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A Glimpse Into the De-dollarization Trend in Asia

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SINGAPORE — Since the onset of the Ukraine-Russia crisis in February 2022, the world has seen groundbreaking trends in the fields of economics and geopolitics. Observers have noted that one of the key impacts the conflict has had is the development of the global landscape toward a multipolar world.

Multipolarity alludes to a situation whereby global power is dispersed amongst various industrialized and powerful nations rather than concentrated in one hegemonic power, which in this scenario is the U.S. Substantiating the global inclination toward multipolarity is the movement toward de-dollarization in regions such as Asia.

De-dollarization is by no means a new phenomenon, neither is the trend limited to the Asian continent. Rather, dampening demand for U.S. dollars has been a long-standing phenomenon occurring over the last 20 years or so in multiple countries.

A report from the International Monetary Fund (IMF) stated that the dollar continues to have "an outsized role" in global markets notwithstanding the diminishing share of the U.S. economy in terms of global output over the past 20 years.

Moreover, the same report indicated that the hegemonic role of the U.S. in global trade, international debt, and non-bank borrowing continues to exceed its share of trade, bond issuance, and international borrowing and lending.

The IMF report also pointed out that central banks are not holding the greenback as reserves in the same quantities nowadays as compared to the past.

"The dollar's share of global foreign-exchange reserves fell below 59 percent in the final quarter of last year, extending a two-decade decline, according to the IMF's Currency Composition of Official Foreign Exchange Reserves data," the paper read.

"Strikingly, the decline in the dollar's share has not been accompanied by an increase in the shares of the pound sterling, yen and euro, other long-standing reserve currencies.… Rather, the shift out of dollars has been in two directions: a quarter into the Chinese renminbi, and three quarters into the currencies of smaller countries that have played a more limited role as reserve currencies."

With a considerable number of Asian countries such as China and North Korea under U.S.-led economic sanctions, it is to be expected that these areas and beyond have witnessed the trend of de-dollarization and inclination toward currencies like the Chinese yuan, the South Korean won, and gold for the purposes of survival.

This is because the U.S.-inspired economic restrictions have limited the abilities of the sanctioned countries to conduct their financial and economic activities that typically rely on the U.S. dollar. To exacerbate matters, the coronavirus-induced worldwide economic slowdown and its ramifications have added to the woes of these impacted countries.

Consequently, Asian banks and financiers located in countries that want to flex more diplomatic and economic muscle without U.S. influence have the ability to slowly exclude the dollar from cross-border payments to diversify when possible.

Moreover, it has become technologically possible to divert transactions away from the U.S. dollar. Beginning in 2001 with South Korea, and continuing with India and China in the 2010s, round-the-clock and real-time payments have been launched across Asia, with their acceleration propelled by QR codes and smartphones. What this means is that an individual or business can obtain a claim instantly and almost free of charge. Such developments are notable, as Indonesia went live with its BI-FAST system in 2021, two years prior to the slated introduction of a similar service in the U.S.

At the moment in Southeast Asia, efforts are underway by policymakers to link up each nation's domestic payment technologies to form a larger network. Such an endeavor is feasible for five of the region's largest economies — Indonesia, Thailand, Singapore, Malaysia, and the Philippines, according to Bank Indonesia Governor Perry Warjiyo on the sidelines of a meeting of the Group of 20 finance ministers and central bank governors in Bali.

Based on the plan, payments transacted in Thailand with an Indonesian domestic payment application would be directly conducted between the rupiah and baht, eschewing the need for the U.S. dollar as an intermediary, a report by Bloomberg News stated.

As a result, small-value purchases and bank accounts in any of the five participating economies would be interoperable in the remaining four. For example, Malaysians visiting Indonesia would no longer have to pay hidden fees and unfavorable exchange rates of international credit card transactions. Instead, money will get debited from their Malaysian ringgit deposit facilities and credited into merchants' rupiah-denominated local accounts. As a QR code would seamlessly ensure that payments can be made, the process will be almost equivalent to a domestic transfer.

In 2021, Singapore's PayNow set up the world's first cross-country link with Thailand's PromptPay to facilitate real-time fund transfers to mobile numbers in the other country. Just imagine the regional domestic payment network in Southeast Asia as a macro-application of the same idea, with a bonus feature: Users can pay via QR code without the payee's phone number. Indonesia, Malaysia, and Thailand have recently started this function with each other's banking customers.

During the Bretton Woods era, wealthy overseas Chinese in Hong Kong, Taiwan, Malaysia, and Indonesia desired exposure to the dollar during Asian hours, and banks in Singapore provided it to them. Nowadays, Asian policymakers hope their economies can rely less on the dollar, and regional banks can now use 24/7 mobile payments to transform this desire into reality.

As the Singapore-Thailand example illustrates, such cooperation can result in cost savings for users because of better exchange rates and low or no bank charges. Reducing each country's dependence on the U.S. currency to facilitate commercial transactions has made the idea even more attractive for other Asian nations.

Andy Schectman, president of Miles Franklin, said in an August 2022 interview at Investing News Network at the Rule Symposium that he has been monitoring the trend toward de-dollarization for years and feels that the world is nearing an inflection point. "I've been watching things unfold really since 2017 in a line that has got me very concerned about where we are ultimately heading, and it all centers around de-dollarization," Schectman said.

He also broached the topic of the petrodollar system, where U.S. dollars are paid to oil-exporting countries. "Since 1974, the agreement between Henry Kissinger and the Saudi kingdom is: we will protect you, and for that you will denominate oil through OPEC globally in U.S. dollars," he said.

However, with Saudi Arabia thinking of joining the BRICS nations (Brazil, Russia, India, China, and South Africa), it could begin issuing oil in other currencies. Thus, dollars would flood back to the U.S., leading to higher interest rates, Schectman said. "When that happens, what is inversely correlated to a rise in interest rates? Everything — stocks, bonds and real estate," he added. "If you want to have a great reset, you blow up asset prices, you weaponize the dollar, you incentivize the world to move away from the dollar. And that's what's happening."

It has to be borne in mind that China's rising global political and economic clout may be the biggest obstacle to the U.S. dollar's status as the world's reserve currency. Furthermore, the communist state's recent sorties in West Asian and Arab markets — especially Saudi Arabian oil — could have long-term ramifications for the status of the Chinese yuan.

After all, part of how the U.S. dollar ascended to global supremacy in the first place can be credited to its role as the de factocurrency used in global commodities markets.

Commonly known as the "petrodollar," the mandate for the huge value of global oil sales to be denominated in the dollar has contributed immensely to raising the credibility of the dollar.

Such a situation benefited the U.S., especially after the latter left the Bretton Woods system of monetary management in 1971, which cut the dollar off from its backing of gold bullion.

Since 1971, the petrodollar has been a vital element in ensuring global dollar hegemony. "The oil market, and by extension the entire global commodities market, is the insurance policy of the status of the dollar as reserve currency," economist Gal Luft, co-director of the Washington-based Institute for the Analysis of Global Security and co-author of the book *De-Dollarization: The Revolt Against the Dollar and the Rise of a New Financial World Order*,explained to *The Wall Street Journal.* "If that block is taken out of the wall, the wall will begin to collapse."

Indeed, relations between the U.S. and Saudi Arabia have taken a nosedive while the latter has deepened ties with China. In 2020, China accounted for more than one-quarter of Saudi oil exports, while state oil giant Saudi Aramco also nailed a $10 billion deal with Chinese petroleum companies.

Amid reports speculating that oil transactions between China and Saudi Arabia could use the Chinese yuan in the future, the yuan's status could be considerably elevated at the expense of the petrodollar.

Closer ties between President Xi Jinping and Saudi's Crown Prince Mohammed bin Salman could augur well for the future of Asian currencies like the yuan.

"The dynamics have dramatically changed. The U.S. relationship with the Saudis has changed. China is the world's biggest crude importer, and they are offering many lucrative incentives to the kingdom," an unnamed Saudi official told *The Wall Street Journal* in March. "China has been offering everything you could possibly imagine to the kingdom."

Although some observers posit that a complete move to yuan pricing is improbable, others opine that even a limited shift would enable China to rid itself more easily of its dollar reliance.

"They're unhappy with the way the U.S. keeps using financial sanctions around the world," David Dollar of the Brookings Institution's China Center told *Marketplace* in July.

Alluding to last February's move by the U.S. and its allies to exclude Russia from SWIFT (the Society for Worldwide Interbank Financial Telecommunication), Thomas Hogan of the American Institute for Economic Research elaborated that this was "a major wake-up call" for China and other nations that are not totally in sync with Western political goals. "They realize that the SWIFT system could be used as a political weapon to harm them economically" as well.

With the monumental power moves employed by the U.S., China, and other nations, the apparently indomitable shift toward multipolarity can only imply that the dollar's supremacy will decline even further.