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Reality and Consequences of De-Dollarization

"The dollar plays the role it does in the world financial system for very good reasons that no other country is able to replicate, including China. We have deep liquid open financial markets, strong rule of law and an absence of capital controls that no country is able to replicate."

"We should expect over time a gradually increased share of other assets in reserve holdings of countries — a natural desire to diversify. But the dollar is far and away the dominant reserve asset." - Treasury Secretary Yellen, House Financial Services Committee, August 2023.

Secretary Yellen's statement reflects an outmoded and seriously flawed set of assumptions that neither corresponds to the geoeconomic realities of the day, nor offers a structurally sound justification to sustain institutional confidence in the US dollar as the pivotal currency in international currency settlements.

Yellen's conviction that the dollar will remain dominant "for the foreseeable" is a mantra that has been repeated over and over by the various empires who have dominated global trade and capital markets, only to unexpectedly have an alternative currency emerge and replace their own, and within a relatively short period. The orthodoxy embedded in Secretary Yellen's doctrine that there is no viable alternative and that any such alternative is far into future, has been effectively challenged in a compelling 2012 study for the European Central Bank.(1)

The authors argue, primarily for geopolitical reasons arising from World War I, the dollar had replaced pound sterling as the world's reserve currency in the 1920s, as opposed to the generally accepted Bretton Woods agreement of 1944. The authors also challenge the presumption that there is only space for one dominate currency, when in fact a bipolar or multipolar currency system can be just as viable for a rational global system of trade settlements and financial transactions.

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As stipulated in the study, “…once international monetary leadership is lost, it is gone forever”.

This presentation contends, that the United States through irrational and hastily conceived actions of its own-making has undermined and irrevocably damaged the ‘full faith and credit’ of the US dollar resulting in the undeniable emergence of a bipolar or possibly, multipolar monetary international system. Nor will this development be long-term in making. An array of circumstances and events will likely hasten the process of de-dollarization to the point where America’s fiat currency faces depreciation and with it, debilitating economic, social, and political consequences.

The Construct:

The process of de-dollarization as a matter of policy and the institutionalization of that process through international financial and trade mechanisms effectively started with the announcement by the Department of Justice in June 2022 it immobilized about $300 billion of Russian central bank funds.

Whatever the legalities of such an action by the USG may or may not be, the perception that the United States has moved beyond well-defined and surgically applied economic sanctions to the application of vague and archaic monetary measures as weapons of war has provided the necessary incentive for much of the world outside the G-7 countries to construct an alternative to the dollar system. This is being done not by challenging it with another type of reserve currency, but through the creation of a de-centralized and diverse system of payments and transactions that strengthen local currencies, sustain national security priorities, and increase national economic performance as measured by GDP PPP per capita.

This construct is rapidly moving forward and will become a major economic, monetary and geopolitical force as soon as 2025.

Its key characteristics include:

- Bilateral trade settlements in national currencies (NCS),

- Decreasing reliance on a single reserve currency,

- New trade pattens and transportation routes,

- Transfer of wealth from the West (G-7) to the East and South (BRICS, OPEC, SCO, MERCOSUR) through commodity vertical integration, and value chain over supply chain.

- Increasing gold purchase by non-G7 Central banks, and oil for gold barter,

- Institutionalization of NCS through multilateral development banks (NDB, AIIB, IDB); alternative international payment systems (SPFS-Russia, CIPS-China, ACU-Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka, Myanmar, and Iran); Shanghai Petroleum and Natural Gas Trading Exchange platform, and central bank currency swaps by key providers such as China and UAE.

- Saudi Arabia considering including yuan-denominated futures contracts in the pricing model of ARAMCO.

Benchmarks:

Although conventional wisdom may suggest that NCS arrangements are embryonic and possibly an aberration to the Bretton Woods monetary landscape, requiring significant time to achieve a threshold that would undermine the dollar's reserve currency status, emerging real-world evidence suggests otherwise. For example, over the last few months, and prior to the BRICS summit and expansion in August:

- Thailand, Malaysia and Indonesia agree to use local currencies in bilateral transactions,

- India buys one million barrels of oil from the UAE. Rupees and Dirhams are used for the transaction,

- Indian refiners pay for Russian crude in rupees,

- France's TotalEnergies sells first LNG cargo settled in Yuan,

-Argentina pays for Chinese imports in Yuan,

- India announces trade deals with Malaysia and 17 other countries can be settled in rupees,

- China and Brazil MOU for settlements in Yuan,

- SCO (China, India, Russia, Iran, Kazakhstan, Pakistan, Uzbekistan, Tajikistan, Kyrgyzstan) to explore mechanisms implementing NCS amongst its members.

- Two-Thirds of Russia-China trade in yuan or rubles (est. 2023 total trade: c. $200 Billion).

Although the above is not a complete listing of NCS arrangements, it does reveal a concerted effort, both organic and systemic to break from the dollar's dominance. When combined with all the other above-mentioned attributes of de-dollarization, the downside risk to the dollar in the short to medium terms comes into focus. The pace by which this process proceeds is not so much a function of US monetary or foreign policy, but rather the extent that nations and their governing elites determine that is in their best political, economic and security interests to move away from US hegemony and into a new multipolar order whose power structure pivots through a matrix of powerful financial centers from Shanghai to Dubai, Sao Paulo to Mumbai, and Johannesburg to Singapore. Despite structural challenges in de-dollarization such as currency fluctuations and scaling up trade volumes, the maturation of this Black Swan dynamic is likely to be rapid or even exponential in the benefits it provides to its participants, whether governmental, corporate, or citizenry.

This in turn, will be aided and abetted, by the obsolescence of Secretary Yellen's adherence to the crippling dogmatism of antiquated imperial hubris; in her own words at a Paris summit, in June:

"There is a very good reason why the dollar is used widely in trade and that's because we have deep, liquid, open capital markets, rule of law and long and deep financial instruments,"

As was said that the Holy Roman Empire was neither Holy, nor Roman, nor Empire, so too it can be said that in both reality and perception, the US has neither open, liquid capital markets, nor rule of law, nor long and deep financial instruments. (2)

Such structural decay and decomposition contradict the very essence as to why the dollar emerged as the world's reserve currency.

As if to add insult to injury, the US economic landscape, like many of its former great cities, is turning into a wasteland, characterized by:

--Unsustainable debt,

--Increasing inflation (debasement of the dollar), and interest rates,

--Massive spending bills that promise, but cannot deliver economic returns,

--Current Account Deficits as a result of diminishing industrial and manufacturing sectors,

--Massive illegal migrations adversely impacting American labor.

When combined with unprecedented divisions in the domestic social compact and political instability, the incentives to find an alternative to a fiat currency that is underpinned by deteriorating economic and monetary conditions and an increasingly obvious corrupt system of governance, the US dollar is being placed in a position of jeopardy that America's governing elites will deliberately ignore, least any admission of serious risk to the dollar could spark an unmanageable crisis for which the American public would hold them accountable.

Erosion of the Petrodollar:

It can be argued that the petrodollar effectively replaced gold in sustaining the dollar as the reserve currency. As long as the Saudi Rial is pegged to the dollar, the world's most valuable commodity, oil, will ensure that any challenge to its dominance will be aborted.

The fallacy in that thought process lies with the fact that the petrodollar was predicated not only on low-priced, reliable supplies from Saudi-led OPEC producers, but also on the essential recycling of excess petrodollars into the US monetary system by Saudis and others. This was conducted through the massive purchase of US securities such as Treasuries and other forms of investment which in turn greatly assisted in financing the debt and trade deficits. (3)

Likely for reasons already stated, Saudi Arabia, the UAE as well as China, have significantly reduced their holdings in Treasuries (4). Nor is the recycling of multi-billion buys of American military hardware a regular feature of the current Middle

Eastern security landscape. Under current geopolitical conditions generated by uncalibrated US national security calculations, the time is fast approaching when dollars are no longer required to buy oil, or other commodities and goods. Apart from devaluation, what happens to an unanchored US fiat currency under such circumstances remains to be seen.

As this testimony contends, it ought not to be a surprise that the two leading powers of OPEC, Saudi Arabia and the United Arab Emirates, along with Iran, Egypt, Ethiopia and Argentina (5) have joined with the BRICS consortium. Together with major consumers like China and India, suppliers of crude and petroleum products can conduct NCS transactions in the $ 2 Trillion global oil market with significant reduction in foreign exchange costs, de-risk exposure to weaponized reserve currencies, as well as demonstrating confidence in a national currency's stability and competitiveness.

From an historical perspective, it would not be far-fetched to conclude that the current Administration inadvertently terminated the Petrodollar era on June 29, 2022 with the seizure of Russian financial assets.

Any attempt to use military coercion, whether in the Persian Gulf or the Indo-Pacific, to reverse the dynamics already in play will not change growing distrust of the decaying and culturally-biased Bretton Woods monetary construct. The sooner this is recognized, the sooner the American public may be relieved of consequences that would surely further depress their standard of living, quality of life, and life expectancy which has insidiously infiltrated the poor, working, and middle classes of this country.

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In Conclusion, the US dollar as global reserve currency will remain the reserve currency much to the detriment of the US economy and its financial and political spheres, as a new diverse, de-centralized network of international trade settlements gradually takes hold over much of the world's population and resources.

This document is meant to illustrate a far-reaching, real-world, problem that cannot be resolved by maintaining and obligating to the status quo mindset in Washington DC. Ignoring this issue, is to be complicit in its adverse historical ramifications.

Solutions are always within grasp for the free-thinking, creative, and innovative American mind. The lessons of history provide a pathway forward. So, it was with the great Roman Emperor Hadrian who ensured Rome's future for generations to come by building the walls that limited the empire's expansion, ending costly wars, building enduring infrastructure, and restoring financial stability through debt relief and tax reform.

Learning and adapting from the lessons of the past can help minimize risk, create new policy architecture and in worst case scenarios, avoid debacle and disaster.

This presentation is both a warning and an opportunity to address the axiom that: Every empire and every reserve currency convinces itself of its own immortality.

- Nikki Fuller, Jim Marchant, Paul Michael Wihbey

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1. European Central Bank, "When Did the Dollar Overtake Sterling As the Leading International Currency?", Working Paper Series, No 1433, May 2012, by Livia Chitu, Barry Eichengreen, Arnaud Mehl.

2. Earlier this year both the Fed and Treasury provided unprecedented guarantees to deal with the SVB, Signature, Silvergate and First Republic bank failures. In addition, BofA and Bloomberg Financial data report US 10 year government bond annual returns have declined, for the first time ever, three years in a row, with a 17% decrease in 2022.

3. Bloomberg Report, "The Untold Story Behind Saudi Arabia's 41-Year Debt Secret", May 30, 2016, by Andrea Wong.

4. According to Treasury Department data, Saudi Arabia's reserve of US Treasuries fell to the lowest level in more than six years, as it sold more than $3 Billion in US government debt in June, offloading the securities for a third consecutive month to bring its holdings to $108 B. T UAE sold nearly $4 B.
5. Argentina may be problematic in joining, given forthcoming general elections in October 2023.