

## US Dollar – The Global Reserve Currency. For Now!



**In 1945, the United States became the first, and so far, the only country to drop nuclear bombs on an enemy. Hiroshima and Nagasaki were destroyed in seconds, and the Japanese subsequently surrendered to the Allies, ending World War II.**

Since then, world powers have rapidly advanced their weapons technology, raising the destructive power of such weapons exponentially.



It is no surprise that the most powerful and destructive weapon in the world by far, is claimed by the United States. But this is not a nuclear weapon, no bullets or chemicals even - it is the greenback - the US Dollar!

The USA is still the largest superpower, with the largest economy in the world, and the US dollar is still the global reserve currency.

This means that just about all international trade and cross-border financial transactions take place in US dollars.

When Saudi Arabia's state-owned oil company Aramco, sells petroleum to China, the price is in US dollars. In June 2019, when Air France ordered 60 A220 jets from Airbus, that contract was negotiated in US dollars-- even though both parties are European!

When traders buy and sell cotton futures on the national mercantile exchange in Karachi, Pakistan, those trades are settled in US dollars. In fact futures in rice, wheat, coffee, sugar, palm oil, pork bellies.....are all traded in US Dollars.



When the IMF stepped in to bail out Argentina in 2018 with an emergency loan, those funds were in US dollars.

Global commerce relies on the US Dollar. Commercial banks, central banks, governments, sovereign wealth funds, and businesses around the world need US dollars if they expect to do any business internationally. That's what makes the dollar such a powerful weapon: the US government can threaten foreign companies or countries with nearly total financial collapse.

The US government realised it had this power in 2001 after the September 11th attacks. Whilst attempting to track down terrorist organisations and gather intelligence, the Treasury Department found they could 'persuade' foreign banks to hand over financial information by threatening to revoke access to US dollars.



It was incredibly effective, and a new weapon had been designed!

In 2010, they made some serious upgrades with the Foreign Account Tax Compliance Act, known as FATCA.

This law forces every foreign bank and financial institution globally to share information about their clients with the US Treasury Department.

If these foreign banks refuse to comply they will lose access to US dollars.

It seems the US government rely on this tactic more and more. In 2015, for example, the Treasury Department famously fined French bank BNP Paribas with \$8.9 billion.

BNP's crime was doing business with countries that the US government doesn't like - countries like Cuba and Iran. But BNP is a French bank, and France has no argument with Cuba or Iran.

The USA government doesn't like Sudan, Cuba and Iran. BNP did business with Sudan, Cuba and Iran, so BNP was punished by the USA. If BNP didn't pay this \$8.9 billion fine, they'd lose their access to US dollars.

British bank Standard Chartered were fined \$1.1billion by the US Treasury for the same offence in 2019.

Only this month, they did it again when the Iraqi parliament voted to expel all US troops from Iraq. The vote was a non-binding resolution anyway, so it was just politicians doing what they do best - making lots of noise!

However, the US government threatened Iraq with the loss of access to US dollars if they pursued the idea.



To be honest, I'm uncomfortable when an argument involves a split lip, or thick ear, so this use of currency as a weapon appeals, if used in the right circumstances.

Let's face it - nobody dies, nobody is injured. Schools and hospitals are not bombed in error.

It's a powerful weapon that, unlike bombs and drones, causes no loss of life.

However, the US government has been brandishing this particular weapon a little too often, and they are starting to look a bit like London's Extinction Rebellion - full of vim and vigour about their cause, but simply disrupting ordinary people going about their business.

Every time The US government threaten another country or foreign bank with losing US dollar access, they are goading the rest of the world to come up with an alternative. America has this power because there is no alternative to the US dollar- for now.



But people can only be threatened so many times before they start working on a solution, and in some ways that is already happening.

Countries like Russia and China are already trading with one another without the use of US dollars. More and more governments are starting to hold Chinese renminbi as official reserves. The UK was the first G-7 country to set up an official currency swap line with China, in June 2013.

Having the world's dominant reserve currency is an enormous privilege that provides many economic benefits. And it has changed many times throughout history-- from the Roman solidus through the Gilder, to the Spanish real de ocho and the British Pound. It never lasts forever.

In the future, when the US loses its dominant reserve status, historians will look back and point out that they did it to themselves. They shot themselves in the foot!

