Democracy Dies in Darkness

Trump threatens tariffs to protect dollar against threat few see as real

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By David J. Lynch

President-elect Donald Trump says he wants to protect the U.S. dollar from the rise of an alternative new currency that does not yet exist and that few independent analysts take seriously.

Trump's latest tariff threat was aimed at discouraging the BRICS, an informal group of 10 developing nations that includes Russia and China, from creating "a new BRICS currency" or otherwise challenging the dollar's global role. If they do, he vowed to impose 100 percent tariffs on their products, probably shutting many out of the U.S. market.

But Trump's Nov. 30 post on the social media site Truth Social came five weeks after a BRICS summit that visibly failed to take even the first step toward such a distant goal. The dollar, meanwhile, is trading at its highest point in two years measured against the currencies of U.S. trading partners and, adjusted for inflation, is worth 28 percent more than a decade ago, according to Federal Reserve data.

Trump presidential transition

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"I don't think anybody takes seriously the BRICS coming up with their own currency," said Marc Chandler, managing director at Bannockburn Global Forex in New York. "I don't think there's anything here."

Chandler described the tariff plan as a political gambit aimed at allowing Trump to claim a diplomatic victory before Inauguration Day. But actually imposing the threatened tariffs, if it came to that, could backfire on the United States, several financial market specialists and economists said. Tariffs could strengthen the dollar against the currencies of major trading nations such as China, India and Brazil, making U.S. goods pricier and imports less expensive, and thus widening the U.S. trade deficit that Trump aims to shrink.

"If Trump had to carry out his threat, a 100 percent tariff on China would push the yuan down and push other Asian currencies down," said economist Brad Setser, a senior fellow at the Council on Foreign Relations.

Interest in an alternative to the dollar has grown since the United States began applying financial sanctions more widely following Russia's February 2022 invasion of Ukraine.

Yet the dollar's supremacy — in trade, in finance and as the global reserve currency — shows little sign of erosion. In August, the greenback's share of global payments hit a 12-year high of 49 percent, according to the Society for Worldwide Interbank Financial Telecommunication. Global central banks hold nearly $7 trillion in dollar reserves, three times as much as they hold in euros, the No. 2 currency, according to the International Monetary Fund.

"The US dollar remains the dominant currency," concluded a recent Bank for International Settlements review of trade invoicing, bank claims, derivatives and external debt.

Some BRICS members do hope to dethrone the dollar. They have taken steps to integrate their financial systems by creating a pooled currency reserve that individual central banks can tap to navigate a temporary balance of payments shortfall. At their summit last year, BRICS leaders called for promoting the use of their own currencies in their trading between members and reducing their dependence upon the dollar, the euro and other major currencies.

On a visit to China last year, Brazilian President Luiz Inácio Lula da Silva publicly wondered "why all countries have to base their trade on the dollar."

But the group has made little headway on a currency. Russia, which is desperate to engineer a path around U.S. sanctions, is the most determined advocate. But other BRICS countries have competing priorities. In recent years, the two largest members — India and China — have engaged in armed clashes along their shared border.

China, the world's second-largest economy, wants to promote its own currency, the yuan, as an eventual rival to the dollar and is unlikely to surrender control to a broader group, said Daniel McDowell, author of "Bucking the Buck: US Financial Sanctions and the International Backlash Against the Dollar."

Russian President Vladimir Putin, whose economy is struggling amid U.S. sanctions, was photographed at the October summit in Kazan, Russia, holding a mock BRICS banknote. But the 33-page summit communiqué made no mention of a unified currency, instead stressing "the use of local currencies in financial transactions between BRICS countries and their trading partners."

“The BRICS would desperately like to reduce their dependence on the dollar as a payments currency and a reserve currency because it exposes them to the whims of U.S. policies, especially a mercurial president like Trump,” said Eswar Prasad, a professor of international trade policy at Cornell University. “But the proposal for a BRICS currency is a fantasy.”

“BRIC” originated in 2001 as a catchy investment thesis popularized by Jim O’Neill, a Goldman Sachs economist who identified Brazil, Russia, India and China as potential stars of the 21st century. The acronym picked up a final letter in 2010 when South Africa joined, one year after its first leaders’ summit.

Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates signed on at the beginning of this year.

On Nov. 30, five days after Trump threatened Mexico, Canada and China with tariffs over immigration and drug trafficking, he suddenly targeted the BRICS.

“The idea that the BRICS Countries are trying to move away from the Dollar while we stand by and watch is OVER. We require a commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar or, they will face 100% Tariffs, and should expect to say goodbye to selling into the wonderful U.S. Economy,” he wrote in a Truth Social post.

Trump’s complaint left analysts puzzling over what had prompted his statement and whether he would follow through. Coupled with his earlier tariff threats to Mexico, Canada and China, his BRICS warning put a cloud over nearly half of the United States’ $5.1 trillion in global trade.

The Trump transition office did not respond when asked to clarify the president-elect’s thinking.

Douglas Rediker, a partner at International Capital Strategies, which advises institutional investors, said he has been inundated with clients asking him to clarify the president-elect’s intentions.

The tariff threat is likely to backfire by fueling the anti-dollar sentiment it was intended to prevent, he said. Saudi Arabia, which prices its oil in dollars, could instead choose to price it against a weighted average of several currencies. That shift would reduce oil-buying nations’ demand for dollars, causing the U.S. currency to decline in value — the opposite of what Trump desires.

“Trump’s threats around the dollar only make other countries rethink whether they really want to be so beholden to the dollar,” Rediker said.