The Decline of Dollar

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The plan to de-dollarise the oil market, discussed both in public and in secret for at least two years and widely denied yesterday by the usual suspects – Saudi Arabia being, as expected, the first among them – reflects a growing resentment in the Middle East, Europe and in China at America's decades-long political as well as economic world dominance.

Nowhere has this more symbolic importance than in the Middle East, where the United Arab Emirates alone holds $900bn (£566bn) of dollar reserves and where Saudi Arabia has been quietly co-ordinating its defence, armaments and oil policies with the Russians since 2007.

This does not indicate a trade war with America – not yet – but Arab Gulf regimes have been growing increasingly restive at their economic as well as political dependence on Washington for many years. Of the $7.2 trillion in international reserves, $2.1trn is held by Arab countries – China holds about $2.3trn – and the nations interested in moving away from dollar-trading in oil are believed to hold over 80 per cent of international dollar reserves.

Saudi Arabia's denials of any such ambitions were regarded by Arab bankers as a normal part of Gulf politics. The Saudis, of course, managed to deny that Iraq had invaded Kuwait in 1990 – even when Saddam Hussein's legions stood along the Saudi frontier, until the US broadcast the news of Iraq's aggression to the world.

Saudi bankers are well aware that in nine years' time – the current timeframe for a transition away from the dollar in oil trading to Japanese and Chinese currencies, the euro, gold and a possible new Gulf currency – China will have doubled its national income to $10trn (assuming a growth rate of 7 per cent), at which point the US might hold no more than 20 per cent of the world's gross income.

Such massive financial movements, encouraged by the de-dollarisation of oil, will have enormous political effects in the Middle East, especially if economic superpower rivalry between America and China comes to dominate the Arab world. Will American economic support for Israel remain as loyal in nine years' time if China and the Arabs are setting the pace in global financial markets? Indeed – perhaps with this in mind – some Israeli financiers have been expressing interest over the past two years in non-dollar Arab bank investments. Whenever a change of this magnitude takes place over a number of years, it has to be commenced in secrecy.

Nor can it be denied that the very project to take oil trading away from the dollar market has deep political roots. The collapse of the Soviet Union has allowed the US to dominate the Middle East more than any other world region, and the Arabs – who can no longer contemplate an oil boycott of the kind they imposed on the West after the 1973 Middle East war – are still anxious to prove that they can flex their economic power to bring about change.

Saudi Arabia's pan-Arab offer to recognise Israel and its security in return for an Israeli withdrawal from occupied Arab land is not–according to the Saudis themselves–indefinite. If they are ignored or rebuffed, then they can search for other allies through new financial institutions to force a new Middle East peace. China will be happy to help.

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