



The US dollar is still the dominant foreign reserve currency despite the fall in the share of the US's GDP as a percentage of the total global GDP. Picture: REUTERS

Petrodollar is dead! Long live dollar!



By DR T.K. JAYARAMAN and
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A NEWS item splashed in the second week of last month June over the internet was neither denied nor confirmed by official sources. It was on "the demise of the dominance of the US dollar" and that the American currency would 'no more' be insisted upon as the only mode of payment for petroleum crude imports from Saudi Arabia (SA), as its 50-year-old agreement with the US was reported to have expired on June 9, 2024. The fact is that the US and Saudi Arabia established a Joint Bilateral Commission on Economic Cooperation 50 years ago, in June 1974, to strengthen US-Saudi relations to avoid a repeat of serious consequences (of steep inflation caused by shortages of gasoline and other energy products) following the Arab oil embargo. The US decided to foster closer ties with SA by getting the proceeds of its oil sales invested in the US (by buying US assets including bonds, which strengthened its dollar and made its imports a lot cheaper). In return, it was decided that the US would provide project and technical aid to SA across multiple areas – defence, agriculture, labour, science, technology, and industrialisation – all of which were funded by dollars earned from selling the crude to the US. That is the birth of the so-called petrodollar, and the origin is the understanding, which arose from the Joint Bilateral Commission deliberations. It is not certain whether there was any signed document on the petrodollar.

The latter is nothing but the usual dollar. It was then and continues to be the safest and most stable as well as the most liquid and freely convertible financial asset.

It continues to be attractive, as all past autocrats and corrupt dictators kept ill-gotten wealth in the US, as a haven. It is well known that the US protects property rights, including financial assets, under

due process of legal procedures.

The dominance of the US dollar has been built up and nurtured over a long period.

The last 150 years were marked by innovation and technological advancement and inventions, all continuing the one step ahead in all fields of human endeavour.

The contribution of capitalism was duly recognised in the late 20th century by the Chinese statesman, 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 China to the world contributed to China's phenomenal economic growth to grow faster, becoming a serious competitor to the US.

The tool was undoubtedly one of state capitalism, which enabled China to emerge, as the number two economy.

Its currency Renminbi (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 will continue to be stable and hence reliable over time.

Evolving macroeconomic indicators, including the degree of volatility in currencies, are always a guide.

The dominance of the US 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, standard exchange rates are always quoted against the dollar. About 47 per cent of international payments for trade and other transactions, which were in US dollars five years ago, have risen to 59 per cent.

There are three major players in the world economy.

While China accounts for 17.5 per cent of global exports, followed by the Eurozone (14.3 per cent) and the US (10.4 per cent), the US takes 15.9 per cent of global imports, the Eurozone (13.6 per cent) and China (12.8 per cent).

Besides trade invoices being in US dollars, foreign borrowings have also been in US dollars, as they are considered stable in value compared to other currencies.

Recent data from the Bank of Interna-

tional Settlements inform us that international borrowings using the US dollar have gone up from 56 per cent in 2012 to 62 per cent in 2022.

Regarding currency liabilities, international loans denominated in US dollars have remained more or less steady at 59 per cent of total loans of the world, loans denominated in euros have been up, from 27 per cent in 2012 to 29 per cent in 2022 and in RMB, have been around 2 per cent.

Despite a fall in the share of the US's GDP to 25 per cent of the total global GDP in 2023 from the corresponding figure of 71 per cent in 2000, the US dollar as a reserve currency is dominant. Central banks today hold 60 per cent of their total foreign exchange reserves in US\$.

In Fiji, though the Reserve Bank of Fiji (RBF) does not formally publish quarterly or annual data on the composition of currencies held, we can infer from the public disclosure (RBF Annual Report of 2023) of the composition of the basket of currencies, serving as the basis for the determination daily exchange rate.

The weights used would also be the basis for shares of reserves of currency holdings.

Accordingly, the shares of the hold-

ings of \$US, \$AUD, \$NZ, Yen, and the euro in Fiji are 40 per cent, 29 per cent, 22 per cent, 48 per cent and four per cent, respectively.

These shares duly reflect the important roles played by the two important major countries in the Oceanic-Pacific region.

While trade between China and the Pacific including Fiji is growing, the actual holding of RMB is not reported.

However, China is keen to promote the RMB as a possible alternative to the US dollar.

China is now the largest trading nation and the largest trade partner to 120 countries; the RMB will inevitably play a larger role in the international economy.

China has already developed the 'financial plumbing' required to facilitate the internationalisation of the RMB.

The country has developed an alternative cross-border payment system (CIPS) to Fedwire and the Clearing House Interbank Payments System. China's Alipay and Tencent Pay have also now been widely adopted abroad.

The US, today, is far more self-sufficient in crude production presently than it was in 1974.

■ Continued on PAGE 20



China's President Xi Jinping and Foreign Minister Wang Yi. China has already developed the 'financial plumbing' required to facilitate the internationalisation of the RMB. Picture: REUTERS

■ From PAGE 18

Its annual inventories are more than its annual imports for strategic, and 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 as a way out is likely.

On the other hand, SA is intensely aware that the world demand for its crude is decreasing and its 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 40 years.

Oil revenues are also expected to decline significantly by 2040 because of decreases in global demand.

Currently, oil accounts for 40 per cent of the kingdom's GDP and fiscal revenues are dominated by oil revenues to the extent of 75 per cent.

SA is planning wisely.

Regardless of the 1974 Joint Bilateral Commission on Economic Cooperation in June 1974, the Biden Administration and the Kingdom of SA's Crown Prince Al-Saudi Mohammed bin Salman are on the verge of finalising a Mission 2030 for the kingdom by signing a Strategic Alliance Treaty, known as Mission 2030, aimed at diversification of the Saudi economy.

The Mission 2030 is expected to reduce dependence on petroleum crude.

Under Mission 2030, the US is expected to finance projects towards the diversification of the Saudi economy.

In turn, SA would entrust contracts for projects only to the US-based and owned companies.

It is an age-old and well-tested maxim: aid for growth and devel-



It is estimated that at the current rates of extraction, Saudi oil reserves will be completely depleted in 40 years, write the authors.

Picture: REUTERS

opment principle. "The donor is twice blessed!"

Aid as a grant promotes goodwill and ensures the return of money in terms of earnings from exports of goods and services to aid recipient nations.

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 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.

In the absence of any renewal of the unwritten/unsigned agree-


ment 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! Translated, it reads: The more it changes, the more it's the same!

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