Challenging the Dollar: China and Russia's Plan from Petroyuan to Gold

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As seen in my previous article, US military power is on the decline, and the effects are palpable. In a world full of conflicts brought on by Washington, the economic and financial shifts that are occurring are for many countries a long-awaited and welcome development.

If we were to identify what uniquely fuels American imperialism and its aspirations for global hegemony, the role of the US dollar would figure prominently. An exploration of the depth of the dollar's effects on the world economy is therefore necessary in order to understand the consequential geopolitical developments that have occurred over the last few decades.

The reason the dollar plays such an important role in the world economy is due to the following three major factors: the petrodollar; the dollar as world reserve currency; and Nixon's decision in 1971 to no longer make the dollar convertible into gold. As is easy to guess, the petrodollar strongly influenced the composition of the SDR basket, making the dollar the world reserve currency, spelling grave implications for the global economy due to Nixon's decision to eliminate the dollar's convertibility into gold. Most of the problems for the rest of the world began from a combination of these three factors.

Dollar-Petrodollar-Gold

The largest geo-economic change in the last fifty years was arguably implemented in 1973 with the agreement between OPEC, Saudi Arabia and the United States to sell oil exclusively in dollars.

Specifically, Nixon arranged with Saudi **King Faisal** for Saudis to only accept dollars as a payment for oil and related investments, recycling billions of excess dollars into US treasury bills and other dollar-based financial resources. In exchange, Saudi Arabia and other OPEC countries came under American military protection. It reminds one of a mafia-style arrangement: the Saudis are obliged to conduct business in US dollars according to terms and conditions set by the US with little argument, and in exchange they receive generous protection.

The second factor, perhaps even more consequential for the global economy, is the dollar becoming the world reserve currency and maintaining a predominant role in the basket of international foreign-exchange reserves of the IMF ever since 1981. The role of the dollar, linked obviously to the petrodollar trade, has almost always maintained a share of more than 40% of the Special Drawing Right (SDR) basket, while the euro has maintained a stable share of 29-37% since 2001. In order to understand the economic change in progress, it is sufficient to observe that the yuan is now finally included in the SDR, with an initial 10%

share that is immediately higher than the yen (8.3%) and sterling (8.09%) but significantly less than the dollar (41%) and euro (31%). Slowly but significantly Yuan currency is becoming more and more used in global trade.

The reason why the United States has been able to fuel this global demand for dollars is linked to the need for other countries to own dollars in order to be able to buy oil and other goods. For example, if a Bolivian company exports bananas to Norway, the payment method requires the use of dollars. Norway must therefore own US currency to pay and receive the goods purchased. Similarly, the dollars Bolivia receives will be used to buy other necessities like oil from Venezuela. It may seem unbelievable, but practically all countries until a few years ago used US dollars to trade amongst each other, even countries that were anti-American and against US imperialist policies.

This continued use of the dollar has had some devastating effects on the globe. First of all, the intense use of the American currency, coupled with Nixon's decisions, created an economic standard based on the dollar that soon replaced precious metals like gold, which had been the standard for the global economy for years. This has led to major instability and to economic systems that have in the proceeding years created disastrous financial policies, as seen in 2000 and 2008, for example. The main source of economic reliability transferred from gold to dollars, specifically to US treasury bills. This major shift allowed the Federal Reserve to print dollars practically without limit (as seen in recent years with interests rates for borrowing money from the FED at around 0%), well aware that the demand for dollars would never cease, this also keeping alive huge sectors of private and public enterprises (such as the fracking industry). This set a course for a global economic system based on financial instruments like derivatives and other securities instead of real, tangible goods like gold. In doing this for its own benefit, the US has created the conditions for a new financial bubble that could even bring down the entire world economy when it bursts.

The United States found itself in the enviable position of being able to print pieces of paper (simply IOU's) without any gold backing and then exchange them for real goods. This economic arrangement has allowed Washington to achieve an unparalleled strategic advantage over its geopolitical opponents (initially the USSR, now Russia and China), namely, a practically unlimited dollar-spending capacity even as it accumulates an astronomical public debt (about 21 trillion dollars). The destabilizing factor for the global economy has been Washington's ability to accumulate enormous amounts of public debt without having to worry about the consequences or even of any possible mistrust international markets may have for the dollar. Countries simply needed dollars for trade and bought US treasures to diversify their financial assets.

The continued use of the dollar as a means of payment for almost everything, coupled with the nearly infinite capacity of the of FED to print money and the Treasury to issue bonds, has led the dollar to become the primary safe refuge for organizations, countries and individuals, legitimizing this perverse financial system that has affected global peace for decades.

Dollars and War: The End?

The problems for the United States began in the late 1990s, at a time of expansion for the US empire following the demise of the Soviet Union. The stated geopolitical goal was the achievement of global hegemony. With unlimited spending capacity and an ideology based on American exceptionalism, this attempt seemed to be within reach for the policymakers at the Pentagon and Wall Street. A key element for achieving global hegemony consisted of stopping China, Russia and Iran from creating a Eurasian area of integration. For many years, and for various reasons, these three countries continued to conduct large-scale trade in US dollars, bowing to the economic dictates of a fraudulent financial system created for the benefit of the United States. China needed to continue in its role of becoming the world's factory, always having accepted dollar payments and buying hundreds of billions of US treasury bills. With Putin, Russia began almost immediately to de-dollarize, repaying foreign debts in dollars, trying to offload this economic pressure. Russia is today one of the countries in the world with the least amount of public and private debt denominated in dollars, and the recent prohibition on the use of US dollars in Russian seaports is the latest example. For Iran, the problem has always been represented by sanctions, creating great incentives to bypass the dollar and find alternative means of payment.

The decisive factor that changed the perception of countries like China and Russia was the 2008 financial crisis, as well as growing US aggression ever since the events in Yugoslavia in 1999. The Iraq war, along with other factors, prevented Saddam from starting an oil trade in euro, which threatened the dollar's financial hegemony in the Middle East. War and the America's continued presence in Afghanistan stressed Washington's intentions to continue encircling China, Russia and Iran in order to prevent any Eurasian integration. Naturally, the more the dollar was used in the world, the more Washington had the power to spend on the military. For the US, paying a bill of 6 trillion dollars (this is the cost of the wars in Iraq and Afghanistan) has been effortless, and this constitutes an unparalleled advantage over countries like China and Russia whose military spending in comparison is a fifth and a tenth respectively.

The repeated failed attempts to conquer, subvert and control countries like Afghanistan, Georgia, Iraq, Libya, Syria, Donbass, North Korea, Egypt, Tunisia, Yemen and Venezuela, have had significant effects on the perception of US military power. In military terms, Washington faced numerous tactical and strategic defeats, with the Crimean peninsula returning to Russia without a shot fired and with the West unable to react. In Donbass, the resistance inflicted huge losses on the NATO-supported Ukrainian army. In North Africa, Egypt is now under the control of the army, following an attempt to turn the country into a state under the control of the Muslim Brotherhood. Libya, after being destroyed, is now divided into three entities, and like Egypt seems to be looking with favorable regard towards Moscow and Beijing. In the Middle East, Syria, Turkey, Iran and Iraq are increasingly cooperating in stabilizing regional conflicts, where needed they are backed by Russian military power and Chinese economic strength. And of course the DPRK continues to ignore US military threats and has fully developed its conventional and nuclear deterrent, effectively making those US threats null and void.

Color revolutions, hybrid warfare, economic terrorism, and proxy attempts to destabilize these countries have had devastating effects on Washington's military credibility and effectiveness. The United States finds itself being considered by many countries to be a massive war apparatus that struggles to get what it wants, struggles to achieve coherent common goals, and even lacks the capability to control countries like Iraq and Afghanistan in spite of its overwhelming military superiority.

No One Fears You!

Until a few decades ago, any idea of straying away from the petrodollar was seen as a direct threat to American global hegemony, requiring of a military response. In 2017, given the decline in US credibility as a result of triggering wars against smaller countries (leaving aside countries like Russia, China, and Iran that have military capabilities the likes of which the US has not faced for more than seventy years), a general recession from the dollar-based system is taking place in many countries.

In recent years, it has become clear to many nations opposing Washington that the only way to adequately contain the fallout from the collapsing US empire is to progressively abandon the dollar. This serves to limit Washington's capacity for military spending by creating the necessary alternative tools in the financial and economic realms that will eliminate Washington's dominance. This is essential in the Russo-Sino-Iranian strategy to unite Eurasia and thereby render the US irrelevant.

De-dollarization for Beijing, Moscow and Tehran has become a strategic priority. Eliminating the unlimited spending capacity of the FED and the American economy means limiting US imperialist expansion and diminishing global destabilization. Without the usual US military power to strengthen and impose the use of US dollars, China, Russia and Iran have paved the way for important shifts in the global order.

The US shot itself in the foot by accelerating this process through their removal of Iran from the SWIFT system (paving the way for the Chinese alternative, known as CIPS) and imposing sanctions on countries like Russia, Iran and Venezuela. This also accelerated China and Russia's mining and acquisition of physical gold, which is in direct contrast to the situation in the US, with rumors of the FED no longer possessing any more gold. It is no secret that Beijing and Moscow are aiming for a gold-backed currency if and when the dollar should collapse. This has pushed unyielding countries to start operating in a non-dollar environment and through alternative financial systems.

A perfect example of how this is being achieved can be seen with Saudi Arabia, which has represented the crux of the petrodollar.

De-dollarize

Beijing has started putting strong pressure on Riyadh to start accepting yuan payments for oil instead of dollars, as are other countries such as the Russian Federation. For Riyadh, this is an almost existential issue. Riyadh is in a delicate situation, dedicated as it is to keeping the US dollar tied to oil, even though its main ally, the US, has pursued in the Middle East a contradictory strategy, as seen with the JCPOA agreement. Iran, the main regional enemy of Saudi Arabia, was able to have sanctions lifted (especially from Europeans countries) thanks to the JCPOA. In addition, Iran was able to pursue a historic victory with its allies in Syria, gaining a preeminent role in the region and aspiring to become a regional powerhouse. Riyadh is obliged to obey the US, an ally that does not care about its fate in the region (Iran is increasingly influential in Iraq, Syria and Lebanon) and is even competing in the oil market. To make matters worse for Washington, China is Riyadh's largest customer; and considering the agreements with Nigeria and Russia, Beijing can safely stop buying oil from Saudi Arabia should Riyadh continue to insist on receiving payment only in dollars. This would badly hurt the petrodollar, a perverse system that damages China and Russia most of all.

For China, Iran and Russia, as well as other countries, de-dollarization has become a pressing issue. The number of countries that are beginning to see the benefits of a decentralized system, as opposed to the US dollar system, is increasing. Iran and India, but also Iran and Russia, have often traded hydrocarbons in exchange for primary goods, thereby bypassing American sanctions. Likewise, China's economic power has allowed it to open a 10-billion-euro line of credit to Iran to circumvent recent sanctions. Even the DPRK seems to use cryptocurrencies like bitcoin to buy oil from China and bypass US sanctions. Venezuela (with the largest oil reserves in the world) has just started a historic move to completely renounce selling oil in dollars, and has announced that it will start receiving money in a basket of currencies without US dollars. (This is not to mention the biggest change to have occurred in the last 40 years). Beijing will buy gas and oil from Russia by paying in yuan, with Moscow being able to convert yuan into gold immediately thanks to the Shanghai International Energy Exchange. This gas-yuan-gold mechanism signals a revolutionary economic change through the progressive abandonment of the dollar in trade.

In the next and last article, we will concentrate on how successful Russia, Iran and China have been in forging a multipolar world order with the goal of peacefully containing the fallout from the collapsing American empire, and how this alternative world order is opening up a new geopolitical landscape for America's allies and other countries.

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