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Multipolarity, banks and de-dollarization



Sources: The Economist Gadfly

In a world of free trade and democracy there is no incentive for war (Ludwig von Mises)

On February 28, 2022, the United States made one of the most prominent and foolish economic mistakes in its history. It banned U.S. entities from any operations with the Central Bank of Russia, in addition to freezing all dollar assets, which prevented the Central Bank of Russia from accessing its dollar reserves in the world. As if this were not enough, it also prevented any financial institution or US company from making transactions or operations with the Central Bank of that country. The frozen amounts are estimated to be more than \$300 billion.

Similar Nonsense alerted the countries of the Global South, which confidently deposit their trade surpluses in dollars or U.S. Treasury bonds. To the last February days **Warren Buffett's** famous phrase, "No put all your eggs in the same basket", was invalid with respect to the security of deposits of dollars or US Treasury bonds. Owners of the printing

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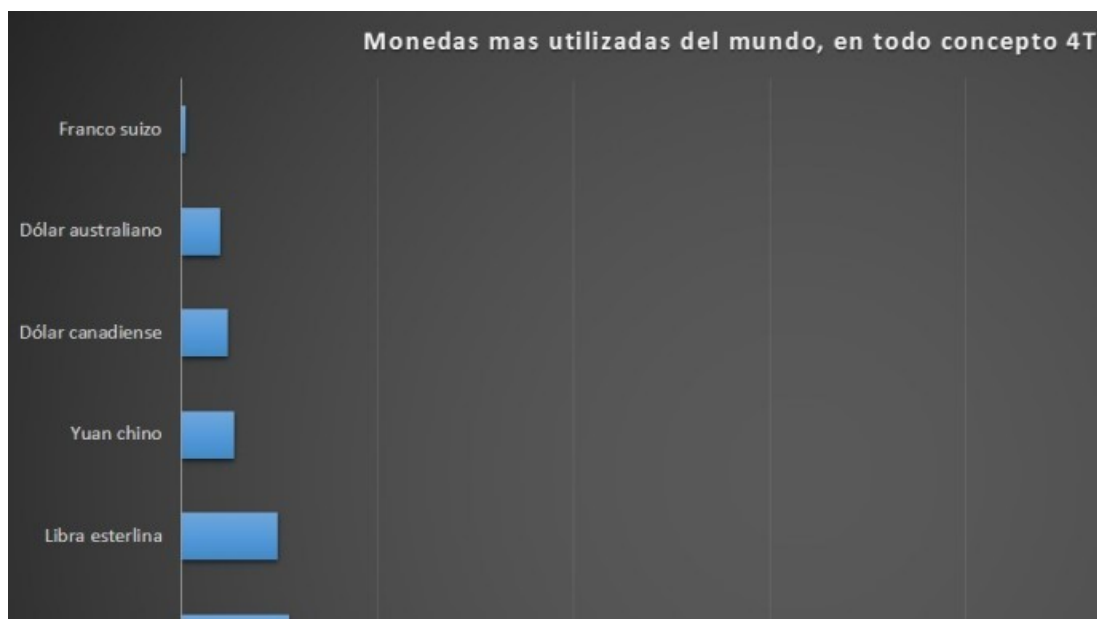
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machine greenbacks, the reimbursement of funds invested in that country did not enjoy any risk; more or less devalued, the dollars would return to their depositors. On the other hand, the probability that the Reserves of the world's greatest atomic power were frozen or confiscated It seemed irrational. Now imagine the deduction of the Global South, if the U.S. it can freeze funds to Russia, what is left for the common countries of the world. world without the slightest nuclear warhead. The idea is really crazy, but Happened.

More Sooner rather than later countries began to imagine an alternative way out of its surpluses. The creation of an alternative currency, which would be one of the Options, is the most complex issue, as we will see. The needs are more peremptory and operational, so they were carried out extremely quickly, such as bilateral agreements in local currencies. The kick was given Saudi Arabia, by accepting yuan instead of dollars, for the sale of oil to China. The Asian economy buys more than 25% of the [oil](#) it buys It exports the Arab nation. If quoted in yuan, those sales would boost the Position of the Chinese currency. The Saudis are also studying the Possibility of including futures contracts in yuan, known as **petroyuanes**. Russia closed the ruble-rupee agreement with India, he did the same with Iran and this with China, while Brazil flirts with the same idea and Argentina activated an old *swap* with China to pay in yuan a part of that country's imports. There is no doubt that the imposition of Economic sanctions on Russia employed by governments – prohibition of energy imports; cap on the price of oil; Confiscation of foreign exchange reserves; Closure of bank settlement systems international – has accelerated the move away from the dollar and the euro.

To Despite this idea, Christine Lagarde, director of the European Central Bank, in His [speech to](#) the Council on U.S. Foreign Relations in New York, noted that while There is a tendency to substitute currencies, it is still far from changing drastically The global financial order. *"These developments do not point to any loss. imminent dominance of the US dollar or the euro. So far, Data shows no substantial changes in currency usage International. But they do suggest that international currency status it should no longer be taken for granted."*

And the president of the European Central Bank is right, that is, the four most important currencies in the world, US dollar, euro, pound sterling and Japanese yen, still hold more than 90% of transactions and stores of value. It is also evident that part of central banks' US dollar reserves has shrunk by 12 percentage points since the turn of the century, from 71% in 1999 to 58.4% in the fourth quarter of 2022.



Major currencies follow Holding up, the US dollar is not being replaced by the euro, Not for the yen, not even for the Chinese yuan, but for a batch of coins Minor. The internal distribution of currencies within which it has more than 90% There is an increase in what the IMF calls "non-reserve currencies". traditional', defined as those other than the 'big four' to know, Australian dollar, Canadian dollar, yuan, Korean won, Singapore dollar and Swedish krona. All of this suggests that the change in strength of international currencies after the war in Ukraine is not being towards a West-East bloc, as most argue, but towards a fragmentation of foreign exchange reserves.

In In recent decades, China has already multiplied by 130 its bilateral trade in goods with emerging markets and developing economies, and the country It has also become the world's leading exporter. Research recent indicate that there is a significant correlation between trade in a country with China and its yuan holdings as reserves. The new patterns Trade agreements can also lead to new partnerships. A study conducted by Oxford Economic Policy finds that partnerships can increase A currency's share of the partner's reserve holdings [in about 30 percentage points](#).

The confrontation between China and the US has shown a parity of China's economic capacity by matching the American economy, as well as the BRICS surpassed the GDP of the G7, in addition to compete in global trade, investment, which shows the Implications of the apparent weakening of the hegemonic dominance of the economy the US and the dollar in the world economy, indicating the evolution towards A "fragmented and multipolar" global economy, in which in the future none Economic power would dominate trade, investment or world currencies.

All This could create an opportunity for certain countries looking to reduce their Dependence on Western payment systems and monetary frameworks, either for reasons of political preference, financial dependencies or for the use of financial sanctions in the last decade. The evidence points to, including official statements, to which some countries intend to increase the use of alternatives to the main traditional currencies to invoice the International trade, such as the Chinese yuan or the Indian rupee. And also, according to Christine Lagarde, *"we are seeing further accumulation of gold as an alternative reserve asset, possibly driven by countries with closer geopolitical ties to China and Russia."*

This last part has to do with the The need to create an alternative currency, an alternative financial system to the SWIFT which, since 2014, Russia has developed for domestic use and cross-border, with more than 50 banks in a dozen countries using it this year past. Since 2015, China has established its own system for settling payments. in yuan, an attractive bond market for depositing surpluses and Irrigation rating agencies on the Eurasian side. All this takes more time, so such as the creation of alternative banks to the IMF or the World Bank to circumvent the conditions and conditionalities they impose.

The New Development Bank, created in 2015 by the so-called BRICS (Brazil, Russia, India, China and South Africa), is an example. There is a lot of noise to your around, so much so as to believe that it can provide an alternative pole of Credit to the above-mentioned international institutions. According to [Patrick Bond](#), *"the role of the BRICS in finance Global is summed up in 'Talk to the left, walk to the right' as demonstrated by its vigorous support to the financial system by freezing the Russian portfolio at the beginning of March 2022, as otherwise it would not have retained its credit rating western AA+. And Russia is shareholder of 20% of the bank.*

From a commercial point of view Integrated into the currency area, Western countries are acting as protectionists with the imposition of tariffs, sanctions, maximum prices, trade restrictions, while the Chinese are now being the gendarmes of free trade, as happened throughout history, who has the Commercial potential to beat others needs the story of freedom competence. But this transformative change, this bloc economy that They compete to attract most countries on their side, it has to do with the Change from globalization to regionalization.

Security of supply has made your chain a central point of strategic interest, not just Supplies have to be nearby, secured, but have a constant flow. That is why the globalization created by the multinationals became regionalization, the idea of economic nationalism spread by Trump It transformed into the "homecoming" of the democrats,

suffocating Europe with the Law on combating inflation, war Ukraine, deindustrialization and Total loss of strategic autonomy. What was a compromise with China, While it belonged to the logic of globalization with cheap labor, it was It became containment from 2020 and led to direct confrontation in 2023.

While every battle, in trade, in The technological or in the currencies, is embryonic, it is no less true that this War, this world transformation into blocks, has included in the game Africa and Latin America as central components of security Supplies. Here Brazil comes to play a central role, as does Argentina, with the ability to export food, energy and minerals. Vaca Muerta, the Pre-salt, lithium, are part of the American and Chinese strategy.

Brazil plays a central card in this Dispute, a little more complex because it depends on its internal-external policies. Lula navigates in duality, which, in fact, is not at all simple. Attempt Surfing the wave taking advantage of both sides is complicated, and apparently it is The logic of a double discourse, as during 2006-2010, does not seem to have a foothold. today. Internal ambiguity is reflected in external decisions which was repeated during the presidential trip to Beijing. Lula faced United States talking about rejection of the dollar in transactions international, exalted possible Chinese investments in Brazil and attacked the IMF for drowning Argentina. But, on the same trip, the government decided not to join the New Silk Road, made up of 147 countries, which would link What was said through the microphones with the real world. Why?

Days later, before the criticism of Washington, from the leaders of the European Union and the Brazilian media to Lula for having denounced that both Kiev and Moscow are responsible for the war in Ukraine, both the president and Brazilian diplomacy gave several steps back. In Portugal, Lula was quick to point out that he never spoke of He gave instructions to Celsus Amorim, Chancellor of facto- to visit Kiev in the coming weeks.

The coup d'état of 2016, the prison of Lula, the labor, social security and secondary education counter-reforms, the freezing of the deficit, the independence of the Central Bank, the attempt to Most recent coup and 58 million votes in the second round of elections Bolsonaro, are just a sample of the conditionalities to the leader of the PT. Both Political restrictions, both internal and external, are U.S., but depending on what Lula does, the limitations will be for South America.

Source: <https://eltabanoeconomista.wordpress.com/2023/05/07/multipolaridad-bancos-y-desdolarizacion/>

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