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The dollar as a weapon and the yuan as an option?



Sources: The economist gadfly

"In God we trust"

Currently There are about 180 national currencies, but only a few are used. widely for international transactions, such as billing, payment of imports, store of value, debt issuance or investment in the foreigner. These currencies are the US dollar, the euro and, to a lesser extent, measure, the Japanese yen, the pound sterling, the Chinese yuan and some more. When crises hit, companies and investors often Seek security in dollars, although at present some believe it would be good to run away from it.

The The demise of the dollar has often been predicted and yet the currency America has proven the naysayers wrong. Has several structural advantages over others that perhaps allowed its permanence. We will see if the data and the story go hand in hand or differ in As for predicting the demise of the hegemony of the dollar and confirm the rise renminbi

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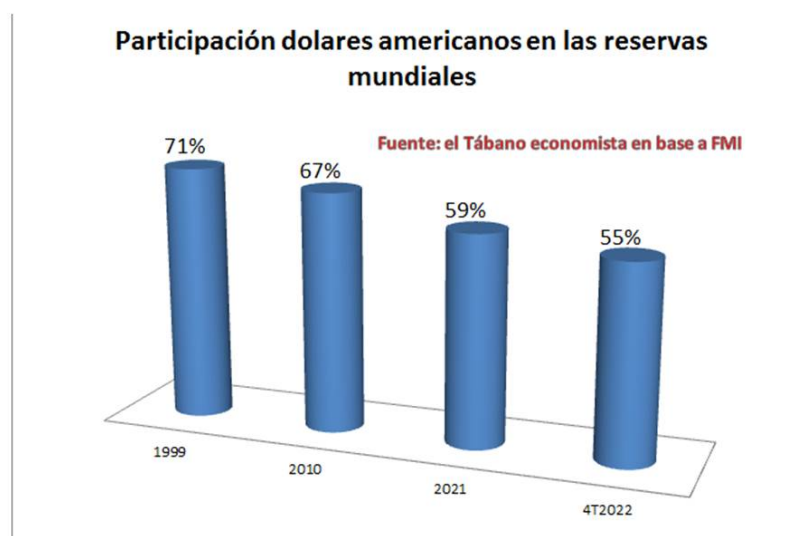
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(people's currency), the official currency of China, whose unit Basic is the yuan, so both terms are used interchangeably.

Start for describing the scenario. According to the IMF International, the dollar represents 60% of global reserve currencies, very below the 70% it symbolized in 2000, but retaining its strength. On the other hand, China strictly controls the yuan and does not allow that is fully convertible to all currencies. If there were a Last note to the scenario, US credit markets and bonds government-backed, U.S. Treasuries, are deeper and liquid than any other government-backed bond in the world.

By Therefore, one should note three indicators that are related to Yes, reserves, trade in goods, debt levels, so you can venture a Destination for American currency. According to the levels and cross-linking From these signs we could venture an answer. Security and Credibility in the U.S. government grants it a status of reliability, which other central banks and managers of assets from all over the world, which will have an important contribution in this game.

The share of U.S. dollar reserves held by central banks fell during the last quarter of 2022 to 55%, its lowest level in 25 years, according to the IMF's [Monetary Composition of Official Foreign Exchange Reserves](#) (COFER) survey. The share of US dollar assets in central bank reserves has fallen by 16 percentage points, from 71 to 55 per cent, since the euro was launched in 1999. Meanwhile, the share of the European currency fluctuated around 20%, and the share of other currencies, including the Australian dollar, Canadian dollar and Chinese renminbi, rose to 9% in the fourth quarter.



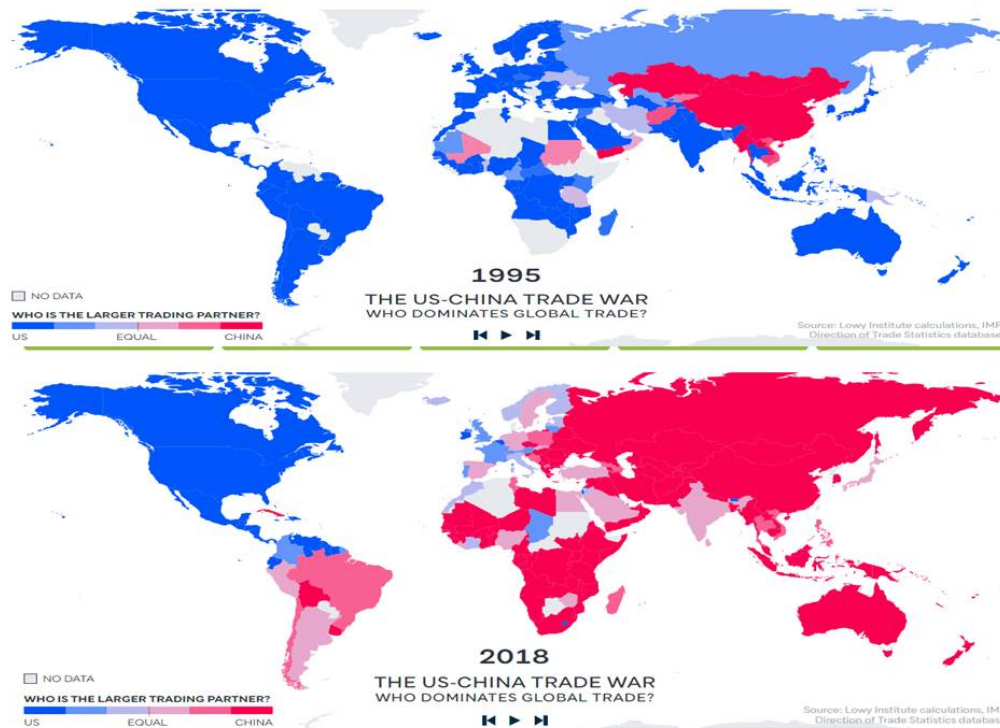
The contribution of the US dollar to world reserves has declined, Strong evidence that central banks have gradually moved away from this currency. Some expect their share of global reserves to continue. falling as central banks in emerging economies and in development seek further diversification of the composition of Your reservations. Some countries, including Russia, do not Exclusively, they are doing it.

The Russian invasion of Ukraine and the capacity of the Western alliance to freeze virtually overnight the Russia's foreign exchange reserves, [estimated at \\$300 billion](#), would make any government whose policies do not always align with those of states United will take note. In other words, surpluses, especially from the countries Emerging economies, full of commodities, used to be invested in US Treasury bonds. Being able to unilaterally appropriate assets undermines the confidence of who seek profitability of their surpluses and security in their investments.

This Foolish Western sanction, led by the United States, accelerates not only diversification of assets into alternative currencies, fixing, at cases in which they have autonomy, the value of their exports in currencies other than the dollar, usually in its own currency, or making deals trade in the currency of countries that agree to exchange goods.

This IDEA brings us to the second point in question, which has to do with trade. of goods. A secondary but central issue should be taken into account here. for this article, from the historical point of view. In July 1974, a Salomon Brothers bond trader, and later Secretary of the Treasury, William Simon, was sent on a diplomatic tour of the Middle East, Arabia Saudi specifically, to neutralize crude oil as an economic weapon and find a way to persuade the hostile kingdom, at that time, that finance America's growing deficit with its newfound wealth in Petrodollars. From that moment all commodities would be traded in dollars American.

[December 7, 1995](#) China joined the General Agreement on Tariffs and Trade (GATT) which would eventually become the World Trade Organization (WTO). The map below shows how China's trade and participation in it have increased exponentially, so its incidence in dollar transactions is increasingly important, As shown, China far surpassed the US as the world's leading trading partner.



Even Thus, of the 22.3 trillion dollars of trade, China represents almost 15% of exports, about 3.3 trillion and only a part of that trade is being a reason for negotiation in currency that does not correspond to the dollar area. We could assume that Russia with its trade for 494 MM dollars modified its external sales to rubles or different currencies, attacking the dollar. The the same would happen with Iran, about 70 MM, and about 120 MM from the Democratic Republic of Korea, as well as the widely publicized agreement between China and Saudi Arabia, 8 billion dollars, 25% of the 31.5 MM that Saudi Arabia exports of energy to China. All these transactions would hopefully reach 3.2% of trade. total, really meager amounts to worry the United States.

In the hydrocarbon trade, Xi Jinping called the collective — made up of Saudi Arabia, Kuwait, Emirates The United Arab Emirates, Bahrain, Qatar and Oman—to negotiate gas and oil in yuan. It should be clear that of the 22.3 trillion world merchandise trade [Fuels and energy They imply 3.8 trillion](#) or only 17% of trade in general. This would be relevant if all energy exporters They will change from petrodollars to petroyuan.

The Yuan is not a free convertibility currency. But observers point to that if this program were extended, it would lead to the strengthening of the currency. China in the long run. At first, the program will have limited impact in the value of the yuan, because of official restrictions and because companies They need to familiarize themselves with the procedure. It is expected that the experiment will not only be limited to Hong Kong and

Macau outside mainland China, and to provinces of Shanghai and Guangdong, but also be used in business between parties of eastern China and the ASEAN group of countries (Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam).

We are left with one last indicator that affects credibility and is now threatened by a confluence of forces. Dollar debt, led by the US, is now [\\$31 trillion and rising](#). While it is a real record, you have to keep in mind that it is in dollars and the machine to print them is in the same house. U.S. government debt was always out of control because it is, quite simply, unpayable. For now, the party continues. But rising inflation has put the system in check. Before rates made debt costs low, now interest raises it on the one hand, and inflation liquefies it on the other. On this two-way street, the important thing is that someone buys the debt.



According to the Treasury Department, as of January 31, \$6.5 trillion of debt national were classified as intra-governmental holdings. This includes Treasury securities held by various federal government agencies, primarily the Social Security Administration, which maintains a fund fiduciary to provide income to seniors.

The Much larger portion of the debt is classified as debt held by the public, amounting to \$23.5 trillion. The term "public" can be somewhat misleading because the category includes not only debt instruments held by individual investors, but also debts held by the Federal Reserve, large investment funds and foreign governments, etc.

According to the Treasury Department, foreign governments have about 7.7 trillions of dollars in U.S. debt, even though no country has more than 5% of the total. At the end of November, according to the most recent data Japan, was the largest foreign holder of U.S. debt, with \$1.3 trillion. China was the second largest holder of debt The United States, with 1.1 trillion dollars, while the United Kingdom occupied a distant third, with \$622 billion.

To As the debt has grown, the cost of its servicing has become a An important part of the federal budget. In 2021 the government paid 562,000 millions of dollars in interest on the debt. It is true that it is a disproportionate sum. But let's take a look around to compensate for the Need for world dollars for interest payments. Brazil, Argentina, Chile, Mexico, Ukraine and Colombia have a debt in dollars of more than 2.6 trillion. Interest and the need for dollars will make deficits Americans are much more bearable.

In The short term none of the indicators point to the US dollar It can be shocked, not at least for a long period. But no less It is true that many doors are opened, with reserves or trade in currencies Alternatives. With the debt is another song, extraordinary argument War-economic that conditions the previous two.

Source: <https://eltabanoeconomista.wordpress.com/2023/02/12/el-dolar-como-arma-y-el-yuan-como-opcion/>

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