

“A premature news” : Payment in any currency for imports of petroleum crude from Saudi Arabia

■ Dr. T. K. Jayaraman

Last month in mid-June, the world was taken by surprise, if not shocked, by the news splashed over the internet, but not in the mainstream media. It was about the “demise of the United States (US) dollar”. We are all prepared for the dangers of getting older and becoming more prone to age related illnesses and acquired disabilities. The news which was in regard to the “end of dominance” of the US dollar, and that the American currency would “no more” be exclusively needed for payment for imports of petroleum crude oil and related refined products (hereinafter, the crude) from the Kingdom of Saudi Arabia (SA). The latter is also the Chair of the longstanding cartel, OPEC. The reason put forward was that the Kingdom’s 50-year old agreement with US had expired on June 9, 2024.

Every news, has good and bad sides. The so called “goodness” about the story is that the Kingdom of SA would not anymore insist on payment for its crude in one single currency, the US dollar but would also accept other currencies including the *renminbi* (RMB), euro, the British pound, the Japanese yen, or the Indian rupee. Of course, it might also cover cryptocurrency and Bitcoin and emerging currency substitutes. It is no secret that SA has joined the *Project mBridge*, a cross border central bank digital currency project involving the central banks of China, Hong Kong, Thailand and United Arab Emirates.

To introduce some humour in this “grave death news narrative”, one would recall the quip by the 19th century American humourist Mark Twain, after reading a premature obituary note of his death, by an overzealous reporter in a local newspaper. He famously declared: “The reports of my death are greatly exaggerated”. As usual, we depend on, academic studies from official sources including US Federal Reserve’s study by Bertaut, C. Bastian, V. and Curcuro, S. 2021, *The International Role of the U.S. Dollar* as well as equally reliable research notes from private sector agencies. “In fact, there is no petrodollar pact, secret or otherwise. So, there’s nothing to renew (or not renew)”, says Sonu Verghese of Carson Group.



The fact is that the US and the Kingdom of Saudi Arabia established a Joint Bilateral Commission on Economic Cooperation in June 1974 to strengthen US Saudi relations in the wake of serious consequence to rise in crude prices in 1973-74 after the Arab oil embargo. The US decided to foster closer ties with SA by getting the proceeds of their oil sales invested in the US (as buying US assets including bonds, which strengthened its own dollar and made its imports a lot cheaper). In return, it was decided that the US would provide technical assistance to the Saudis across multiple areas – defence, agriculture, labour, science and technology, industrialisation – all of which were funded by dollars earned from selling the crude to US. That is the background of the so called petrodollar.

The latter, is nothing but the usual dollar. It was then and continues to the safe and most stable as well as as the most liquid and freely convertible and easier to store, movable and acceptable, anytime and anywhere. It still continues to be attractive, as all past autocrats and corrupt dictators, including Ferdinand Marcos of the Philippines and Idi Amin of Uganda, and the living “evergreen dadass” in the Mafia. They stored their ill-gotten wealth in the US, as a safe haven, which protects property rights and financial assets, under due process of legal procedures.

The dominance of the US dollar, built up and nurtured over centuries, more particularly in recent years has been due to various reasons, including in the initial years of 17th century with Mayflower Pilgrims, marking hard work, with their habits of thrift and savings and investment, all steeped in Puritan ethics. The later centuries were marked by innovation and technological advancements, inventions and continuing the one-step-ahead in all fields of human endeavour.

The contribution of capitalism was duly recognised later in 20th century by the Chinese Communist theoretician, Deng

Xiaoping. He advocated capitalism as a tool to make China advance. He wrote in 1962: “It doesn’t matter whether it’s a black cat or a white cat, if it catches mice, it’s a good cat.”. He was right. Opening of China to the world by President Nixon has made China to grow high and become a serious competitor to US. The tool was undoubtedly capitalism, the Chinese variety, of course as State/party capitalism or crony capitalism or whatever one would like to call it. As China is now ranked as the number two, next only to the US, its RMB has also assumed importance, likely to emerge as a leading reserve currency.

In a multipolar world, it is better to have more reserve currencies, rather than putting all eggs in a basket. Only time will prove whether today’s reserve currencies would continue to be stable and hence reliable over time. Evolving macroeconomic indicators are always a guide.

The dominance of the U.S. dollar

The dollar is generally dominant for all cross border transactions. Being a by-product of the dollar’s network effect, everyone uses the dollar. Naturally, standard exchange rates are always quoted against the dollar. According to Swift, 47% of international payments that use its messaging system were in U.S. dollars five years ago. They have risen to 59%, ignoring transactions between Eurozone countries, which are necessarily in the common currency for its 20 member countries.

Table 1 says among all the exporting and importing countries of the world, three are major players. While China accounts for 17.5% of global exports, followed by Eurozone (14.3%) and US (10.4%), the US takes 15.9% of global imports, more than Eurozone (13.6%) and China (12.8%). More importantly, trade invoices have always been in US dollars. Foreign borrowings have also been in US dollars, as they are considered as stable in value compared to other currencies. Recent data from the Bank of International

TABLE 1 : Share of three Major Countries in World Trade (in percent)		
(Average of recent years: 2020-2022)		
Countries /Region	Exports	Imports
USA	10.4	15.9
Euro Zone	14.3	13.6
China	17.5	12.8

Settlements inform us that international borrowings using the US dollars have gone up from 56% in 2012 to 62% in 2022. In regard to currency liabilities, international loans denominated in US dollars have remained more or less steady at 59% of total loans of the world. On the other hand, loans denominated in euros have been up, from 27% in 2012 to 29% in 2022 and in RMB have been around 2%.

A more visible indicator

Table 2 presents details of the currency composition of foreign exchange reserves (FOREX), which are held by central banks. The time series of data will reflect the confidence, in various leading currencies of the world, the US dollar, the euro, the yen, the British pound and the emerging RMB of China. Despite fall in the proportion of the US’s GDP (to 25% of the total global GDP) in 2023 from the corresponding figure of 71% in 2000, the US dollar as a reserve currency is dominant. Central banks hold 60% of their reserves in US\$. Attempts to break away from the dollar’s dominance will have to absorb higher foreign exchange (FX) costs. The more the efficient means of payment, the exchange rates might be more suboptimal. For SA, there’s another consideration. Its currency, the Saudi riyal, is pegged to the dollar. So, it is better to stick to the U.S. dollar from an economic stability point of view.

TABLE 2 : Share of Official Foreign Exchange Reserves by Currencies held by Central Banks : 2001-2023 (in percent)							
Currency Composition	2001	2010	2015	2020	2021	2022	2023
US \$	71.5	61.5	65.7	58.9	58.8	58.5	58.4
Euro	19.8	26.7	19.4	21.3	20.6	20.4	19.9
Yen	5	3.7	3.8	6	5.5	5.5	5.7
British Pound	2.7	3.9	4.7	4.6	4.7	4.9	4.8
Renmenbi	NA	NA	NA	2.3	2.8	2.6	2.3
Others	1.0	4.20	6.4	6.9	7.6	8.1	8.9
NA: Not Available							



A Wall Street Journal's recent economic analysis shows China is keen to promote RMB as a possible alternate to US dollar. China also wants to use the BRICS (Brazil, Russia, India, China, South Africa) trade group to support RMB. China sees the expanded BRICS trade grouping (Iran, Egypt, Ethiopia, and the United Arab Emirates) as a helpful RMB tool. In the absence of any separate currency for the BRICS, China is canvassing for trading in RMB. Although SA joined BRICS initially, after its first meeting, quietly informed the group that it had not finalised its participation in BRICS. The several decades-long animosity between Kingdom SA as a nation with Sunnis, as majority, and Iran with majority of Shites is well known. The WSJ reminds us of the recent SA's proxy war with Iran in Yemen.

This takes us to try seeing the future as well. The US, today, is far more self-sufficient in crude production presently than it was in 1974. Its annual inventories are more than its annual imports for strategic, defence reasons. Further, solar and other renewable energy resources are increasingly tapped, in addition to stepping up nuclear power generation modes which are always available. Worse comes to the worst, resorting to the banned shale gas way-out is not out of question

On the other hand, SA is intensely aware that the world demand for its crude is decreasing and its own supply capacity would not last long. The crude is simply not a viable option any longer for SA's future. It is estimated that at the current rates of extraction, Saudi oil reserves will be completely depleted in 50 years. Oil revenues are also expected to decline significantly by 2040 because of decreases in global demand. Currently oil accounted for 40% of the Kingdom's GDP and fiscal revenues are dominated by oil revenues to the extent of 75%.

SA is planning wisely. Regardless of the 1974 Joint Bilateral Commission on Economic Cooperation in June 1974, the Biden Administration and Kingdom of SA's Crown Prince Al-Saudi Mohammed bin Salman are on the verge of finalising a

Mission 2030 for the Kingdom. The objective is diversification of the Saudi economy. The Mission 2030 is expected to reduce dependence on oil, as oil are declining in the midst of world-wide promoting alternate, energy resource measures development by crude importing countries.

Under the Mission 2030, the US is expected to finance projects aimed at the diversification of the Saudi economy. In turn, SA would entrust contracts for projects would be given only to the US based and owned companies. It is an age-old and well tested aid for growth and development principle or the maxim: "The donor is twice blessed!" Aid as grant promotes goodwill and ensures the return of money in terms of earnings from exports of goods and services to aid recipient nations.

Other than economic underpinnings, a well-researched article (*The Hindu* June 23, 2024) by Mahesh Sachdev, a former Indian diplomat deals with political aspects of Mission 2030. Modelled on the US-Japan Treaty after the Second World War, the US would be ready to protect the Kingdom of SA in the event of an attack from the regional, hostile enemies (including Israel and Iran), with the provision of state-of-art F-35 stealth fighters and the likely, most prized gift, nuclear technology for peaceful use. It seems the US is also agreeable to work towards a ceasefire in Gaza and some movement towards a two-state solution to the Israel-Palestine problem.

There is no need for any renewal of unwritten/unsigned agreement of the invisible petrodollar. The US dollar would continue to dominate for some more time.

Remember the epigram from the French writer, Jean-Baptiste Alphonse Karr : plus ça change, plus c'est la même chose — It means: The more it changes, the more it's the same! ■



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