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Could China's "Petroyuan" Give Rise to a New World Energy Order?

December saw Chinese President Xi Jinping meeting the leaders of Saudi Arabia and other Gulf Cooperation Council (GCC) nations. During the meeting, Xi said Beijing had unveiled five "priority" areas regarding its ties with the Gulf countries for the future, such as the fulfillment of bilateral oil and gas transactions in the Chinese yuan rather than the U.S. dollar.

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Death of the dollar? For decades, the U.S. dollar has been the world's reserve currency. Some say that could be coming to an end, however, as the Chinese yuan gains popularity among nations seeking to distance themselves from the U.S.-led order.

Xi urged the GCC countries — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates — to use the Shanghai Petroleum and Natural Gas Exchange to conduct yuan-based energy deals. Also, China and Saudi Arabia inked more than $30 billion in trade deals during the visit.

China's plans to use the yuan in its oil trade with Gulf nations may lead to a new world energy order, with Xi's trip signaling "the birth of the petroyuan," showcasing China's drive "to rewrite the rules of the global energy market," based on a recent note from Credit Suisse analyst Zoltan Pozsar published in a U.K. newspaper.

Pozsar said China hopes to de-dollarize parts of the world, since the U.S. dollar's hegemonic status was used to undermine Russia. He also pointed out that Russia, Iran, and Venezuela accounted for 40 percent of OPEC+ proven oil reserves, with the GCC making up another 40 percent.

Pozsar acknowledged that Xi's declaration was part of "a larger effort to de-dollarize" the BRICS countries (Brazil, Russia, India, China, and South Africa) "and many other parts of the world after the weaponization of dollar foreign exchange reserves" coinciding with the onset of the Ukraine-Russia crisis last year.

Such a move away from the petrodollar as the preferred currency for oil markets, and the U.S. dollar in general as the world's reserve currency, would have profound effects on the world economic stage, particularly in the United States, which has reaped the benefits of the current system for many decades.

During the GCC summit, Xi declared that over the next three to five years, China would not only drastically raise imports from GCC nations, but steer toward "all-dimensional energy co-operation," Pozsar said.

"This could potentially involve joint exploration and production in places such as the South China Sea, as well as investments in refineries, chemicals and plastics. Beijing's hope is that all of it will be paid for in renminbi [yuan], on the Shanghai Petroleum and Natural Gas Exchange, as early as 2025," he added.

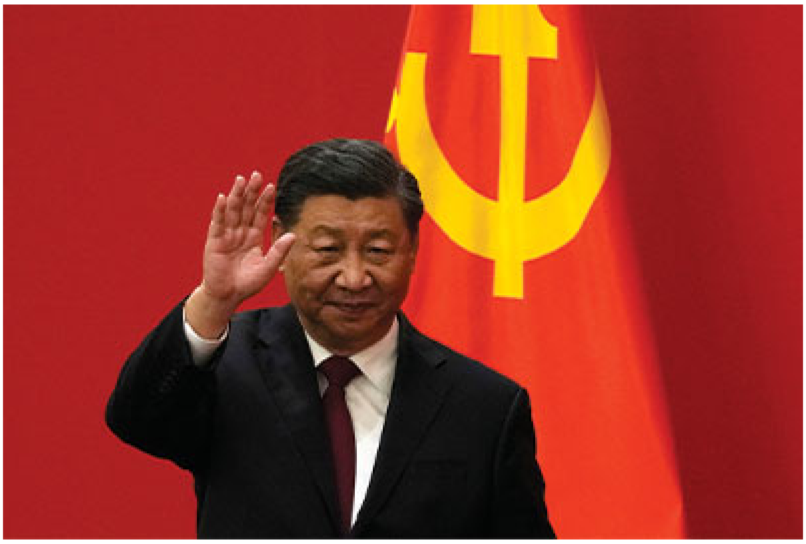
While Xi's move did not mean that the yuan would immediately replace the U.S. dollar as a reserve currency, "the petroyuan trade nonetheless comes with important economic and financial implications for policymakers and investors," the U.K. news outlet stated.

Moreover, the report alluded to "the prospect of cheap energy," which is "already luring western industrial businesses to China," offering the example of the recent move of German chemical behemoth BASF's main plant in Ludwigshafen.

"This could be the beginning of what Pozsar calls a 'farm to table' trend" in which "China tries to capture more value-added production locally, using cheap energy as a lure."

Ilya Kalenkov, director general of the Russian equipment manufacturer Evropeiskaya Elektrotekhnika, told Sputnik News that as the world makes futile attempts to adopt "green" energy, Russia, which is facilitating trade transactions with China in the yuan, has "fine" prospects in the global energy market for years to come.

Kalenkov posited that international oil reserves would most probably not be exhausted in the near future, and that the quantity and the accessibility of "black gold" will hinge on technological developments. For example, oil is currently extracted from a typical depth of 3-3.5 kilometers (around two miles). Four decades ago, it was extracted from a depth of just 1.5 kilometers (0.9 miles), and all oil reserves at a greater depth were considered inaccessible, Kalenkov said.



Global goals: Chinese leader Xi Jinping is attempting to increase China's status as a world economic power. His efforts to bring other nations into China's orbit and to sideline the United States are having some success. (AP Images)

While the U.S. dollar still remains the top currency for trade and foreign reserves, Beijing has been touting the yuan as a currency for oil deals with other partners such as Russia, especially after global U.S.-led sanctions on Russia following the onset of the crisis in February 2022, claimed Viktor Katona, lead crude analyst at commodity analytics company Kpler.

As Western countries froze Russia's currency reserves and boycotted its oil, Moscow sought Asia as an alternative crude market and overtook Saudi Arabia last year as China's top oil supplier. Russia has basically become "an Asian nation that in my opinion has introduced the yuan into large-scale oil trade," Katona told *Insider*.

Notwithstanding dollar proponents' claims that the dollar's liquidity and credibility would still enable it to maintain its dominance, Katona said that "it is naive to think that China will not be seeking to control the price of oil, that it would not want to conduct trade in the currency that it controls."

In particular, the U.S. Federal Reserve's policy caused the dollar to gain value last year in relation to foreign currencies. As oil deals are largely priced in dollars, a more valuable dollar would make oil contracts more expensive, Katona said.

Ultimately, the petroyuan will also have regional influence, prompting many Asian countries to "reconsider their trading routines," he added.

One of the major tenets of China's commodity policy, he added, is draconian oversight over the nuts and bolts of its crude and currency trade that could help boost the country's control over energy markets.

"It [China] tightly controls state-owned oil companies, sets directions for how much they can export. It caps the price of coal when necessary, centralizes the purchasing of iron ore when it senses that its companies are being treated differently," Katona said.

As the world's biggest oil exporter and consumer, respectively, Saudi Arabia and China both sent clear messages on "non-interference" during Xi's visit, amid Riyadh's frosty relationship with Washington over human-rights issues, energy policy, and Russia.

The re-focusing from dollar to yuan is regarded as crucial by both countries owing to the "increasing weaponization of the dollar-dominated financial system," they said, hoping the move could hurt the dollar's hegemony over the global oil market.

From the American perspective, any move by Saudi Arabia to abandon the dollar in its oil trade would be drastic.

China has also broadened energy ties with Iran, on account of Iran's economic status and dramatic progress in its defense industry.

A possible coalition of eastern nations including Iran, Russia, China, and Saudi Arabia would almost certainly carry negative ramifications for the West, and especially for the United States, a report in the *Tehran Times* argued.

While China's recent talks with the Gulf nations have gained attention, it has acutally been five years since the policy to topple the greenback from the international economic scene started with the introduction of the petroyuan.

In 2017, China and the Central Bank of the Russian Federation decided to conduct oil transactions in the Chinese currency through the aforementioned Shanghai Petroleum and Natural Gas Exchange, a platform that was the launchpad for transforming the yuan into a petrocurrency. The second move was the purchase of 32 metric tons of gold to boost the value of the yuan and make it a true reserve currency, which the Politburo did in November 2022.

Until Xi's latest statements and measures, few had doubted the status of the U.S. dollar as the de facto currency of world trade. Yet Xi's recent meeting with the Saudi crown prince is reminiscent of U.S. maneuvering to attain the dollar's current dominance. In 1945, President Franklin D. Roosevelt met with Saudi King Abdul Aziz Ibn Saud aboard the USS *Quincy*, where both sides agreed to fix oil transactions in dollars.

The deal provided Washington numerous privileges, including being the only issuer of the currency. Also, the United States required all countries to hold dollar reserves if they hoped to trade on the international market, which enabled the financing of public deficits. The United States controlled payments through the SWIFT system of international monetary transactions and held the ability to freeze the assets of any country considered hostile, as Jesús Sánchez-Quiñones pointed out in the business daily *Expansión*.

Years later, such a geopolitical relationship ensuring the dominance of the dollar seems to be cracking.

For instance, while the dollar constituted 72 percent of total foreign exchange reserves of International Monetary Fund member nations in 2000, that number had fallen to 59 percent by 2021. Even Federal Reserve Chairman Jerome Powell felt that the dollar could share the stage with the yuan in the medium to long term. Indeed, the de-dollarization of the global economy has been useful fodder for Chinese state propaganda. The state-sanctioned China Global Television Network (CGTN), for example, published an opinion piece in 2019 lauding the establishment of the petroyuan as a way "for countries besieged by U.S. sanctions to continue to function as a country despite feeling the full force, short of military intervention, of Washington's hegemonic aggression."

For the BRICS group, the use of the yuan has undeniable benefits as well, as it offers a respite from Western sanctions. Countries such as Venezuela, Iran, Yemen, Cuba, Burundi, North Korea, Somalia, and Libya are some of the countries on the list of the OFAC, the Office of Foreign Assets Control, a division of the U.S. Treasury Department that enforces economic and trade sanctions based on Washington's foreign policy as long as the global market is dominated by the dollar. Thus, using the Chinese currency could mitigate the impacts of economic sanctions and transition those sanctioned countries out of the U.S. sphere of influence.

"It is as if the United States has fallen into a trap, because by isolating Russia it is in reality renouncing its formidable influence," Carlos Esteban published in *La Gaceta de la Iberosfera*.

But the United States did not base its 1940s agreements with Saudi Arabia solely on the purchase of oil; the United States pledged an underlying network of protection and armaments that has been ensuring the Gulf state's security in the region for the past seven decades, a fact that has not gone unnoticed by China. For its part, China is taking similar steps. Xi pledged an "all-encompassing" partnership with the Saudis, incorporating security, cooperation in technology, transport, and energy, and participation in the New Silk Road.

"Xi's visit to Riyadh is a new nascent alliance of China and all GCC countries. The agreements transcend oil. It is a synergy between the Belt and Road and Saudi Vision 2030. It is a long-term project, but with firm foundations," says Raúl Ramírez Ruiz, a historian specializing in China and a professor at the Universidad Rey Juan Carlos in Madrid, in an interview with *Atalayar*.

Yet, unlike the U.S. arrangement with the Saudis, Beijing's conditions on the Gulf state were few, mainly that the Saudis respect the principle of "One China." The Saudis agreed to Beijing's requirements, with Riyadh issuing a statement: "Saudi Arabia supports Beijing in protecting its sovereignty, security and territorial integrity, and also supports Chinese measures and efforts to de-radicalise."

U.S. President Joe Biden has also visited Riyadh in recent months, particularly last summer during an official tour of the Middle East. However, the frosty ties between Saudi Prince Mohammad bin Salman (known as MBS) and the Democratic president — who has called MBS a "pariah" over his alleged involvement in the murder of journalist Jamal Khashoggi — were visible in photographs of their meeting.

Biden's remarks on the Khashoggi murder were perceived by the Saudi royal as an interference in the country's internal affairs, bringing the Gulf State closer to China's sphere of influence. "China's advantage is its foreign policy based on the Beijing Consensus of non-interference in the internal affairs of others," Ruiz noted.

In October, OPEC+, led by Saudi Arabia, declared that it would reduce its daily oil production by two million barrels. The decision worried many in the Oval Office, prompting Biden to declare that the United States would have to recalibrate ties with the Saudis.

Nevertheless, Biden announced on CNNthat Saudi Arabia would face consequences: "I'm not going to go into what I'm weighing and what I have in mind. But there will be, there will be consequences," he said.

Certainly, the Chinese have been quick to exploit the rift between the United States and the Saudis. "China has the strength to supplant the great hegemon because it has the capacity to plan for the very long term and because it leads an anti-American bloc in which the GCC oil producers are now united," Ruiz added.

Back to basics: As the U.S. dollar seems likely to lose its status as a world reserve currency, America must return to a stable, metal-based monetary system if she wants to avoid potential economic collapse. (claffra/ iStock / Getty Images Plus)

When U.S. State Department spokesman Vedant Patel was asked about Xi's trip to the Gulf region, he replied, "We are not telling countries around the world to choose between the United States and the People's Republic of China." This response was perceived by observers to be a capitulation on the side of the Americans.

According to British analyst Alastair Crooke, director of the Beirut-based Conflict Forum, the meeting between the Chinese president and the Saudi crown prince marked "the end of the petrodollar system, because whatever is agreed in terms of how the Chinese pay for oil will be based on Russian-Chinese plans to move Eurasia to a new non-dollar trading currency."

In Crooke's opinion, "when Turkey decided to join Russia in developing a large gas distribution center on its territory and to participate in oil and gas investment and cooperation agreements with Russia and Iran, these are events that mark a strategic axis in the Middle East, both in energy and monetary terms in Eurasia."

He added that "US allies such as Saudi Arabia, Turkey, the United Arab Emirates, India, South Africa, Egypt and groupings such as OPEC+ are taking a big step towards autonomy and the merging of non-Western nations into a coherent bloc that acts in their interests and not those of the US and the EU."

Crooke's remarks mirrored what Russian Foreign Minister Sergey Lavrov said after his meeting with Angolan President João Lourenço. Lavrov accused the West of breaching key principles of the inviolability of property, the presumption of innocence, fair competition, and globalization.

Hence, the BRICS countries and the CELAC (Community of Latin American and Caribbean States) have begun to contemplate setting up regional currencies, the Russian foreign minister claimed.

For example, Brazilian President Luiz Inácio Lula da Silva, an ex-convict and a socialist, mentioned the issue of the creation of a common currency for BRICS and the countries of Mercosur, a South American trade bloc, when he met his Argentine counterpart Alberto Fernández.

Lula da Silva, or "Lula" for short, suggested that the countries could establish a type of currency for trade, adding that he would prefer international trading transactions to always be done in national currencies to reduce reliance on the U.S. dollar.

Russian economist Mikhail Khazin posited that while BRICS and CELAC members are considering a single currency system, they are likely to set up a single payment system in the first stage. "It now makes sense to create a payment system that combines the currency systems of the Eurasian, Chinese, Indian and Latin American zones," Khazin told Sputnik News. "It is necessary to create a payment system independent of the dollar."

Khazin anticipated that four new currency zones would be formed, consisting of the Latin American, Eurasian, Chinese, and Indian regions. In around 10 years, it would then make sense to have a single currency, as a "superstructure," for all of them, just like the euro, he said.

"The euro zone already existed in 2003, the dollar zone naturally existed, and we figured that there are several countries that could become leaders in the other currency zones," Khazin noted. "We named five countries which could potentially become leaders in new currency zones. These were Russia, India, China, Brazil and South Africa. Six months later, these countries were united first into BRIC, and then South Africa (BRICS) was added to them."

In a book co-written with Andrei Kobyakov titled *The Decline of the Dollar Empire and the End of Pax Americana*, Khazin pointed out that indicators of the U.S. dollar's decline began to surface decades ago.

Both economists called to mind that the entire world financial system is currently built upon the dollar.

"In this situation, any problems with the dollar will inevitably entail very serious problems in the global economy for a banal reason: because there won't be enough investment. We further wrote in the book that as the effectiveness of the world dollar system is falling, for this reason — whether someone likes it or not — it is absolutely necessary that the dollar be replaced by other investment currencies."

In Khazin's view, the world's new financial structure, consisting of several currency zones, would be far more workable than the U.S. dollar-based global system.

“Profit in the dollar system was formed as a result of the redistribution of printed, emitted dollars. And in the new currency zones, profit should be arranged differently, and added value should be created there,” the economist claimed.

The long-term results of this shift away from the U.S. dollar as the global reserve currency could be catastrophic for the United States. A swift move away from the dollar by many countries with large dollar reserves would flood the U.S. economy with dollars, inflating the currency to the point of worthlessness. A more gradual shift away from the dollar would be preferable, as it would give the economy time to absorb the excess dollars and recover from any inflation.

The second scenario seems more likely, but only time will tell. In reality, everything depends on how eager other countries are to ditch the dollar. In light of an aggressively interventionist U.S. foreign policy — even suggesting a war with China in the near future (perhaps in part to prevent it from supplanting the United States as a global economic hegemon) — more and more countries are becoming frustrated with the current economic order and are eager for something different.

In either case, returning to a constitutional foreign policy of noninterventionism — steering clear of “entangling alliances” and not going abroad “in search of monsters to destroy” — as well as restoring fiscal sanity and a sound monetary system based on gold and silver is what the United States should be doing now. Government officials will only implement such sane policies as a result of education and pressure from their constituents, so freedom-loving Americans need to get active and work to restore the Republic.