

# *How the U.S. Is Trying to Ensure the Dollar's Dominance During Economic Turmoil*

As the government has been devising plans to keep the dollar dominant, China has been making its own moves to increase global influence of the renminbi.



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The summit between President Trump and China's top leader, Xi Jinping, in Beijing this week is likely to include tense discussions about tariffs, Taiwan, Iran and sanctions. But simmering below the surface is another battle between the United States and China: an intensifying currency war.

Concerns about America's mounting debt load and its aggressive use of sanctions to cut adversaries off from the Western financial system have raised doubts about the safety of the dollar as the world's reserve currency. Those fears have led to growing demand for gold and increasing numbers of oil transactions

using cryptocurrencies or China's currency, the renminbi. An erosion of the dollar's dominance would be a problem for the U.S. economy, but in recent weeks America has been taking steps to shore up the currency's pre-eminence.

At the heart of that strategy has been discussions between the Trump administration and several nations in the Gulf and Asia about the possibility of the United States offering currency "swap" lines. The agreements, which could be run through either the Treasury Department or the Federal Reserve, would essentially ensure that American allies have sufficient supplies of U.S. dollars, reducing the need for them to conduct business with renminbi or other currencies.

With a currency swap, the United States purchases another country's currency, giving that country more dollars for handling oil sales transactions.

The Federal Reserve generally administers swap lines, which historically have been created to ease market pressures during periods of global financial turmoil that could threaten the U.S. economy.

"Currency swap arrangements have become a tool with both symbolic and strategic significance in the contest for currency dominance and geopolitical influence," said Eswar Prasad, a Cornell University professor and a former head of the China division at the International Monetary Fund. "The Trump administration's eagerness to extend currency swap lines to U.S. allies in the Gulf is clearly intended to protect those countries from the fallout of the war in Iran while also sidelining China from playing a major role in the region."

Treasury Secretary Scott Bessent, who is traveling to Japan and South Korea before joining Mr. Trump in China this week, has been leading the talks over the currency swaps.

At a Senate hearing last month, Mr. Bessent said he discussed a currency swap with the United Arab Emirates, an oil-rich ally that has been contending with economic fallout from the war in Iran. The Treasury secretary explained he supported the idea to maintain order in the dollar funding markets and prevent the sale of the U.S. assets in a disorderly way.

Historically, extensions of swap lines were reserved for times when U.S. allies such as Mexico were facing economic turmoil. While Gulf nations have been struggling given the disruption of oil exports at the Strait of Hormuz, nations such as the U.A.E. continue to be on solid economic footing. However, the Treasury Department also has the power to act unilaterally, creating swap lines of its own by purchasing foreign currencies.

In a post on social media, Mr. Bessent made clear that his intentions go beyond propping up favored nations. He described swap lines as a way to strengthen America's "economic shield" by reinforcing use of the dollar. The United States has been concerned that oil exporters such as the U.A.E. could conduct oil export transactions in renminbi rather than dollars (as Iran has already been doing for some sales).

"Extending permanent swap lines can be a major first step in creating new U.S. dollar funding centers in the Gulf and Asia," Mr. Bessent wrote. "Dollar dominance and reserve currency status are strengthened by constant long-term initiatives, including countering the growth of problematic, alternative payment systems."

A U.A.E. official said last week that it was interested in a swap line not because it needed a bailout but rather to deepen trade and investment ties with the United States.

But the United States has been using economic carrots more creatively in the second Trump administration. Last year Mr. Bessent offered a \$20 billion lifeline to Argentina to stabilize its economy and help boost the political fortunes of its

president, Javier Milei.

Mr. Bessent's use of the fund to aid Argentina garnered criticism from skeptics who said that the Treasury secretary was politicizing a tool that was intended to promote financial stability. But that lifeline was ultimately repaid and Mr. Milei's party avoided a rebuke in midterm elections.

As the United States has broadened use of such financial tools, China has also been extending more swap lines in recent years. According to the Council on Foreign Relations, which tracks global swap lines, China has signed bilateral currency swap agreements with over 40 countries since 2009. It uses the lines, offered through the People's Bank of China, as a way to lend to developing countries and promote wider use of its currency.

The United States has six active swap lines that run through the Federal Reserve. They operate with major U.S. trading partners and help smooth transactions between financial institutions. During the pandemic, the Fed temporarily expanded its swap lines to include Brazil, Australia, Denmark, Norway, Sweden, South Korea, New Zealand and Singapore.

It is not clear if the new lines under discussion would be initiated through the central bank or through the Treasury's Exchange Stabilization Fund, a pot of money that Mr. Bessent has discretion over how to deploy. Kevin Warsh, Mr. Trump's pick to be the next Fed chair, has said that he wants closer coordination between the central bank and Treasury as it relates to international finance.

Mark Sobel, a former Treasury official, said that introducing more U.S. swap lines to counter China was misguided. That's because, he said, Chinese swap lines are opaque, carry high interest rates and have not been successful at addressing the challenges of internationalizing the renminbi. However, he suggested that using the Exchange Stabilization Fund as a political tool could cause more problems than it would solve, eroding its use as way to stabilize markets.

Doing so, Mr. Sobel said, would “plunge the E.S.F. into new terrain, may well rest on dubious thinking and could open a can of worms.”

Despite the growing interest in alternative currencies and payment systems, it does not appear that the dollar will be unseated as the world’s reserve currency anytime soon. The greenback continues to make up a majority of the foreign exchange holdings in the world’s central banks. And even Iran is negotiating to have the United States ease sanctions it has placed on the country so that it can conduct more transactions with dollars.

“I think the Trump administration has inflated a nonexistent threat,” said Brad Setser, a fellow at the Council on Foreign Relations.

The additional U.S. swap lines, Mr. Setser argued, serve little purpose because the demise of dollar dominance is not imminent. He noted that oil exporters are forced to offer discounts when they accept payment in China’s currency.

“The U.S. should not allow other countries to wind us up with unrealistic threats that they are going to shift to an economic relationship with China that is to their disadvantage,” he said.

Colby Smith contributed reporting.

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