Trump's Threats Over the Dollar Could Accelerate Push for Alternatives

President-elect Donald J. Trump threatened to impose tariffs on countries that seek to replace the dollar in trade or undermine its global reserve currency status.

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When Republicans nominated Donald J. Trump to be their presidential candidate over the summer, the party's platform included a pledge to maintain the role of the United States dollar as the world's reserve currency.

Since winning the election, Mr. Trump has indicated that he wants to deliver on that promise. Over the last week he warned that if the group of nations known as BRICS countries — which include Brazil, Russia, India, China and South Africa — tried to create their own currency to rival the dollar, he would punish them with 100 percent tariffs and shut them out of U.S. markets.

"There is no chance that the BRICS will replace the U.S. Dollar in International Trade, and any Country that tries should wave goodbye to America," Mr. Trump wrote on social media.

The warning was intended to preserve the dollar's premier status, but economists and analysts suggested that it could have the opposite effect. Although it appears unlikely that the BRICS would be able to create their own currency, the aggressive use of tariffs and sanctions by the United States is the reason that other nations have increasingly been considering alternatives to the dollar. By making such threats, Mr. Trump could end up accelerating that trend.

"Threatening retaliation against the unlikely creation of a BRICS currency only reinforces the rest of the world's concerns about the U.S. willingness to wield dollar dominance as an economic and geopolitical weapon," said Eswar Prasad, the former head of the International Monetary Fund's China division. "This will intensify other countries' attempts to diversify away from use of the dollar for international payments and for foreign exchange reserves."

The dollar has been the world's dominant currency for about a century and has served as the world's reserve currency since the end of World War II. It makes up the majority of foreign exchange reserves held in global central banks and is widely used in international transactions such as trade and loans.

However, the dollar's global clout has been diminishing in recent decades. A Brookings Institution report this year showed that the dollar's share of global reserves had declined to 59 percent from 70 percent in 2000.

From left, Prime Minister Narendra Modi of India, President Vladimir V. Putin of Russia and President Xi Jinping of China in Russia in October. Their countries and others have floated creating their own currency. Pool photo by Alexander Zemlianichenko

China and Russia, which have been among the biggest targets of U.S. tariffs and sanctions, have been increasingly shifting their holdings to gold and other currencies as they look to distance themselves from the American financial system. Because of the ubiquity of the dollar, the United States can effectively cut off a country like Russia from the global financial system, and in recent years it has shown a willingness to take such actions.

Mr. Trump appears to view tariffs and sanctions as complementary tools, but excessive use of those punishments tends to steer other economies away from the dollar. In a 2019 interview with The New York Times, former Treasury Secretary Steven T. Mnuchin acknowledged that over "a long period of time" there was a risk that the rest of the world could shift away from the dollar as the reserve currency and that the United States must be responsible about how it wielded sanctions.

Despite speculation about the dollar's demise, currency experts see no immediate threats. China has been encouraging the use of renminbi in international payments, Russia has been using its own payment messaging system to circumvent U.S. sanctions and Brazil has called for the BRICS to develop a dollar alternative to finance trade between their economies.

But ditching the dollar for something else will not be easy to accomplish. Economists at Capital Economics noted in a report this week that tension between China and India would make any economic union complicated. They also argued that it would be more cumbersome for exporters to convert a new BRICS currency that's designed for trade only among those countries into their local currencies.

"A BRICS currency wouldn't solve any of the problems that make moving away from the dollar hard, and in some ways would make those problems worse," they wrote.

Considering those complications, it is not clear why Mr. Trump chose to raise concerns now about the possibility of a BRICS currency.

The president-elect has for years given mixed messages about his views on the dollar.

Although Mr. Trump likes the prestige of a strong dollar, he has argued that it makes it harder for American manufacturers to sell their products abroad to buyers that use weaker currencies. That's because their money is worth so much less than the dollars that they need to make those purchases.

"As your president, one would think that I would be thrilled with our very strong dollar," Mr. Trump said in 2019, explaining that U.S. companies like Caterpillar and Boeing were struggling to compete. "I am not!"

Possessing the world's reserve currency is widely viewed as a privilege because it lowers borrowing costs for the U.S. government, reduces import costs for American consumers and gives the U.S. greater geopolitical influence through its ability to use sanctions.

It also tends to require the United States to run trade deficits so that it can keep dollars circulating around the world to finance global trade. But if U.S. deficits become too deep, it could erode confidence in the dollar because of concerns about the nation's ability to pay its bills. Analysts at Nomura recalled in a report last month that the dynamic, which was outlined by the economist Robert Triffin in the late 1950s, is known as the Triffin dilemma.

Mr. Trump seems to believe that tariffs will be a solution to this problem, reducing the trade deficit while forcing other countries to keep using the dollar.

In the short run, Mr. Trump's trade agenda would most likely encourage other countries, such as China, to weaken their currencies relative to the dollar so that their exports are less expensive for overseas buyers. Longer term, such an approach could compel other countries to distance themselves from the dollar and trade in other currencies if access to the U.S. market became too difficult.

"I don't know how much Trump as president will try to follow through on all the things he has talked about, nor to what extent his tariffs will be an effective tool in international relations," said Jeffrey Frankel, an economist at the Harvard Kennedy School. "You can't force people to transact in dollars."

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