New Global Economic Order Built Around China?

By Steven Sahiounie
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The International Monetary Fund (IMF) has warned that the US dollar dominance as the global trading currency could be threatened by the sweeping sanctions taken against Russia from the late February 'military operations' undertaken in Ukraine. The IMF is worried that using currencies as a weapon will fragment the world economy while making it less efficient.

There are now countries rushing to find ways of transacting and storing money that circumvent the US currencies and financial markets, as well as those of their allies. Some countries are renegotiating the currency in which they get paid for trade.

Western countries, in unison with the US, EU and NATO, have imposed huge sanctions on Russia, including restrictions on its central bank, which could trigger the emergence of small currency blocs based on trade between separate groups of countries.

Russia has sought to reduce its dependence on the dollar after the US imposed sanctions in retaliation to its annexation of Crimea in 2014.

As of the end of January 2022, Russia held foreign currency reserves worth $469bn, which represented roughly a fifth of its foreign reserves in dollar-denominated assets just prior to the 'military operations' in Ukraine, with a notable chunk held overseas in Germany, France, the UK and Japan, who have now banded together to isolate Moscow from the global financial system, and have frozen more than half of Russia's reserves.

Gita Gopinath, the IMF's first deputy managing director, said the sanctions against Russia do not foreshadow the demise of the dollar as the reserve currency and that the conflict in Ukraine will slow global economic growth but will not cause a global recession.

Financial sanctions imposed on Russia threaten to weaken the dominance of the US dollar and could result in a more fragmented international monetary system, said Gopinath to The Financial Times. The conflict will also spur the adoption of digital finance, from cryptocurrencies to stablecoins and central bank digital currencies, she added.

Gopinath said the greater use of other currencies in global trade would lead to further diversification of the reserve assets held by national central banks and added,

> "Countries tend to accumulate reserves in the currencies with which they trade with the rest of the world, and in which they borrow from the rest of the world, so you might see some slow-moving trends towards other currencies playing a bigger role [in reserve assets]."

Two monetary systems might emerge, with one western and the other Chinese, and may operate in divergent ways which overlap.

The Great Economic Rivalry, by Graham Allison and associates at Harvard, have concluded that China is strong peer competitor of the US, and its currency could become global money, given the size and sophistication of its economy.

China hopes its currency, the yuan, also known as renminbi, will replace the US dollar as the global currency. The majority of international investors believe this will be inevitable, but none can say when.

When this happens Chinese exporters would have lower borrowing costs, more economic clout in relation to the United States, and would support President Jinping's economic reforms.

On December 1, 2015, the IMF announced that it awarded the yuan status as a reserve currency, and added the yuan to its Special Drawing Rights basket on October 1, 2016. This basket currently includes the Euro, Japanese yen, British pound, and US dollar. By August 2015, the yuan became the fourth most-used currency in the world, as it surpassed the Japanese yen, Canadian loonie, and the Australian dollar.

Chinese exports are relatively more competitive against dollar prices around the world. Thanks to low-cost exports to the US, China's economic growth soared.

Global reserves account for about 2% and the use of the yuan around the world is rising, while the decline in the dollar's share can be accounted for by greater use of the Chinese renminbi.

Beijing was in the process of internationalizing the yuan before the Ukraine crisis and is already ahead of other nations in adopting a central bank digital currency.

The level of trade is not the only reason the US dollar is the world's reserve currency. The strength of the American economy instills trust, but most importantly is the transparency of US financial markets and the stability of its monetary policy.

Former New York City Mayor Michael Bloomberg is Chair of the Working Group on US RMB Trading and Clearing group, with a goal to create a yuan trading center in the United States. The group includes former US Treasury Secretaries Hank Paulson and Timothy Geithner. The center would lower costs for American companies trading with China.

The dominance of the US dollar is a product of the US economic size and open financial markets. However, high inflation is a greater threat to the stability in the dollar. The US dollar became the official reserve currency of the world in 1944 in the Bretton Woods Agreement.

The US dollar is not backed by gold or any other precious metal, and is a fiat (government-made) currency, since 1971.

59 per cent of global foreign currency reserves were denominated in dollars, another 20 per cent in euros, 6 per cent in yen and 5 per cent in sterling, as of the third quarter of 2021.

Gopinath noted that the dollar's share of international reserves had fallen from 70 per cent to 60 per cent over the past two decades, with the emergence of other trading currencies, led by the Australian dollar.

If the US currency were to collapse, hyperinflation would lock the economy into a "wage-price spiral," in which higher prices would force employers to pay higher wages, which they would pass on to customers as higher price, while Washington would print out currency to meet demand, making inflation even worse.

The dollar slid to more than a one-week low in late January 2022 as data showed a drop in US private sector employment due to the increase in COVID-19 infections.

US President Biden refuses to acknowledge **Mohammed bin Salman** (MBS) as the de-facto leader of Saudi Arabia. Biden only deals with King Salman, and has said he will not recognize MBS as the next King after Salman, and has labeled MBS a killer.

Biden wanted MBS to pump more oil to bring the price down after the Russia sanctions on gas and oil. MBS would not take the White House calls, neither did the United Arab Emirates. MBS will sell oil to China in yuan, as Saudi Arabia makes a historic pivot towards China, and away from the US, who has disappointed Saudi Arabia for not defending the oil facilities after repeated attacks by Yemeni rebels. Former President Trump insulted Saudi Arabia and the King personally. Saudi Arabia had previously depended on the US as a security defender, but now realizes that the oil rich kingdom can no longer depend on the US for respect, or security.

The US and China may one day sit in negotiations concerning the new world trade currency.

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Steven Sahiounie *is a two-time award-winning journalist. He is a regular contributor to Global Research.*

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Articles by: **Steven Sahiounie**