In the early 1970s President Richard Nixon instigated two changes that had profound effects. The first of these was taking United States off the gold standard; i.e. henceforth US dollars would no longer be convertible to Gold. Ordinarily this might have been expected to have significant ramifications for the value of the US dollar. Deleterious effects however, were avoided by another equally profound change. Nixon’s National Security Adviser Henry Kissinger negotiated an agreement with Saudi Arabia that henceforth all oil (initially from Saudi Arabia but rapidly extended to all OPEC) countries would be traded only in US dollars, the birth of the so called petrodollar.

It was a classic mafia style arrangement. In exchange for Saudi Arabia’s agreement to the sole use of the dollar for oil transactions, the US underwrote Saudi Arabia’s security thereby ensuring the continuity of one of the world’s most corrupt and repressive regimes.

Also unknown at the time, the US and Saudi Arabia entered an arrangement whereby Islamist terrorist groups (as long as they were Sunni) would be financed by Saudi Arabia and armed by the Americans and then used in pursuit of US geopolitical goals. Operation Cyclone, begun under the Carter administration in the 1970s was an early forerunner of this tactic, but it has been refined and utilized in different formats in a wide number of countries ever since.

The objective was always fundamentally the same: to undermine and if necessary replace governments that were insufficiently compliant with US geopolitical aims. As and when necessary, US troops and their “coalition” allies would be inserted into the target countries. The destruction of Afghanistan (2001 and continuing) Iraq (2003 and continuing) Libya (2011 and continuing) are only three of the better-known examples.

The huge financial cost of these military and geopolitical ventures did not impose a proper price upon the US because of the hegemonic role of the US dollar. The US, in effect, had their multiple wars of choice paid for by other
countries as the dollar’s role in world trade created a constant demand for US Treasury bonds.

The role of the US dollar also permitted the US to impose sanctions on recalcitrant countries. The selective nature of the sanctions, always directed toward a US geopolitical or commercial advantage, were clearly an instrument of repressive power. Notwithstanding claims that they were to “punish” the alleged misconduct of the specified country, their actually use betrayed their geopolitical purpose.

Sanctions against Russia for its “invasion” of Ukraine “annexation” of Crimea, and against Iran for its “nuclear program” are two of the better known illustrations of sanctions being justified on spurious grounds..

The use and abuse of the dollar’s power is clearly unacceptable, but the capacity to invoke countermeasures was until quite recently severely limited. The single most important countervailing force is the rise of China as the economic powerhouse of the world, and importantly, the creation of alternative structures in trade, finance and security, that translate China’s economic power into a force for major change.

That change is assisted by the number of collateral developments. In 1990, the G7 nations (Canada, France, Germany, Italy, Japan, the US and UK) had a combined GDP approximately six times greater then the seven economically most important emerging nations (Brazil, China, India, Indonesia, Mexico, Russia and South Korea).

By 2013 the “emerging seven” had surpassed the G7’s GDP total and according to the IMF’s estimates for 2017, the GDP of the two groups will be $47.5 trillion and $37.8 trillion for the emerging seven and the G7 respectively.

Turkey, which is growing at 5% per annum, has replaced Mexico in the top emerging seven.

BRICS, which contains four of the emerging seven nations and the Shanghai Corporation Organisation (SCO), which includes China, India and Russia, are working together on the architecture of a monetary alternative to the dollar. The SCO alone contains 42% of the world’s population.

India’s role in BRICS and the SCO is one reason it is being assiduously cultivated by Australia, Japan and the United States in an attempt to set up a “quadrilateral four” to slow and undermine the role of China and Russia in creating an alternative to longstanding western domination and exploitation.

It was in this context that Russia’s President Putin at the recent BRICS meeting in Xiamen, China said that

“Russia shares the BRICS countries concerns over the unfairness of the global financial and economic architecture, which does not give due regard to the growing weight of the emerging economies.”

This speech developed a theme that Putin had developed in an article published prior to the BRICS meeting. Putin bluntly vowed to destroy the US led financial system, aiming to reform a system that gives excessive domination to a limited number of reserve (i.e. predominantly western) currencies.

China has developed a new Cross Border Interbank Payments System (CIPS) to replace the US dominated SWIFT system, itself used as a tool for financial bullying by the US. Russia has also taken steps to insulate itself from the ill effects of being excluded from SWIFT.

Other major changes are also occurring. Venezuela, with the world’s largest known oil reserves, has ceased accepting payment in US dollars. In the past US retaliation through regime change would have been immediate as happened to Libya’s Gaddafi (confirmed by Clinton’s leaked emails) and the Iraq’s Saddam Hussein who had announced that he would henceforth accept payment in euros and not dollars.

China and Qatar recently concluded a $50 billion deal denominated in Yuan. There were immediate threats and absurd demands from Saudi Arabia, undoubtedly acting as the voice of the US administration, but nothing more serious. The lack of military intervention or attempted regime change was probably attributable to Turkey’s military intervention, a series of agreements with Iran, and the probable implied threat of Chinese intervention should the Saudis further demonstrate their military incompetence (as in Yemen) by anything as rash as direct military moves against Qatar.

Saudi Arabia is rapidly reaching a crunch point in its relationship with China, a huge purchaser of Saudi Arabia’s oil. It is widely known that China wants future oil contracts denominated in Yuan. The attraction for Saudi Arabia is that the Chinese guarantee their Yuan with gold traded on the Hong Kong and Shanghai exchanges. Ironically, this puts China in the same position as the United States prior to Nixon’s withdrawal from the gold backed dollar.
The dilemma for the Saudis is that if they comply with the Chinese demands they risk losing the Americans underwriting their security. US instigated regime change in Saudi Arabia is a very real possibility and the recent maneuverings by Mohammad bin Salman to consolidate his power can be interpreted as a response to that possibility.

Typically, the western media focused on relative trivialities, such as women being able to drive motor vehicles from 2018 (in limited circumstances), rather than examining the underlying geopolitical power struggle.

The other major development worth mentioning in this context is the rapid increase in the number of countries doing deals with China using the Yuan or their own national currencies as the medium of exchange. China’s Belt and Road Initiative, currently involving 65 nations, will undoubtedly accelerate this trend. Russia and China are already each other’s critically important trading partners and all agreements between them are being denominated in either Yuan or Rubles.

It would be naïve to assume that this is all going to occur without a massive rearguard action by the Americans who know full well that their ability to defy economic logic is only possible because of the dollar’s unique role, allowing in turn military interventions to prop up their now rapidly declining power.

The United States’ aggressive and provocative actions in the South China Sea, North Korea, Ukraine, Syria and elsewhere our best interpreted as the flailing’s of a declining empire. The real question is will the United States accept the disappearance of the unique power that it has wielded since the Bretton Woods agreement of 1944 and adjust its policies accordingly, or destroy us all in their attempts to recapture a lost world.

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