

From Dollar to Yuan: The Changing Landscape of Global Trade

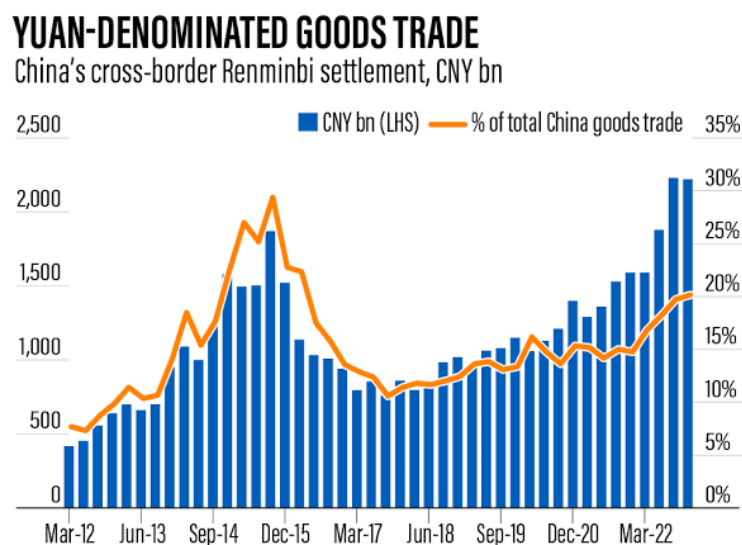
The everchanging dynamic of global trade and finance has revealed a significant swing in some nations away from the United States dollar (USD) and towards the Chinese yuan (CNY), highlighting an interesting shift in the international monetary landscape. This movement is not just a realignment by trade partners but a reflection of broader geopolitical strategies by nations like China and Russia, in an effort to diminish the global dominance of the USD in favour of the yuan (Eichengreen, 2023). This transition underpins the increasing geopolitical assertiveness of these nations, who seek to reshape global trade.

The Role of the USD in International Trade

Foreign trade often uses the United States dollar (USD) as a third-party currency due to its stability and global acceptance: facilitating smoother transactions across different currencies, minimising exchange rate risk and providing high liquidity (J.P. Morgan, 2023). This standardised use simplifies cross-border transactions and ensures a consistent mechanism for pricing and settlements in global markets. Its role as a safe haven, particularly for emerging economies, further solidifies its dominance in foreign trade.

A Potential Movement: ‘De-Dollarisation’

A potential movement towards ‘de-dollarisation’ has been accelerated by escalating tensions between the US, Russia, and China, further exacerbated by trade disputes and strategic rivalries. China, in its quest to challenge the USD’s dominance, has been aggressively promoting the internationalisation of the yuan via its Belt and Road Initiative, utilising yuan denominated loan contracts as well as increasing trade in yuan with non-western countries (Shen & Westbrook, 2023). This initiative may be part of a larger strategy to protect its economy from potential trade restrictions and pressures from the US, thereby challenging the dominance of the USD and promoting a shift towards a more diversified and multi-faceted global trade ecosystem.



This graph shows the disproportionate increase in global usage of the yuan relative to its percentage of global trade: indicating the adoption of its usage by external countries such as Russia. Source: (Khan, 2023).



Russia's Strategic Pivot and the Yuan's Ascendancy

The burden of sanctions imposed against Russia, especially in response to its invasion of Ukraine, became a catalyst for increased global trade in the yuan. Russia's adoption of the yuan represents a strategic manoeuvre to circumvent financial restrictions, including the banning of purchasing of western currencies (Dulaney et al., 2023). This shift not only bolsters the yuan's status as a global currency but also significantly contributes to a potential 'de-dollarization' process, reflecting a deliberate effort by Russia and China to alter the dynamics of trade currency.

Implications for the United States

This development poses significant implications for the United States. The Federal Reserve's ability to print money without leading to hyperinflation is unmatched, largely due to the dollar's status as the world's primary reserve currency. This capability stems from the global demand for dollars, allowing the US to implement policies that would be unsustainable for other countries without triggering severe economic consequences (Ahmed, 2022). The unique fiscal position of the US, bolstered by the dollar's role as the primary reserve currency, may be challenged as the yuan rises as a global trade currency (Chen, 2023). This shift could necessitate a re-evaluation of US economic strategies, especially concerning quantitative easing and debt management.

A New Era in Global Finance

This strategic pivot from the USD to the CNY, driven by geopolitical tensions and sanctions, signals a new era in global finance characterised by diversified currency use. The potential move towards a more balanced financial system reflects a concerted effort by nations to reduce their dependency on the USD amidst growing geopolitical rifts. As the yuan's role in global transactions expands, it challenges the traditional dominance of the USD, prompting a re-evaluation of sanctions and macroeconomic policies by the United States Government. Further to this, the magnitude of trade utilising yuan could be the economic conglomerate of BRICS (*Brazil, Russia, India, China, South Africa*) nations, representing one-third of global trade and 40% of global trade by 2040 (Baschuk, 2023).

Conclusion

In conclusion, the evolution of global trade currency transactions marks a critical turning point in global financial landscape, indicating a possible shift towards a system less dependent on a single dominant currency. This transition is underscored by a quote from Vladimir Putin in a recent interview with Tucker Carlson, claiming that the USA made a strategic misstep by using the dollar as a sanctioning tool, *"You know, to use the dollar as a foreign policy instrument to fight is one of the gravest strategic mistakes made by the US political leadership. The dollar is the cornerstone of the United States' power"* (Fox, 2024). Could the US Dollar fail to remain the dominant global currency?



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