Swap Lines: A Global Financial Order in the Making That Could End the Petrodollar Era

(Translated)

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Reuters reported on Tuesday 21 April, that US President Trump confirmed the United States was considering providing financial assistance to the UAE, indicating that a currency swap agreement between the two countries was under consideration.

The significance of this news lies not in the UAE's urgent need for funds, but instead in what it reflects: a strategic shift behind the scenes of the global financial system through a currency swap agreement, known in financial circles, particularly in America, as swap lines. This news is not merely a passing technical procedure; it is a spark heralding the birth of a new financial order that could reshape American hegemony, not through oil this time, but through direct banking liquidity.

Since 1974, the dollar's strength has rested on the petrodollar system, whereby OPEC countries, led by Saudi Arabia, sell their oil exclusively in US dollars, making the greenback backed by oil, rather than gold. This system allowed the US Federal Reserve to issue trillions of dollars to cover the needs of global energy trade.

Today, however, this system faces existential challenges, from the rise of the Chinese petroyuan and the BRICS countries' pursuit of trading in local currencies, to the global shift towards alternative energy and electric vehicles that reduce dependence on oil. This is where swap lines emerge as a new strategy for the Federal Reserve to maintain the US dollar's financial dominance.

Swap lines are bilateral agreements between central banks to exchange currencies, designed to provide liquidity in global markets during crises. Through these lines, the Federal Reserve exchanges the dollars it issues for the local currency of another country, such as the UAE dirham or the Canadian dollar, which acts as collateral or a pledge for the return of the dollars at a later date. The benefits of this system for the US are numerous, including:

1. Immense Generating Capacity: It is estimated that if the Federal Reserve were to expand its swap lines to include 100 countries at a rate of $100 billion per country, it could add $10 trillion annually to its balance sheet. This amount far exceeds what can be generated through the petrodollar system and could reach $2 trillion by 2050.

2. Overcoming Physical Constraints: The petrodollar system is tied to limited oil quantities, volatile prices, and international crises, as was the case during the COVID-19 pandemic and is currently the case with the US-'Israeli' war on Iran. Swap lines, on the other hand, are linked to financial growth and liquidity, in addition to countries' ongoing need for development, construction, and spending on various projects. This gives the Federal Reserve absolute flexibility in issuing currency.

3. Direct Dominance: Through these lines, the Federal Reserve becomes the primary lender to central banks worldwide, bypassing the role of established international institutions, like the World Bank. It provides countries with continuous liquidity, without stringent conditions, or high interest rates, thus more closely linking their financial fate to the dollar.

Since the passage of the 1981 law decoupling the dollar from GDP in the US, a kind of separation has occurred between economic growth, the production of goods and services, and financial growth, the creation of paper wealth. This separation has enabled the Federal

Reserve to inject massive liquidity even during economic recessions, as happened during the COVID-19 crisis when it injected more than $12 trillion, despite declining production.

However, if swap lines and currency exchange were used, the Federal Reserve believes that the $10 trillion it produces annually would be immediately distributed to various countries in need of these dollars. The Federal Reserve further claims, that just as the dollars the Federal Reserve currently produces in exchange for oil do not constitute a cause, or instrument, of inflation because they are directly used to purchase oil, the dollars it produces in exchange for foreign currencies are used in those countries' markets, separate from the US market, thus protecting them from the evils of inflation.

As for why countries like the UAE, Japan, or others would swap their currencies for dollars, the Federal Reserve believes these countries do so to cover their budget deficits. Instead of borrowing $100 billion from the World Bank at high interest rates, and with harsh conditions, the central bank provides dollars to these countries to cover their budget shortfalls without incurring interest or stringent terms.

So where does the benefit of the US Federal Reserve lie? The benefit lies in two matters: **Firstly**, it enables the Federal Reserve to produce enormous quantities of dollars for the benefit of countries participating in the system, in exchange for their currencies. After a year or two, the dollars are redeemed and return to the Federal Reserve's coffers. This means the Federal Reserve produced dollars for other countries, but they ultimately return to its own coffers. **Secondly**, when the swap occurs, the Federal Reserve purchases, for example, the UAE's currency, what Trump described as a currency swap, and the exchange rate is determined by the current exchange rate. Even if the UAE recovers its currency after overcoming its crisis, it can use its dollar reserves to buy it back. What has transpired so far in the use of this system since 2005, when the system was first tested, shows that the Federal Reserve always obtains the currencies of participating countries at a price lower than the market price, and when it returns or sells them to their original owners, it sells them with a certain profit margin.

However, where does the ticking time bomb of this system, the one that will explode at any moment, lie? The answer lies precisely in the problem the Federal Reserve sought to solve: the issue of inflation resulting from the massive accumulation of dollars, without any corresponding use for spending or production. The difference is that this exchange system will transform the issue from local inflation in each individual country, to simultaneous global inflation. When the Federal Reserve produces $10 trillion, and according to its estimates, this will reach $20 trillion by 2050, inflation will become a global, not a national, problem. This means the entire world will suffer from a massive surplus of a single currency, the dollar, causing its value to plummet and rendering it insufficient to purchase basic necessities and finance projects globally. A massive global recession will engulf the world, a consequence of the actions of tyrants.

﴿كَلَّا بَل لَّا تُكْرِمُونَ الْيَتِيمَ * وَلَا تَحَاضُّونَ عَلَى طَعَامِ الْمِسْكِينِ * وَتَأْكُلُونَ التُّرَاثَ أَكْلاً لَّمّاً * وَتُحِبُّونَ الْمَالَ حُبّاً جَمّاً * كَلَّا إِذَا دُكَّتِ الْأَرْضُ دَكّاً دَكّاً...﴾

"Absolutely not! In fact, you are not even gracious to the orphan, nor do you urge one another to feed the poor. And you devour others' inheritance greedily, and love wealth fervently. Enough! When the earth is entirely crushed over and over…" [TMQ Surah Al-Fajr, 89:17-21]