

THE POTENTIAL POSITION OF THE YUAN AND RUBEL CURRENCY TO REPLACE THE AMERICAN DOLLAR AS THE WORLD'S STRONGEST CURRENCY

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Submission date: 04-Jul-2023 10:40PM (UTC-0400)

Submission ID: 2126630440

File name: allios_Peter_Sipasulta,_Anacostia_Kowanda,_Dionysia_Kowanda.docx (533.13K)

Word count: 2953

Character count: 14261



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Article History

Received : May

Revised : June

Accepted : June

Published : June

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No. Contact:

DOI:

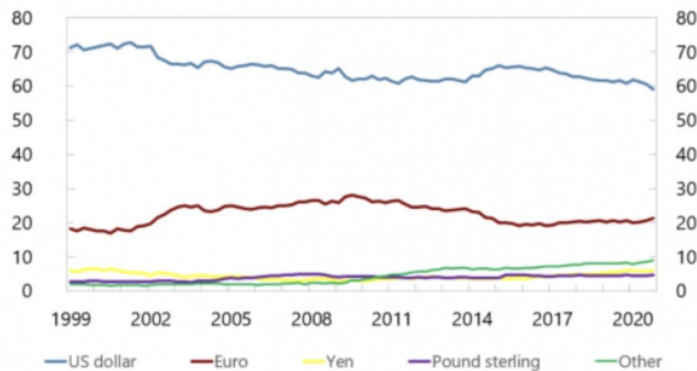
<https://doi.org/10.56127/ijml.v2i2.743>

Abstract: It has been decades where world trade is controlled and dominated by the power of the American dollar currency as the world's main currency in carrying out and conducting world trade transactions, until one day when the American president named Richard Nixon stated that the American dollar currency was no longer become the main currency in world trade, and the countries of the world can use their currency to trade freely. Then it was discovered and developed the Swift system which was eventually used as a weapon by the United States to carry out a world trade pattern where the American dollar remained the currency used by countries around the world to make sales and purchases of goods they needed each other because they must use the Swift system in transactions, especially for the purchase of oil produced by the state of Saudi Arabia. Whether Russia and China can replace the strength of the US dollar with the yuan and ruble in the not too distant future, some of the possibilities examined in this journal will facilitate our understanding of this possibility, although there is still much work to be done by Russia and China. to be able to realize their plan to replace the strength of the US dollar with the yuan and the ruble.

Keywords: *US Dollar, Yuan, Ruble, Swift System, Transaction*

INTRODUCTION

The US dollar has been a very strong currency for almost 80 years. With relations with Washington increasingly strained, Beijing and Moscow are taking different steps to overcome their dependence on the US dollar. China and Russia then took the path of leaving the US dollar where they then agreed to trade using the yuan for China and the ruble for Russia. With the strength of the dollar, America can dominate the world and even make a country powerless in the not too distant future. With this power, America is even able to conquer big players like China and Russia. But this is what made China and Russia work together to eliminate the domination of the American dollar currency in the world. If we look at the data for the last 10 years, the plan has been going quite well as shown in the following table where the demand for and use of the US dollar has decreased significantly. (Lee & Bowdler, 2020)



Source: www.imf.org

In 1999, the US dollar currency was used in world trade by 71% of the total transactions that took place and were carried out by countries around the world, where 10 years later the number of dollars used in trade had decreased significantly to around 59%. If in the next 10 years the Chinese and Russian strategy goes well, we will see the emergence of a new strong currency, namely the Chinese yuan. (Wambrauw & Menufandu, 2022).

The question now is:

- What are the big plans of Russia and China to replace the dominance of the US dollar in the world?
- How do they reduce the dominance of the dollar currency in the world?
- What challenges will Russia and China face to implement their plans in this currency war?

To understand the Chinese and Russian plans, we must understand why the US dollar is the strongest in the world today. Why is the American dollar always the currency that is kept as well as the standard of world trade? The answer is because the American dollar is a trusted currency in the world. America ensures that the American nation will respect each of your dollars and you can exchange your dollars for gold provided by America with the following calculation 1 ounce of gold = 28.35 grams = USD 35. The impact of this American policy and announcement resulted in trade worldwide with more and more intense, because with this guarantee from America, 2 countries that don't trust each other even when they use US dollars to trade, can still trade because they use US dollars. So whatever the value of trade is made as long as the currency used is dollars, every country will be willing to accept or trade with other countries because every dollar used to pay for goods traded has a certain value, it will not decrease in value, because there is a guarantee from the American country for the value of every dollar held by anyone in the world can be exchanged for gold provided by the American country. (Sun et al., 2017)

Countries that receive money in US dollars will be able to exchange the bills directly to the US and get a guarantee that the money will be paid at a rate that is in accordance with the value announced by the US government or the prevailing exchange rate, for example if a country enters into a trade agreements with other countries, where the currency used is that country's currency, so if that country then announces a reduction in the value of its currency then other countries that have received payments in that currency will experience big losses, but if these countries use the US dollar as a means of payment, its value is always stable and can even be higher, so that holders of US dollar notes will get certainty of the stability of the exchange rate for every dollar they hold. In addition, if other countries do not trust the currency of that country, then the country that holds the currency resulting from the trade will experience huge losses because the currency held has no value to be used in trade with other countries in the future. (Hughen) & Beyer, 2015) Conversely, if the US dollar currency is used, then the American country will guarantee that every US dollar note held by any country will be valued at a stable value and the certainty to be exchanged for gold or other currencies is certain, so there is no there will be doubts in holding or keeping US dollars.

RESEARCH METHOD

The research method used is qualitative research, namely in the form of explanations and descriptions obtained from various sources of literature and reading related to the American dollar currency as the

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strongest currency in the world. The data collection technique used in this study was library research, namely research carried out by searching literature in the form of books, notes, journals, web (internet) and also other information related to the theme of this research.

Sources of data in this study are secondary data in the form of notes, documents, journals, books and records related to this research. This research was conducted with the aim of knowing the whereabouts of the American dollar as the strongest currency in the world.

RESULTS AND DISCUSSION

In 1971, American President Richard Nixon issued a decision that the American dollar standard which uses gold as a benchmark for exchange of American dollars guaranteed by the American state, was abolished by announcing that anyone can use any currency to trade, where the American guarantee for exchanging dollars for gold is declared no longer valid. According to President Nixon, this was because he considered that America had become a very strong country economically throughout the world. But even so, every country still uses US dollars in carrying out their trade because buying oil from Saudi Arabia can only be done using US dollars, not other currencies. (Wambrauw & Menufandu, 2022)

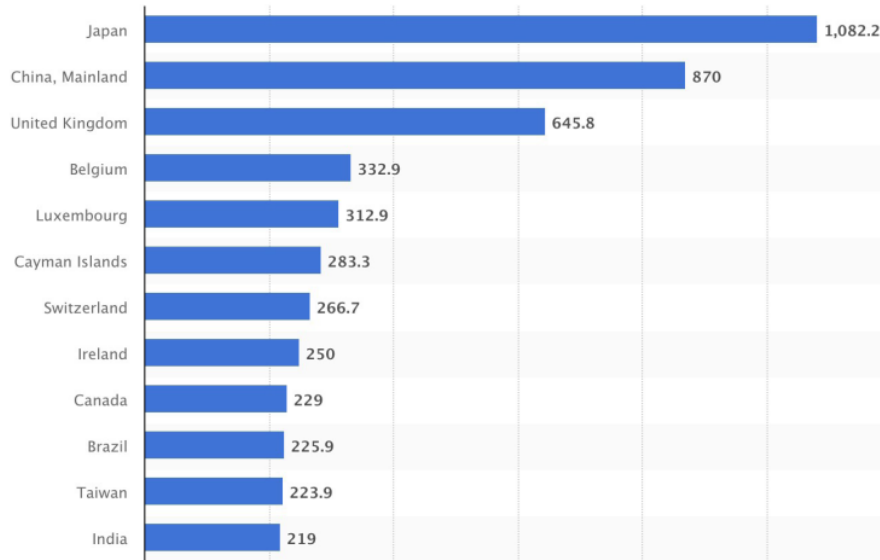
In 1945, American President Franklin Roosevelt made an agreement with Saudi Arabia for an unlimited time that Saudi Arabia would only sell its oil to countries that wanted to buy oil from Saudi Arabia in US dollars. This can happen because America gives security guarantees to the country of Saudi Arabia, so that anyone who wants to buy oil from Saudi Arabia must pay in US dollars. This is another reason why the American dollar remains the strongest currency in the world. This is the second reason that makes the US dollar a very strong currency, because there are guarantees from the American government and rules for purchasing oil from Saudi Arabia.

So when a country wants to buy oil for that country and needs US dollars to pay for it, here comes the third reason that causes the US dollar to become the strongest meta-currency in the world, namely the Swift System. What is the swift system? System Swift is a rule that states that dollar currency must be kept in a bank located in America. So that every trader who needs dollars to buy goods from other countries, he must pay sellers in other countries with the currency of the buyer's country which will be converted into US dollars, sending it through his bank account in his country, then the bank will send the money to the account owned by the bank in the bank in America to get American dollars, then from the buyer's bank account in the bank in America will send the funds to the bank account belonging to the seller's country in America, then the bank sends funds for payment of the goods to a bank account in the seller's country outside America that is owned by the seller in the seller's country's currency. So every transaction that requires dollars must go through a bank in America and the currency value of the country of origin will be converted in US dollars first before being forwarded to other countries in that country's currency.

That's how the swift system works where there are around 11,000 financial institutions from 200 countries that use this swift system. So if every country and financial institution that uses the swift system to trade in dollars, then they must open accounts at banks in America to ensure that transactions that will occur can be carried out and processed and ensure that there will be no shortage of US dollars to pay. sellers in other countries. (Murau et al., 2022)

Many countries and financial institutions keep their dollars in the form of US Treasury Bonds, where the countries holding these bonds will wait until the maturity of the bonds to get their funds back with the interest that has been agreed upon, so that very many dollars are held by the United States and all other countries that need dollars will seek or request from the United States.

Major foreign holders of United States treasury securities as of November 2022
(Statista Research Department, 30 Jan 2023)



Data as of September 2021, America holds around USD 7 trillion of US dollars from American dollar deposits from all countries in the world that are kept in American banks. (Scott, 2018)

It can be concluded that the US dollar has 3 reasons that cause the US dollar to have its current strength, namely:

1. Guaranteed value that is certain and appreciated by the American government.
2. Rules for buying oil from Saudi Arabia using US dollars.
3. The Swift system and investment in US dollars in bonds in America.

The money collected by the United States in very large numbers is what became known as the petro dollar. (Elbeck, 2010)

This is what makes Russia and China are in big enough trouble to be able to drop the strength of the American dollar. China is currently in trouble with America because of the Taiwan problem and Russia is the country that has received the most sanctions at the moment. Meanwhile, Russia cannot use its American dollars to trade with America and all Russian companies have been excluded from the Swift system. So because these two big countries experienced a lot of problems with America, they finally worked together to bring down the greatness of the American country's dollar. This is the beginning of the Russian-Chinese game against America.

What are the ways for Russia and China to beat America? what is their strategy, what needs to be known is that they use the advantages possessed by each party, this is known as geopolitics. Russia is the world's largest oil producer, so Russia currently sells its oil in rubles, buyers of Russian oil have to pay in rubles. So even though many countries are hostile to Russia, when they need oil they have to pay in rubles, this is what makes them have to open an account in rubles in Russia so that transactions like dollars in the example above can be executed only in rubles. So we see the emergence of the so-called petro ruble today. We can see for a long time that Russia has significantly reduced its US dollar requirements until recently.

Since 2014 Russia has reduced the amount of US dollars it holds from USD 150 million to around USD 3 million in 2021. This is the ability Russia uses to reduce its dependence on the US dollar. Meanwhile, China, with its BRI (Belt and Road Initiative) policy, is also using its capabilities by providing loans to many countries to build infrastructure in these borrowing countries. The total amount of loans from these countries is USD 385 billion to date, where many of them are unable to repay their debts. It is possible that these borrowing countries will be asked to repay their debts in yuan by providing a discount on interest payments on their debts of 1%, especially and most of them are poor countries. Then how can China use its ability to suppress rich countries like European countries? This is where the Russian state enters, where Russia will

ask its oil buyers to pay in yuan not just in rubles or what is known today as the Bilateral Currency Swap Agreement.

How does the Bilateral Currency Swap Agreement work, so each country will agree to an agreement to hold a certain amount of trade, where the currency of each country will be used for a certain total amount during the agreed period, so that in that period the exchange rate between the two currencies will remain in accordance with the initial agreement. Each entrepreneur from the country that will trade with the entrepreneur from the destination country can use money from the currency of his country with the agreed exchange rate in another country's currency after being converted so that it can be accepted by other parties in the country that has made the agreement earlier, so that the use of the American dollar can be completely eliminated.

In this way, the benefits achieved by these transacting countries are:

1. No exchange rate risk
2. You can use your own currency to exchange with US dollars if necessary.
3. It is cheaper to trade with countries with mutual agreements.

Thus the dependence on the use of the US dollar is getting smaller over time.

What is surprising now is that Saudi Arabia is planning to sell its oil and is willing to accept yuan for payment. If Saudi Arabia starts selling its oil by accepting yuan currency, then many countries will use it and start looking for and collecting yuan currency. These are the ways in which China and Russia have gradually developed their currency strategy. The challenges that will be faced by China and Russia are, the first is that they are countries that are known for being tenacious in the world. China is known for its diplomacy in giving a lot of debt that has been carried out to date, while Russia is in big trouble with the western world, second, China too often lowers the value of its currency even America accuses China of manipulating currency, China is also known as not being open as a country when compared to America, so those who want to hold yuan currency will hesitate, on the other hand America will try hard so that yuan does not become currency the strongest money in the world, for example by using digital dollars against digital yuan. (Suhadak et al., 2016).

CONCLUSION

Trade competition has become an important and never ending topic for big countries like America, China, Russia and European countries, because with trade they try to rule the world. It cannot be denied that so far the US dollar has dominated world trade by being the only means of payment for almost every sale and purchase around the world. Guarantees from the United States, the use of the swift system which has an impact on high investment in US dollars kept in the form of US security bonds and rules from Saudi Arabia in selling its oil with payments in US dollars have made it difficult for the US dollar to be shifted by other currencies. another, both yuan and rubles. As long as many countries believe in the value contained in the US dollar because of these factors, there is little hope for even big countries like China or Russia to be able to replace the US dollar as a means of payment for world trade with yuan or rubles. China and Russia must convince all countries in the world or the world community that yuan and rubles can be trusted so that little by little the people and countries in the world are willing to exchange their US dollars for yuan or rubles.

Holding the American dollar today is still the choice of many people and countries because it is still the standard and is accepted in all circles and parts of the world. Therefore, for quite a long time, investing in US dollars is still more promising than in other currencies. Hopefully the world situation and development will get better and soon lead to peace so that concerns about the exchange rate of the US dollar or yuan or ruble will not become a problem that will further exacerbate world trade and peace. Hopefully.

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