Global Research

The Demise of the Dollar

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In a graphic illustration of the new world order, Arab states have launched secret moves with China, Russia and France to stop using the US currency for oil trading

In the most profound financial change in recent Middle East history, Gulf Arabs are planning – along with China, Russia, Japan and France – to end dollar dealings for oil, moving instead to a basket of currencies including the Japanese yen and Chinese yuan, the euro, gold and a new, unified currency planned for nations in the Gulf Co-operation Council, including Saudi Arabia, Abu Dhabi, Kuwait and Qatar.

Secret meetings have already been held by finance ministers and central bank governors in Russia, China, Japan and Brazil to work on the scheme, which will mean that oil will no longer be priced in dollars.

The plans, confirmed to The Independent by both Gulf Arab and Chinese banking sources in Hong Kong, may help to explain the sudden rise in gold prices, but it also augurs an extraordinary transition from dollar markets within nine years.

The Americans, who are aware the meetings have taken place – although they have not discovered the details – are sure to fight this international cabal which will include hitherto loyal allies Japan and the Gulf Arabs. Against the background to these currency meetings, Sun Bigan, China's former special envoy to the Middle East, has warned there is a risk of deepening divisions between China and the US over influence and oil in the Middle East. "Bilateral quarrels and clashes are unavoidable," he told the Asia and Africa Review. "We cannot lower vigilance against hostility in the Middle East over energy interests and security."

This sounds like a dangerous prediction of a future economic war between the US and China over Middle East oil – yet again turning the region's conflicts into a battle for great power supremacy. China uses more oil incrementally than the US because its growth is less energy efficient. The transitional currency in the move away from dollars, according to Chinese banking sources, may well be gold. An indication of the huge amounts involved can be gained from the wealth of Abu Dhabi, Saudi Arabia, Kuwait and Qatar who together hold an estimated $2.1 trillion in dollar reserves.

The decline of American economic power linked to the current global recession was implicitly acknowledged by the World Bank president Robert Zoellick. "One of the legacies of this crisis may be a recognition of changed economic power relations," he said in Istanbul ahead of meetings this week of the IMF and World Bank. But it is China's extraordinary new financial power – along with past anger among oil-producing and oil-consuming nations at America's power to interfere in the international financial system – which has prompted the latest discussions involving the Gulf states.

Brazil has shown interest in collaborating in non-dollar oil payments, along with India. Indeed, China appears to be the most enthusiastic of all the financial powers involved, not least because of its enormous trade with the Middle East.

China imports 60 per cent of its oil, much of it from the Middle East and Russia. The Chinese have oil production concessions in Iraq – blocked by the US until this year – and since 2008 have held an $8bn agreement with Iran to develop refining capacity and gas resources. China has oil deals in Sudan (where it has substituted for US interests) and has been negotiating for oil concessions with Libya, where all such contracts are joint ventures.

Furthermore, Chinese exports to the region now account for no fewer than 10 per cent of the imports of every country in the Middle East, including a huge range of products from cars to weapon systems, food, clothes, even dolls. In a clear sign of China's growing financial muscle, the president of the European Central Bank, Jean-Claude Trichet, yesterday pleaded with Beijing to let the yuan appreciate against a sliding dollar and, by extension, loosen China's reliance on US monetary policy, to help rebalance the world economy and ease upward pressure on the euro.

Ever since the Bretton Woods agreements – the accords after the Second World War which bequeathed the architecture for the modern international financial system – America's trading partners have been left to cope with the impact of Washington's control and, in more recent years, the hegemony of the dollar as the dominant global reserve currency.

The Chinese believe, for example, that the Americans persuaded Britain to stay out of the euro in order to prevent an earlier move away from the dollar. But Chinese banking sources say their discussions have gone too far to be blocked now. "The Russians will eventually bring in the rouble to the basket of currencies," a prominent Hong Kong broker told The Independent. "The Brits are stuck in the middle and will come into the euro. They have no choice because they won't be able to use the US dollar."

Chinese financial sources believe President Barack Obama is too busy fixing the US economy to concentrate on the extraordinary implications of the transition from the dollar in nine years' time. The current deadline for the currency transition is 2018.

The US discussed the trend briefly at the G20 summit in Pittsburgh; the Chinese Central Bank governor and other officials have been worrying aloud about the dollar for years. Their problem is that much of their national wealth is tied up in dollar assets.

"These plans will change the face of international financial transactions," one Chinese banker said. "America and Britain must be very worried. You will know how worried by the thunder of denials this news will generate."

Iran announced late last month that its foreign currency reserves would henceforth be held in euros rather than dollars. Bankers remember, of course, what happened to the last Middle East oil producer to sell its oil in euros rather than dollars. A few months after Saddam Hussein trumpeted his decision, the Americans and British invaded Iraq.