7 Countries Considering Abandoning the US Dollar

by Jessica Hupp via rialator - Currency Trading *Wednesday, Nov 7 2007, 10:30pm*

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> It’s no secret that the dollar is on a downward spiral. Its value is dropping, and the Fed isn’t doing a whole lot to change that. As a result, a number of countries are considering a shift away from the dollar to preserve their assets. These are seven of the countries currently considering a move from the dollar, and how they’ll have an effect on its value and the US economy.

1. **Saudi Arabia:** The Telegraph reports that for the first time, Saudi Arabia has refused to cut interest rates along with the US Federal Reserve. This is seen as a signal that a break from the dollar currency peg is imminent. The kingdom is taking “appropriate measures” to protect itself from letting the dollar cause problems for their own economy. They’re concerned about the threat of inflation and don’t want to deal with “recessionary conditions” in the US. Hans Redeker of BNP Paribas believes this creates a “very dangerous situation for the dollar,” as Saudi Arabia alone has management of $800 billion. Experts fear that a break from the dollar in Saudi Arabia could set off a “stampede” from the dollar in the Middle East, a region that manages $3,500 billion.

2. **South Korea:** In 2005, Korea announced its intention to shift its investments to currencies of countries other than the US. Although they’re simply making plans to diversify for the future, that doesn’t mean a large dollar drop isn’t in the works. There are whispers that the Bank of Korea is planning on selling $1 billion US bonds in the near future, after a $100 million sale this past August.

3. **China:** After already dropping the dollar peg in 2005, China has more trouble up its sleeve. Currently, China is threatening a “nuclear option” of huge dollar liquidation in response to possible trade sanctions intended to force a yuan revaluation. Although China “doesn’t want any undesirable phenomenon in the global financial order,” their large sum of US dollars does serve as a “bargaining chip.” As we’ve noted in the past, China has the power to take the wind out of the dollar.

4. **Venezuela:** Venezuela holds little loyalty to the dollar. In fact, they’ve shown overt disapproval, choosing to establish barter deals for oil. These barter deals, established under Hugo Chavez, allow Venezuela to trade oil with 12 Latin American countries and Cuba without using the dollar, shorting the US its usual subsidy. Chavez is not shy about this decision, and has publicly encouraged others to adopt similar arrangements. In 2000, Chavez recommended to OPEC that they “take advantage of high-tech electronic barter and bi-lateral exchanges of its oil with its developing country customers,” or in other words, stop using the dollar, or even the euro, for oil transactions. In September, Chavez instructed Venezuela’s state oil company Petroleos de Venezuela SA to change its dollar investments to euros and other currencies in order to mitigate risk.

5. **Sudan:** Sudan is, once again, planning to convert its dollar holdings to the euro and other currencies. Additionally, they’ve recommended to commercial banks, government departments, and private businesses to do the same. In 1997, the Central Bank of Sudan made a similar recommendation in reaction to US sactions from former President Clinton, but the implementation failed. This time around, 31 Sudanese companies have become subject to sanctions, preventing them from doing trade or financial transactions with the US. Officially, the sanctions are reported to have little effect, but there are indications that the economy is suffering due to these restrictions. A

decision to move Sudan away from the dollar is intended to allow the country to work around these sanctions as well as any implemented in the future. However, a Khartoum committee recently concluded that proposals for a reduced dependence on the dollar are “not feasible.” Regardless, it is clear that Sudan’s intent is to attempt a break from the dollar in the future.

6. **Iran:** Iran is perhaps the most likely candidate for an imminent abandonment of the dollar. Recently, Iran requested that its shipments to Japan be traded for yen instead of dollars. Further, Iran has plans in the works to create an open commodity exchange called the Iran Oil Bourse. This exchange would make it possible to trade oil and gas in non-dollar currencies, the euro in particular. Athough the oil bourse has missed at least three of its announced opening dates, it serves to make clear Iran’s intentions for the dollar. As of October 2007, Iran receives non-dollar currencies for 85% of its oil exports, and has plans to move the remaining 15% to currencies like the United Arab Emirates dirham.

7. **Russia:** Iran is not alone in its desire to establish an alternative to trading oil and other commodities in dollars. In 2006, Russian President Vladmir Putin expressed interest in establishing a Russian stock exchange which would allow “oil, gas, and other goods to be paid for in Roubles.” Russia’s intentions are no secret–in the past, they’ve made it clear that they’re wary of holding too many dollar reserves. In 2004, Russian central bank First Deputy Chairmain Alexei Ulyukayev remarked, “Most of our reserves are in dollars, and that’s a cause for concern.” He went on to explain that, after considering the dollar’s rate against the euro, Russia is “discussing the possibility of changing the reserve structure.” Then in 2005, Russia put an end to its dollar peg, opting instead to move towards a euro alignment. They’ve discussed pricing oil in euros, a move that could provide a large shift away from the dollar and towards the euro, as Russia is the world’s second-largest oil exporter.

What does this all mean?

Countries are growing weary of losing money on the falling dollar. Many of them want to protect their financial interests, and a number of them want to end the US oversight that comes with using the dollar. Although it’s not clear how many of these countries will actually follow through on an abandonment of the dollar, it is clear that its status as a world currency is in trouble.

Obviously, an abandonment of the dollar is bad news for the currency. Simply put, as demand lessens, its value drops. Additionally, the revenue generated from the use of the dollar will be sorely missed if it’s lost. The dollar’s status as a cheaply-produced US export is a vital part of our economy. Losing this status could rock the financial lives of both Americans and the worldwide economy.

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