early as 2017 China began negotiations with Saudi Arabia, as the Kingdom's biggest customer, to do the same. (Note that oil producers which had previously started selling oil in currencies other than the US dollar—notably Iraq in 2001, Iran in 2007 and Libya in 2011—were all targeted for regime change.)

The shift away from the dollar accelerated when this year's sanctions forced Moscow to diversify, moving heavily towards the Chinese yuan, and clusters of new trade and finance arrangements began springing up. China soon started paying for all Russian oil and coal in yuan. This month, after talks with Russian President Vladimir Putin at Sochi, Turkish President Recep Tayyip Erdogan announced that Turkey will pay for some gas imports from Russia in roubles, and that five Turkish banks are now using Russia's Mir payments system

China's reaction to Taiwan provocations

Beyond the initial military reaction of China to the visit of US House Speaker Nancy Pelosi and Congressional delegations to Taiwan last month, which included live-fire drills plus the blockade and sanctioning of Taiwan, it remains to be seen how China will respond to this latest provocation. Asymmetric reactions from China have been ongoing for some time, particularly since President Trump's effort to decouple the two economies and in response to economic sanctions placed on Russia in 2014 and 2022.

US decoupling from China featured tough new regulations forcing Chinese companies listed on US stock exchanges to release exhaustive audit data, with 159 companies placed on a Securities and Exchange Commission watchlist for delisting. On Friday afternoon, 12 August, ten days after Pelosi touched down in Taipei, five huge Chinese state-owned companies pre-empted further negotiations, announcing they would delist from the New York Stock Exchange. "$318 billion of Chinese equity flees Wall Street", blared a *Fortune* headline; if all 200 or so Chinese companies trading on US exchanges were to do the same, the equity loss would be worth more than US$1 trillion, reported the *Financial Times*.

In July China's US Treasury holdings fell below US$1 trillion for the first time since 2010, down for the seventh month in a row. China began slowly divesting from Treasuries when trade tensions began to rise. Chinese daily *Global Times* reported 16 August that "China's US dollar-denominated reserve assets as a percentage of the nation's total had fallen to 59 per cent by end-2016 from 79 per cent at end-1995."

for electronic funds transfer. The agreement is part of a roadmap for economic cooperation to increase bilateral trade.

Despite pressure to isolate Russia, since April India has increased its imports of Russian oil by over 50 times, reported *Outlook India*. India's Foreign Minister Subrahmanyam Jaishankar declared it his moral duty to get the best deal possible for the people of India; and given rapidly rising prices, buying Russian oil, gas and coal is it. For some time India has been increasingly using non-dollar currencies for its purchases of Russian goods, utilising the yuan or Hong Kong dollar, but it has now taken the next step. Addressing a Technology & Industry forum in Novosibirsk, Russia, head of the Indian delegation Purnima Anand announced that Russia and India had established a trade settlement mechanism which bypasses the US dollar, according to a 25 August report by Russian wire service RIA Novosti.

Purnima Anand. Photo: Facebook

Anand, who is President of the BRICS International Forum, which promotes multilateral cooperation through the Brazil-Russia-India-China-South Africa grouping and others, told the conference: "We have implemented the mechanism of mutual settlements in roubles and rupees, and there is no need for our countries to use the dollar in mutual settlements. And today a similar mechanism of mutual settlements in roubles and yuan is being developed by China. That means that the BRICS countries are opening up to Russia, offering the opportunity for the country to overcome the consequences of sanctions."

On 17-18 August Indian National Security Advisor Ajit Doval was in Moscow, discussing trade and economic ties with Russian Deputy Prime Minister Denis Manturov. The Indian Banks Association (IBA) is leading talks between fifteen or more Russian and Indian banks, to establish a bilateral business mechanism using the local currencies. *Russia Briefing* reported 23 August that "Indian ATMs and terminals may soon start accepting Russian Mir debit and credit cards, while Russia is reportedly planning to reciprocate and begin accepting India's RuPay cards. … Both Russia and India are discussing options for the mutual implementation of interbank transfer services, India's Unified Payments Interface (UPI) and SPFS, the Russian version of SWIFT. In addition, the two countries are continuing negotiations on expanding the use of their national currencies in bilateral trade and talking of creating a new reserve currency within the BRICS group, which also includes Brazil, China and South Africa."

Russian Deputy Foreign Minister Alexander Pankin confirmed the use of Mir cards, saying similar discussions were taking place with Egypt, China, Azerbaijan, Bahrain, Cuba, Myanmar, Nigeria and Thailand. *Russia Briefing* reports that "Russian Mir payment cards currently can be used in 11 countries: Abkhazia, Armenia, Belarus, Vietnam, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Uzbekistan, South Korea, and South Ossetia." The United Arab Emirates is reportedly considering joining the payment system, and Iran indicated in July it would start accepting Mir payments. As previously reported by *AAS,* Iran-Russia cooperation has increased, including establishment of a new foreign exchange mechanism for the Iranian rial and Russian rouble ("Big economic moves at Russia-Iran summit", *AAS*, 27 July).

Even more significantly, the government of Russia, in consultation with BRICS and the Eurasian Economic Union, is also exploring the establishment of stable long-term producer prices for the most important commodities, including gold, which will exclude speculation. Already in July the Russian central bank published commodity standards which defined the price of a metric ton of wheat and a metric ton of coal under set conditions. Similar moves towards a precious metals exchange could create a stable gold price to underpin a new trade settlement currency, as President Putin suggested at the June BRICS forum ("China and Russia present financial solutions", *AAS*, 13 July). Given the queue of nations wishing to join BRICS or the Shanghai Cooperation Organisation (SCO), and wishing for stable trade arrangements, this could be a game changer. ("What the West fears: Russia and China push sovereign development", *AAS*, 10 August.)

In other developments: this month the Moscow Exchange commenced selling bonds denominated in Chinese yuan to attract more foreign investment, starting with an offering by Russian aluminium producer Rusal; a deal signed 3 August between the largest oil companies of China and Saudi Arabia, Sinopec and Aramco, for joint development of energy infrastructure within the framework of the Belt and Road Initiative could propel yuan payments for the oil trade currently under discussion; and at a 29 August press conference Egyptian Finance Minister Mohamed Maait said Egypt will issue international bonds denominated in yuan. In May the country issued yen-denominated bonds.

Global de-dollarisation spree builds

Columnist for *International Banker* Cary Springfield, in a 17 August article headlined "We are witnessing a global de-dollarisation spree", noted a March IMF paper which acknowledged that the US dollar has played "an outsized role" in global trade and debt financing, relative to the USA's shrinking share of global economic output. Central bank holdings of dollars as reserves is dropping, the IMF document recorded: "The dollar's share of global foreign-exchange reserves fell below 59 per cent in the final quarter of last year, extending a two-decade decline". Even more interesting is where those reserves went: "Strikingly", said the IMF, "the decline in the dollar's share has not been accompanied by an increase in the shares of the pound sterling, yen and euro, [or] other long-standing reserve currencies…. Rather, the shift out of dollars has been in two directions: a quarter into the Chinese renminbi, and three quarters into the currencies of smaller countries that have played a more limited role as reserve currencies."

Springfield invoked the impact of US-led economic sanctions as a key factor in this shift, and not only the most recent ones, aimed at Russia but affecting many nations. A March 2020 letter sent by China, Cuba, Iran, Nicaragua, North Korea, Russia, Syria and Venezuela to the Secretary-General of the United Nations had pointed to the "destructive impact" of sanctions, which hindered "the ability of national governments in procuring even basic medical equipment and supplies". Faced with a lack of traction to rectify this injustice, nations are reducing their exposure to the US dollar, both in terms of currency reserves and trade, leading to the "seemingly unstoppable rise of global multipolarity". In his speech to the 10th Moscow Conference on International Security, Russian President Vladimir Putin declared that "the era of the unipolar world is fast becoming a thing of the past" (*AAS,* 24 August).