Is It Time To Bid Farewell to a Dollar-Dominated World?

By Thomas Goho
April 19, 2023

Thomas Goho, Ph.D. is formerly the Chief Economic Consultant for Stephens Inc.

When Brazil's president addressed the New Development Bank in Shanghai last week, he urged developing countries to do what his country recently did: conduct international trade in a currency other than the American dollar. "Every night I ask myself why all countries have to base their trade on the dollar," the Brazilian president, Luiz Inácio Lula da Silva, said during his first state visit to China.

Apparently many countries are asking themselves the same thing. Leaders from across South America, the Middle East, and Africa are uncoupling their countries from the dollar. To be sure, U.S. government securities continue to be the deepest, broadest, and most liquid market in the world, and the United States will continue to be able to claim reserve currency status among the big central banks that want dollars.

But when it comes to trade, we will increasingly see more transactions denominated in renminbi—the currency of China. By 2030, I would expect that about 40 percent of global trade will be denominated in renminbi. It's part of an insidious and fast-moving plan—the Belt and Road Initiative—on the part of the Chinese leader Xi Jinping to create a global system of influence.

The decision of many countries to drop the dollar for renminbi signifies a total failure of the United States government to keep its sphere of influence intact. At this point, the U.S. continues to give financial aid packages to African countries that brazenly take the money, turn around, and contract with Chinese companies to implement mega-infrastructure projects that are in line with Belt and Road.

At the moment, the United States doesn’t appear to have any plans for keeping the dollar a dominant currency around the world. Earlier this month, America’s longtime ally Saudi Arabia agreed to begin invoicing oil in renminbi. Likewise, the six largest Latin American economies are now headed by leftist governments, all of which are clearly be more sympathetic to conducting transactions in renminbi.

Many Americans know of the grand plans that China has for the world through its Belt and Road Initiative. But few are aware of how quickly the initiative has taken shape and the extent to which many projects have been completed. For instance, there are a significant number of freight trains that leave China every day on railroad track that has been laid all the way to Dusseldorf, Germany. The trade on that transcontinental rail line alone is enormous in scope and could permit a greater role for the renminbi.

Given the political morass that the United States is in, one of the last things on the minds of its politicians is how to maintain a strong position vis-a-vis the developing and, in some cases, even the developed world. That kind of forward-thinking statecraft seems to be completely off their radar screens. One way that Xi Jinping and the Chinese Communist Party can leverage their influence is through trade—and they're doing so quite effectively. What can be frustrating to watch is how the United States doesn’t seem to have learned what kind of adversaries it has in the CCP.

What the United States should consider doing is to remind people around the world that it is the place where people should want to have their money. When you're traveling in a foreign land where their currency isn't very good, you would never encounter the people there demanding renminbi. They want to do business in U.S. dollars and peg their currency to the dollar. Going forward, however, we’ll see a bifurcated world of reserves. The holding of government debt will continue to be denominated in dollars simply because of the enormous size of America’s debt. It's highly liquid and operating under known laws. But trade is going to change more quickly than anyone expected.

The World's Previous Reserve Currency

If Americans are unsure of what is going to happen with the dollar, then they might want to think about the British pound. To this day, the pound still has a fair amount of international financial clout to it. Yet when you think about the volume of trade that is done by the United Kingdom in pounds, it’s relatively miniscule. The pound’s descent from the world’s reserve currency a century ago to a prestigious yet small player today serves as a template for what will happen to the U.S. dollar during the next 20 years.

One reaction might be that there are worse things than to have a currency that is no longer the global standard. The United Kingdom, for instance, is a nice country in which to live even though the pound is a niche player in global trade. Losing status as the world's reserve currency didn't result in some kind of apocalypse for the British people, did it? Well, it depends on your point of view. I think Americans should care about the fate of the dollar when considering the long-term value of the pound. The pound was close to parity with the dollar not too long ago. Most of us who are a certain age can remember when it took $4.80 to buy one British pound. And a bit longer ago it took $6.40 to buy one pound.

It's conceivable that the dollar's value could shrink over time as well. Investors, therefore, would do well to raise questions about how best to put together a portfolio for the long-term. In a world where the dollar might shrink in value, it's not enough simply to ride an index like the S&P 500 or the Russell 2000. Investors might be wondering if they need more exposure to international equity markets if they have, say, a 20-year horizon.

The American stock market has been fairly dominant relative to others—Europe in particular. But it might be time to be more global in an investment outlook. Even the Congressional Budget Office is looking at relatively muted growth going forward—an American economy sputtering along at under 2 percent growth annually. The finances of the United States between now and 2033 are truly a disaster, which could hasten the demise of the dollar as the world's reserve currency.

Thomas Goho, Ph.D. is formerly the Chief Economic Consultant for Stephens Inc. He also served as the Co-Director of Stephens University at Wake Forest University.