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MARKETS & FINANCE | CURRENCIES

Trump's Threat Over an Imaginary Currency Risks Backfiring on the U.S. Dollar

After his 100% tariffs warning to Brics nations, some economists say Trump risks accelerating pursuit of alternatives to the greenback

By Georgi Kantchev Follow *and Chelsey Dulaney* Follow

Dec. 3, 2024 9:20 am ET

Russia's President Vladimir Putin held what looked like a banknote for Brics nations during a recent summit. PHOTO: STANISLAV KRASILNIKOV/PHOTOHOST

President Vladimir Putin generated buzz recently over Russia's efforts to dethrone the U.S. dollar when he was pictured holding what appeared to be a banknote for Brics nations.

The Kremlin later said the note displaying the flags of the group of countries led by Russia and China was intended only as a symbol of their partnership. Indeed, many economists say such a common currency is, at best, nascent and, more likely, unfeasible.

Nonetheless, President-elect Donald Trump appears to be taking the threat to the U.S. dollar seriously. In a post on social media over the weekend, he said he would impose 100% tariffs on members of the Brics group—whose members include Brazil, Russia, India, China and South Africa—if they create their own currency or seek to replace the U.S. dollar as the main global trade currency.

The post highlighted efforts by America's rivals to seek alternatives to the dollar and reduce their dependence on the U.S.-led global financial system. While economists say the dollar is unlikely to be eclipsed as the primary international trade and reserve currency soon, the use of economic warfare under Trump threatens to accelerate the race to find replacements for the U.S. dollar, and to chip away at its supremacy.

"When countries see Trump treating a common Brics currency as a real threat when there's no real prospect that such a currency is going to happen, some will conclude that Trump's erratic behavior is itself a reason to look for alternatives," said Brad Setser, a former U.S. Treasury official who is now a senior fellow at the Council on Foreign Relations.

The dollar's worldwide importance gives America considerable leverage to freeze assets, restrict transactions and impose penalties on entities and individuals that violate its sanctions, which are increasingly embraced by the U.S. as a weapon of economic war.

The growing notion of alternative currencies, including by the Brics club, is causing anxiety in Washington in part because it threatens to undercut the effectiveness of such sanctions.

While the dollar is far from losing its perch, its use in trade finance has diminished slightly over the past few years, as the Chinese yuan has gained ground. Some central banks have also shifted part of their reserves out of dollars and into gold and other foreign currencies.

"This is geopolitical friendshoring, and the risk of sanctions is the driver," said Dmitry Dolgin, an economist at the bank ING. "Countries saw that dollars can be weaponized."

Delegates at the Brics forum in Kazan, Russia, in October. PHOTO: MAXIM SHEMETOV/REUTERS

The pursuit of alternative currencies and methods of settling trade without the dollar risks undermining the U.S.-led international financial plumbing, analysts say, because it promotes blocs with their own monetary architecture. Trump's pledge to engage in economic warfare further encourages countries to hunt for alternatives to the dollar, they add.

"It leads to the fragmentation of the global financial system," said Alexandra Prokopenko, a former Russian central-bank official who is now a fellow at the Carnegie Russia Eurasia Center in Berlin.

The Brics group expanded this year to include Egypt, Ethiopia, Iran and the United Arab Emirates. Together, the members represent around 26% of the world's gross domestic product in nominal terms and over 40% of the global population, according to ING.

Russia and China want to extend the group's reach as part of their effort to overturn the U.S.-led world order. But the block's heft masks internal divisions. Members such as Brazil and India are wary of an outright confrontation and eager to maintain political and economic links to the West.

Against that background, the idea of a common currency, most vocally supported by Moscow, remains a pipe dream, economists say.

"They would need to have aligned interests," said Dolgin. Russia is the biggest proponent of de-dollarization among the Brics, he said, and has nothing to fear from threatened U.S. tariffs—because it has no trade left with America. "The rest of the group is actually ambiguous on de-dollarization."

Beyond internal divisions, a common currency among the Brics would face a plethora of practical hurdles, including how the nations involved would set the currency's value and capital controls when Russia, China and India have differing restrictions on financial flows. The group also lacks a unified monetary policy; China has loosened policy over the past year while other members have tightened.

Besides that, creating a currency that could seriously challenge the dominance of the U.S. dollar is easier said than done.

In 1965, then-French Finance Minister Valéry Giscard d'Estaing said the greenback's dominance had given the U.S. an "exorbitant privilege," a position that has now been entrenched for almost a century. Despite rising concerns over U.S. debt levels and erratic and unpredictable policymaking in Washington, the dollar's central role in the global financial system persists, said Eswar Prasad, a trade policy professor at Cornell University.

"By all logic, the U.S. dollar should be losing its dominance," he added.

But the dollar remains the most liquid global currency, is the easiest to use for global trade payments and is backed by the unmatched strength of the U.S. economy.

The dollar represents 58% of the value of global central banks' currency reserves, compared with 2% for the Chinese yuan, according to data from the International Monetary Fund. The dollar is also involved in 88% of all foreign-exchange transactions.

China has long sought to elevate its currency as a rival to the dollar, but its adoption has been slowed by Beijing's restrictive financial policies.

The yuan's wider use is hindered by "a reluctance of central banks and others to hold and use the currency of a country whose government can, at a whim, arbitrarily change the rules of the financial game," said Barry Eichengreen, a professor of economics and political science at the University of California, Berkeley.

The dollar could face similar resistance should Trump take steps to undercut the independence of U.S. institutions such as the Federal Reserve, analysts say,

though the president-elect's pick of longtime investor Scott Bessent for the key Treasury secretary role calmed some of those fears.

The euro, a multicountry currency seen as a onetime dollar competitor, has been beset by the bloc's political and economic challenges and is losing global relevance.

In October, ahead of the Brics forum in Kazan, Russia, where Putin held the mocked up Brics note, the official website of the summit advised foreign delegates to bring U.S. dollars in cash. Their Visas or MasterCards wouldn't work because of Western sanctions imposed on Moscow for its invasion of Ukraine.

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Appeared in the December 4, 2024, print edition as 'Trump Currency Threat Risks Backfiring'.

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