The U.S. Monetary Power and the Struggles for International De-Dollarization

By Prof. Mauricio Metri
Global Research, March 13, 2021

Region: USA
Theme: Global Economy

***

Nowadays, there is a relative consensus among international analysts about the escalation of the military-politic-economic struggles among the great powers, mainly the United States, China, and Russia. The roots of this process were at the end of the Cold War when the United States reshaped its global geostrategy and established opposition to all regional threats to its global hegemony.

Instead of reducing its foreign military presence after its victory against the Soviet Union, the United States has expanded its military bases in the world since then. For example, the North Atlantic Treaty Organization (NATO) has enlarged by including twelve new members since 1999. Around the world, the United States owned eight hundred foreign military bases in 2015, whereas the rest of the great powers altogether had only thirty outside of their territories.[1] Furthermore, the United States and NATO have carried out different conflicts, interventions, and wars since 1991. Firstly, one could mention the interventions in the Balkans during the nineties and, later in the Great Middle East, the sequence of wars and actions against Afghanistan, Iraq, Libya, and Syria, for example.

By the way, all this strength requires an ability to support expenses in a bigger proportion than other countries. Besides, it isn't the American citizens who pay for all these military actions, presence, and structure in all parts of the world. It comes from: the position of the American currency in the international monetary system; and the way this system has worked since the eighties.

All the public and private international agents have to act based on the U.S. dollar to carry out their operations abroad. They also have to pile up positive balances in this currency. Only this way, public authorities can deal with the unstable capital flows so typical of the current international economic system. Otherwise, they couldn't act to preserve the value of their currency in the exchange markets and, also, to ensure the autonomy of their economic policy. For these reasons, the best economic-political strategy is to pile up foreign exchange reserves in the American dollar to stabilize the national exchange rate and also provide some kinds of capital controls avoiding unstable movements.

Therefore, associated with the diffusion of this economic-political strategy among countries, there is a strong demand for dollar-denominated financial assets. All countries in the world have been trying to obtain growing U.S. dollar reserves, mainly the U. S. government debt securities (bills, notes, and bonds). It looks as if there was limitless demand for this kind of asset in the current system. This fact has been allowing the U.S. governments out of proportional spending capacities and chronic macroeconomic imbalances. By and large, the whole world has made it possible for the United States to wage wars and interventions in all continents of the globe.

Considering these arguments are corrected, one may ask, what are the foundations of the dollar position as the monetary standard? During the Second World War, the United States was able to impose its currency by different means. First of all, there was the lend-lease policy: a program under which the United States supplied food, oil, and armies to the allies. All countries ended the conflict dollar indebted, even the defeated, mainly Germany and Japan, whose war repair debts were defined in American dollar, by the Treaties of Yalta and Potsdam.

Second, the United States was the “center of gravity of world oil production” until the end of the war, and since 1945 it has set control of the new center, Saudi Arabia, ensuring the pricing of oil in U.S. dollar. From that time, every country that needed to import oil had to pay in dollars.

Third, in the post-war, all the new multilateral institutions, such as the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development, had the U.S. currency as the reference in their original agreements.

Finally, the strategy of rebuilding Japan and Western Europe, known as the Marshall Plan and associated with the Truman Doctrine, reinforced the position of the U.S. dollar as the international monetary standard. Hence, the U.S. dollar was the mean to access financial support and other ways of assistance. Since then, the oil pricing and the monetary reference in the multilateral institutions have become two central pillars of the U.S. diplomacy in defense of the dollar as the international standard.

It has never been a market choice nor the result of extensive negotiations among different States. It has always been the output of disputes among great powers by advantages related to the monetary standard. First, the international currency allows the expansion of the spending capacity of the issuer state, due to the demand increasing for assets denominated in it. Besides, it creates advantages to the internationalization of their banks, which can operate with the international monetary standard easier than any other. Finally, the currency becomes a foreign policy tool since the State, whose money is the international standard, can provide liquidity to allies and squeeze rivals.

In this context, two recent initiatives hit straight in the most important bases of the U.S. currency in the world. The first one has been the new multilateral financial institutions capable of competing with the IMF and the World Bank for stabilization loans and international financing. The BRICS Contingent Reserve Arrangement and the New Development Bank of the BRICS, if consolidated, they would empty the Bretton Woods institutions’ power of framing. In the event of success and global projection, the BRICS institutions would gain the potential to put pressure on the current international monetary hierarchy by the diffusion of a currency other than the U.S. dollar.

The second initiative of real de-dollarization is the disputes over the currency of quotation (pricing) of oil traded internationally. In 2018, China launched the first renminbi (petroyuan) oil futures contracts traded on the Shanghai futures market, competing with the New York and London markets, where one negotiates such contracts in dollars. Therefore, there is already an organized global oil market outside the U.S. dollar. Russia, for its part, has increased bilateral agreements for non-dollar trading, including its oil. It has also divested a significant share of its dollar reserves and announcing the issuance of sovereign debt securities in Chinese currency. The Venezuelan government has stated a similar intention to reduce its dollar operations in its international transactions. The point here is the fact that Venezuela has become the world's most important oil reserve, even surpassing Saudi Arabia. Other countries, such as Iran, have also implemented similar policies.

In an interview in 2019, Luiz Inácio Lula da Silva, former president of Brazil (2003-10), disclosed the problem to the journalist Pepe Escobar.

> "At the BRICS meeting in Fortaleza [2014], I talked with my companion of party Dilma [then president of Brazil, 2011-16] that Brazil should make a pact more or less the same as what Russia had done with China. A great pact. The BRICS was not created as a defense instrument but as an attack one. It was to coin its currency in order not to depend on the dollar in commercial relations. And the U.S. was very afraid of it. Obama once called me asking if we were looking to create a new currency, and I said no, I'm just trying to get rid of the dollar. I don't want to be dependent." (TV 247, Aug 22, 2019).2

It is interesting to remember that, simultaneously to this event in 2014, it occurred a summit between BRICS and the Union of South American Nations (USAN), in which were present leaders from Russia, China, India, South Africa, Argentina, Bolivia, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela, and Brazil. The USAN created for the first time a space for negotiation to the south American countries without the United States, which is different from the Organization of American States (OAS). Indeed, through BRICS and the USAN, Brazil became the connection between South America and the current U.S. challengers in the international system, Russia and China.

Two years later, Dilma Rousseff had the mandate interrupted, and after other two years, Lula da Silva, the most popular politician in the country, was arrested. It is no for small reason that Brazilian foreign policy has changed since 2016, returning to a tradition of automatic alignment with Washington, a direction not favorable neither to the USAN nor BRICS.

*

Mauricio Metri is a Professor Associate at the Institute of International Relations and Defense of the Federal University of Rio de Janeiro (UFRJ), Brazil, and the Graduate Program in International Political Economy (UFRJ). PhD, Master and Graduate in Economics.

Notes

1 Vine, Davi. Base Nation: how U.S. military bases abroad harm America and the world. New York: Metropolitan Books, 2015. (pp. 5).

2 https://www.youtube.com/watch?v=drJ6uVrt8dI

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Prof. Mauricio Metri