

Answer to Question

Has the "Countdown" Begun to End the Dollar's Dominance Over the Global Economy?

(Translated)

Question:

Attempts have emerged by some countries, especially Russia, China and the European Union, to replace the dollar with another currency in international transactions. Agreements have even been made to deal with the local currency of some countries, such as Russia's agreement with India on 31/10/2018, for the sale of S-400 missiles in the Russian currency. And its agreement with Turkey a month ago to use the currencies of the two countries in a similar missile deal. At Erdogan's meeting during the summit of the Turkish-speaking countries ... China announced that it will pay for its imports of Iranian oil in "petro-yuan" and the Central Bank of China signed a bilateral agreement to exchange the local currency with its counterpart in Japan, a 200 billion yuan (\$29 billion) in return for 3.4 trillion yen (\$31 billion). Has the "countdown" begun to end the dollar's dominance over the global economy?

Answer:

In order for the answer to be clear, the reality of the dollar's position in the global economy must be clarified:

First, the status of the dollar began to emerge through the Bretton Woods Agreement in 1944, when America imposed the dollar and its dominance in the meeting, because it was the unaffected victor in the world war ... Thus a financial system was approved whereby the ten major industrialized countries agreed to set a specific price for their local currency based on the American dollar. In addition, America agreed to link the US dollar to the gold base (\$35 per ounce) and then the exchange of dollars provided by foreign central banks at a fixed price of the dollar linked to gold. The gold reserves in America at the time was estimated to be two thirds, and that of the rest of the world was a third... but the continued weakness of the US balance of payments due to the impact of external spending led to the weakness of the US gold reserves. Between 1961 and 1970, it dropped to nearly \$5 billion. In order to preserve America's gold reserves, President Nixon decided in 1971 to stop the conversion of the dollar to gold, announcing the end of the system that linked the dollar to gold

The Nixon administration then dealt with this new financial change through a series of agreements with Saudi Arabia from 1972 to 1974, and found the so-called "petro-dollar", giving foreign countries another convincing reason for the accumulation and use of the dollar because of their need for the oil which is priced in dollars according to agreements with Saudi Arabia, the largest oil producer in the world. Saudi Arabia also agreed to recycle billions of US dollars of oil revenues through US arms manufacturers, infrastructure and the purchase of US Treasury's bonds. By 1977, at least 20 percent of all Treasury bonds abroad were in the hands of Saudi Arabia ... If oil is added to gold, which is also priced in dollars, countries were therefore keen to get the dollar. The ratio of cash reserves in dollars in global central banks was about 71% until 2000, but dropped after this year to 62%, also 40% of global debt is denominated in dollars.

Second: Today, the US dollar dominates international transactions. This created a huge artificial market for the US dollar, which distinguishes the US dollar from each domestic currency. The dollar has become an intermediary in countless transactions amounting to more than \$5.4

trillion a day, unrelated to US products or services ... What is striking is that the dollar represents 84.9% of daily foreign exchange transactions, despite America's own trade transactions is less than half of this ratio, because non-American countries deal in dollars in their business matters! The strength of the economic dollar has meant that America is able to punish the economically and financially targeted nation not only that, but also to discourage other countries from trading with the target country. America is able to achieve this tough action through the SWIFT system: (The Society for Worldwide Interbank Financial Telecommunication).

It is the dollar settlement system. Since the dollar is the global reserve currency, SWIFT facilitates the international dollar system. Countries around the world settle transactions through it, ensuring that all bilateral transactions are based on the dollar. For example, Russia and China cannot exchange goods and services in their domestic currencies unless US dollar transactions are settled through SWIFT. America can use the system to impose severe economic sanctions. Under this system, America banned, between 2014 and 2015, many of the Russian banks from SWIFT when there was deterioration in relations between the two countries. In November 2018, the United States reintroduced strict sanctions against Iran using SWIFT. Several European companies refused to fulfill their dealings with Iran for fear of America.

All of this, as we mentioned previously, is because the dollar is the world's reserve currency: **The dollar's share in the reserves of 146 central banks worldwide reached 64 percent of the total currency reserves of these banks at the end of last year. The euro occupied the second with 20 percent of it, while the contribution of the Japanese yen and the sterling pound is 5%. This is without talking about the Chinese yuan, whose reserves in these banks did not exceed US \$ 108 billion, which is less than 1%. (www.alquds.co.uk 19/8/2018)**

Third: In light of this, the countries of the world with weight and importance launched two ways to reduce the impact of the dollar. The first is the European position in 1999, when the euro was officially traded with, in 2002 in competition with the dollar. This was due to the strength of the European economies and their confidence in competitiveness. The second is through countries, such as Russia and China, whose efforts were late to curb the dollar's dominance; this is because of their inability to compete at the time (until the launch of the euro) until the financial crisis of 2008. They feared the erosion of their dollar reserves and the loss of their value. They joined the old European countries in reducing the dollar's dominance. Since China has become a world-class economy, the international efforts started to affect the dominance of the dollar.

Thus, the 2008 economic crisis was a wake-up call to countries to think about the dollar as a result of the crisis. But what made this step faster is Trump's provocations and sanctions. The new policy pursued by President Trump's administration has accelerated the tendency of other major powers to curb the dominance of the US dollar globally. President Trump's policy carried with insolence the slogan of "America First", although all American administrations were certainly working for the American interest, but the Trump administration is close to not recognizing the interests of other countries. Trump demanded Europe to pay retroactively for US military protection and launched strong sparks threatening to ignite a trade war with China. He demanded that Japan and South Korea pay for protection from the North Korean missiles. When President Trump imposed sanctions on Iran, making them include anyone using dollars to buy Iranian oil, and because China is now the world's largest oil importer, Trump's actions prompted China to take action to stop the use of the dollar, especially since it is in a trade war with the United States. Thus, in March 2018, the Shanghai Futures Exchange launched its first open-ended futures contract for foreign investors. The contract, a forward oil contract, was denominated in yuan to be a rival to Brent and WTI based on the dollar, which are used as the current standards.

So the 2008 financial crisis, its reflection on the economies of many countries and its impact on this crisis, followed by Trump's protectionism, trade war, and financial and economic policies ... all have accelerated trends against the dollar's dominance.

Fourth: Therefore, these actions have provoked some countries, especially the autonomous powerful ones, and sometimes even surpassed the countries that orbit the powerful countries, although the effective and influential movements is that from the independent states, because the influence of the states that orbit around America is instant and for a specific purpose and then stops because they cannot oppose America's effective opposition, as long as they are revolving in its orbit, and we will review the actions of these countries:

1- Actions of independent countries:

A- Russia: In 2009, Russian President Medvedev proposed a new "global currency" at the G8 summit in London as an alternative reserve currency to replace the dollar. China, Russia, India, Turkey and other oil-producing countries have recently agreed to "conduct all their trade and investment transactions in their own currency." But despite all this, the price of gold and crude oil remains in dollars! Russia's repeated statements of the replacement of the dollar with other national currencies and receiving the price of the Russian oil in currencies other than the dollar is due to US sanctions on Russia after its invasion and occupation of the Crimea and eastern Ukraine in 2015. It is also a consequence of the investigation into Russia's intervention in the US elections of 2016.

The United States has steadily increased its sanctions against Russia since 2015, and Congress has gradually expanded sanctions, using the "Act to Counter the Enemies of America through Sanctions," issued in August 2017, and imposed tougher sanctions on Russia. These measures were stringent against Russia, and this cut off the connection of the major Russian banks with the dollar, resulting in an 18 percent drop in the ruble against the dollar... All this while Russia uses the dollar in 58% of its debt, i.e. it borrows nearly half of its loans in dollars, so Russia fell in trouble which pushed it to try to reduce its use of the dollar, and free itself financially, economically and monetarily from the dollar. Putin said in a speech before the State Duma:

"We have to strengthen our economic sovereignty...the oil trade in the stock exchange is in dollars, and of course we are thinking of how to get rid of this burden..." he continued. "We have been naive in the last decades, hoping there will be a commitment to the stated principles in world trade and the global economy, and now we see that the rules of the World Trade Organization are subjected to many violations, and there are restrictions imposed on political considerations, they call them sanctions" (Duniya Al-Watan, 9/5/2018). Then Russia gradually reduced its possession of US Treasury bonds which was at its peak in 2008 by \$ 223 billion, until it became nearly one hundred billion at the end of last year. As a result the US sanctions on Russia, the latter has gotten rid of most of its bonds during the months of April and May 2018, and Russia now has only \$ 14.5 billion of those bonds ...

However, the Russian ruble cannot replace the dollar, because the lack of confidence in the ruble does not help it to mobilize countries with weight to stand by it. This is because many countries in the world do not want to buy the ruble as it fluctuates widely in currency markets, and mainly because the world has no confidence in the Russian ruble as a reserve currency. So what Russia can do most is to push some countries to pay for their Russian energy purchases with the ruble, but the Russian currency cannot replace the dollar ... Putin's spokesman Dmitry Peskov said in an interview with Rossiia TV channel.

"More and more countries, not only in the East but also in Europe, start mulling ways to minimize their dependence on the US dollar... They suddenly realize: A. it is possible, B. it should be done, and C. save yourself if you can, it should be done as soon as possible."

“Cancelling the dollar is possible to some extent, but it is not about whether you want to exit the dollar zone, but what is the alternative then: the euro? The yuan? Or Bitcoin?” **"Every one of these options has its own costs, we have to balance the costs of staying with the dollar and the costs of finding a new position,"** said Oreshkin, a former vice president of the Central Bank of Russia (Financial Times, 3/10/2018). All of which indicates that Russian officials themselves are not convinced that the ruble is fit as a global currency instead of the dollar!

B- China: China can make its yuan currency a strong competitor globally, but its global political horizon is narrow, thus affecting its narrow global economic horizon in terms of competition and conflict with America. Therefore, it could not impose its currency globally in trade and financial markets despite of the size of its large economy, but it adopted the dollar, and collected it in huge amounts ranged in recent years between 3 and 4 trillion dollars! Although it made attempts to move away from the US financial institutions, and it formed the economic group BRIX with Russia, India, Brazil and then South Africa. The total economic size of the BRIX Group exceeded \$ 15 trillion, equivalent to 20% of the global economy of \$ 74 trillion ...it also established a development bank for financing and lending (for the BRIC group) in July 2015 in Shanghai with a capital of \$ 50 billion to finally reach \$ 100 billion as an alternative to the World Bank, yet it did not give up the dollar!

When President Trump imposed sanctions on Iran and made them include anyone who uses dollars to buy Iranian oil, and because China is now the world's largest oil importer, Trump's behaviour is what prompted China to take action to stop the use of the dollar, especially since it is in a trade war with America. Therefore, in March 2018, the Shanghai Futures Exchange launched its first open futures contract for foreign investors. This contract, a forward oil contract, was denominated in yuan to compete with the Brent and WTI contracts, denominated in dollars, which are used as current standards, all of the above measures are significant and can destabilize the dollar.

What limits the hard work of China to effectively remove or destabilize the dollar is its heavy interdependence on the US economy and dollar. The US-China trade volume is very large at \$ 500 billion a year and now it has \$ 1170 billion in US Treasury bonds (Chinese financial newspaper Xinhua website 20/9/2018) down from \$ 1,300 billion in 2013, the world's largest holder of those bonds. China's reserves of dollars are between 3 and 4 trillion dollars added to China exports to the world in 2016, worth \$ 2.1 trillion and it imported \$ 1.6 trillion according to the World Trade Organization, making it the second largest commercial giant in the world after the United States. ..

Thus, the intensity of their trade in dollars, in addition to Treasury bonds, makes them take one step forward and one step back in the serious work to destabilize the dollar. America's success in attracting China to international trade in dollars has made China more interested in not shaking the dollar. It is aware that it will be the world's biggest victim of the dollar's shake-up; this pushes it to reduce its role slowly and carefully to keep its large stocks of dollars and bonds. And even if all of China's trade becomes with Russia away from the dollar, this does not solve the problem because the size of the trade of 120 billion dollars a year in both directions (Arabic China 23/9/2018) remains limited in comparison to the world trade, which is more than \$20 trillion annually. Thus, China is less bold than Russia and more cautious in its quest to curb the dollar's dominance.

China seems to have realized the damage of dealing with the dollar, both in terms of the intensity of its stocks of dollars or in terms of US Treasury bonds, etc. It became the world's most gold-buying country, its gold stocks rose from 600 tons in 2008 to 1842 tons in 2018. This explains the big drop in its dollar reserves, which reached a peak in 2014 and exceeded 4 trillion dollars (Trading Economics website). Note that China has bought more than 700 tons of gold in 2015

alone. As for US Treasuries, after the 2008 financial crisis, China went for their sale. The value of its holdings declined during the two years following the crisis, but the American threat to block China's trade, which emerged at the time in the issue of the safety of toys exported from China to America, made it return to getting more dollars. This continued until it peaked in 2013, but China returned to sell on the backdrop of the trade threat from the Trump Administration.

It reduced its holdings of these bonds in a non-confrontational way... and then sought the way to reduce the role of the dollar in its trade. It signed agreements with Russia, Japan and others for trade in local currencies. It also established the Shanghai Stock Exchange for oil trade denominated by yuan backed by gold, which got hold of 10% of the world's oil trade during the first six months of its establishment, it joined the special drawing rights, SDR (the yuan joins the US dollar, the euro, the Japanese yen and the British pound in the SDR basket of currencies, the yuan adds to the basket of currencies comprising the special drawing rights (SDR) with effect from 1/10/ 2016. (<https://www.imf.org> 30/9/2016)

However, with all of this, the density of China's stocks of dollars, bonds, etc. makes its dollar-removing work ineffective; this is why the Yuan accounts for only 1.7% of international payments, compared to 40% for the US dollar.

C- The European Union:

In 1999, the euro emerged; it was used in banks and replaced local currencies of certain countries as an alternative currency in the European Union starting from 2002. It attempted to compete with the dollar, because behind it stands globally strong economic countries such as Germany and France, joined by other industrialized and rich countries. Thus the euro became globally strong currency. And behind stands a collective force that can have a global political impact that competes with America, and has the potential to build a strong independent army as it seeks. The euro has been a reserve in international central banks by 20-23 percent. But one of the main factors preventing the euro from dominating the global economy is the weakness of Europe's political, military and economic influence facing America. The European Union itself is still in the defense of its existence, as there are threats that are not easily threatening its existence, and the exit of Britain from it was a shock of confidence as well as the rise of separatist racist movements in its countries, with demands of secession from the Union, which weakened the confidence in the Union... In addition to disunity in the political decision, are all factors that reflect the euro's currency and confidence in it.

2- States revolving in the orbit of America by the agreement of Russia, China and Europe:

• Turkey, Iran, India, and Japan:

- The head of the Central Bank of Iran Abdul Nasser Hamati announced that in a meeting with representatives of Russia and Turkey **"the issue of trade was discussed using local currency rather than the dollar"** (Tehran Times 9/9/2018)

- Turkey, Russia and Iran have agreed to use their local currencies for trade with each other instead of the US dollar, the Anatolia news agency reported. The agency, run by the state quoted the governor of the Central Bank of Iran, Abdul Nasser Hamati saying in Tehran, "the commercial transactions will be using specific exchange rate". (<https://ahvalnews.com/ar> 9/9/2018)

- In October 2018, China and Japan agreed to a \$30 billion currency swap, Japan's largest deal.

"The contract to supply the S-400 missile system to India will be made using the Russian ruble currency," Russian Deputy Prime Minister Yury Borisov said on 31/10/2018.

These countries, which China and Russia are trying to bring to the policy of dealing with local currencies, are still revolving in the American orbit or are its agents, that is, they are politically linked to America and quickly align with America, and do not make decisions to abandon dealing with the dollar or abandon making it the currency of their cash reserves. The decision of economic independence must be equated with political independence, such as independent China and Russia. And if they accepted the study of dealing with the local currency with Russia and China, this is because they were pushed by America due to an emergency situation, but once it ends things go back to normal:

Since sanctions were imposed on Turkish steel, and since the United States attacked the Turkish currency, Erdogan started to criticize the dollar for domestic public opinion. Turkey's total debt of more than \$400 billion is collected in dollars, meaning that each time its currency depreciates against the dollar the repayment of the debt requires more and more lira, and then prices rise and burdens the people, and Erdogan gives his dazzling speeches as usual! Erdogan's statement on the sixth conference of the Turkish Council at the Roh Ordu Cultural Center in Kyrgyzstan, on the third of September, in it he said: **"We propose trading in our own currency instead of the US dollar."**

This statement has no reality, and is far from becoming a reality, because Turkey is essentially trading with the EU! However, Turkey trades in dollars, borrows in dollars and most of its reserves of foreign currency is in dollars, and imported oil, natural gas and imported raw materials are all in dollars ... We saw Turkey when America lifted the sanctions after the American pastor was freed, things returned to normal, and it lost enthusiasm of giving priority to dealing in local currencies before the lifting of sanctions... As for the Turkish-speaking countries in Central Asia, they follow the Russian policy, and the Turkish trade with them even if they were exchanged in local currencies do not amount to the influential figures in world trade due to the marginal economy of Central Asian countries.

Iran is banned from dealing with the dollar because of the harsh financial sanctions imposed on it for many years after being taken out of the American banking system ... But after the lifting of the sanctions in 2015, it was selling its oil in dollars and signed large contracts with international companies, including European companies such as Airbus and Total the French company in dollars exclusively, as if nothing has happened! The sanctions and their lifting affect Iran's actions in a timely manner. America is the one who enters or exits Iran from the dollar trading system SWIFT. When America increases its anti-Iranian statements and closes its doors to the dollar, Iran's response is statements that it will not be dealing in dollars.

As for India, since the old times it imports Russian arms and America does not mind that. India has a special place to America because it wants it to be an important force to counter the increasing influence of China in Asia. India knows that, so India is not expected to seek to change the dollar to the ruble or the yuan as a global currency.

Japan, which is linked to America, does not need to be detailed. Its dealing with Russia does not mean that they are against the dollar or that they accept the ruble as an alternative to the dollar.

In conclusion, the countries that can be said to have an effective impact on the dollar's removal from its position are Russia, China and the European Union. But each of these countries have factors that weaken their movement as we have clarified, but if they get rid of those factors, they can remove the dollar from its position. If they do not work hard on this matter, they will be shocked by the so-called "weak dollar" and their wealth of dollar reserves will disappear. America is suffering a great deal of debt. According to Washington Examiner, the American magazine, on 1/10/2018, **"US government debt rose by more than \$ 1.2 trillion during the fiscal year that ended on 30 September 2018 according to a government site that keeps track of debt."**

The US national debt at the end of the fiscal year 2017 has reached 20.25 trillion dollars, and at the end of the fiscal year 2018 it amounted to 21.52 trillion ...”

The accumulation of American indebtedness over decades has brought the country into a financial predicament. As this accumulation accelerated after the 2008 crisis, increasing from \$8 trillion to \$21 trillion today, the American financial predicament has become acute, which Bolton called a threat to national security, and needs quick solutions, i.e. in the near and medium, but not the long term... In light of this reality, the remaining solution for America to manage its finances is to pump more liquidity (printing dollars). Injecting liquidity in quantities that meet state funding, let alone repaying its debts, which will lead to a collapse of the dollar, or what the US Treasury Secretary called "a weak dollar", meaning the loss of a part of the wealth of the countries of the world dealing with the dollar in their trade, the reserves of their currency, and the US treasury bonds, a loss as much as the weakening of the dollar, which will be a blow to those countries!

However, the current reality is that these countries can not adopt a global currency instead of the dollar. However, it is possible to say that the attempts of Russia and China to deal with local currencies and to conduct contracts with other countries in local currency, have the effect of breaking the dominance of the dollar if it continues strongly and without laxity, the European movement alongside China has a greater effect. The demand to buy gold will strengthen that, but it does not solve the problem as long as it remains a commodity in the central banks sold for dollars when needed by states, or a reserve to support the paper currency of the state to enable it to access hard currency. However it will not solve the problem, unless gold and silver are the currency and bank notes are issued, and matched with gold or silver, and they are not just used as a commodity in the banks to buy the so-called hard currency. This means that the Central Bank of each country shall issue the currency in gold and silver, it is accepted to issue banknotes with the value of gold and silver, and its holder shall be entitled at any time to go to the bank and take gold or silver in return, i.e. to use it like currency instead of gold and silver but with the value of gold and silver that is written on the banknote ... so gold and silver will be dominant. And then no country can plunder the wealth of others or exploit their efforts and move the war machine and wage its aggressive wars with worthless notes as we see now. There is no state that can do this, but the state of the Khilafah (caliphate), which can implement it because it is a Shariah rule ordered by Allah, and has been implemented by His Messenger (saw) in his state, and was followed by the guided Caliphs and the caliphs who followed them until the destruction of the Caliphate in 1342 AH corresponding to 1924 CE, then falsehood prevailed... The capitalist ideology dominated the world, its owners only know looting and eating people's money falsely and the collection of money in billions. It is unjust man-made law, and we see the destructive result of the financial crises and economic devastation in addition to manipulating the capabilities of people and looting their wealth and the loss of their money as papers that are worthless! It is necessary to destroy this false ideology and work for the sovereignty of the Islamic ideology the ideology of truth and justice embodied in its state that Allah has promised to his sincere believers, the righteous workers: ﴿وَعْدَ اللَّهِ لَا يُخْلِفُ اللَّهُ وَعْدَهُ وَلَكِنَّ أَكْثَرَ النَّاسِ لَا يَعْلَمُونَ﴾ **“[It is] the promise of Allah. Allah does not fail in His promise, but most of the people do not know”** [Ar-Rum: 6]

The world will remain in financial and economic hardship as long as it does not rule by Allah's law, and Allah is Truthful ﴿وَمَنْ أَعْرَضَ عَنْ ذِكْرِي فَإِنَّ لَهُ مَعِيشَةً ضَنْكًا﴾ **“And whoever turns away from My remembrance - indeed, he will have a depressed life, and We will gather him on the Day of Resurrection blind.”** [Ta-Ha: 124]

18 Rabi' Al-Awwal 1440 AH

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