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# **‘PETRO-YUAN’: A GAME CHANGER IN THE PETRODOLLAR WORLD ORDER**

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**Abstract:** With an annual trade value of \$14 trillion, crude oil is the world's most traded commodity. Since the mid-1970s, all oil market transactions have been conducted in the US dollars, as a result the term 'petrodollar' was coined. Petrodollar is any U.S. dollar paid to oil-exporting countries in exchange for oil, and it has been an infallible means of transaction for the past 4 decades. However, for the first time, the petrodollar dominance is being challenged. China, the world's largest importer of crude oil, is embarking on an ambitious plan to reshape the global economy by overpowering the petrodollar with its own 'Petro-Yuan'. The topic has the potential to subvert the existing geopolitical landscape as it marks the beginning of a new petro-monetary era. The Chinese Yuan may topple the US dollar as the world's leading reserve currency. With the help of various government publications, research papers of individuals & international agencies and news articles, this paper attempts to study the feasibility of the 'Petro-Yuan' as a possible contender for global petro exchange currency considering both pros and cons against the backdrop of the current international macroeconomic environment.

**Keywords:** Petro- Yuan, Petrodollar, Crude Oil, Reserve Currency.

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**Introduction:** Crude oil has been an engine of growth for the past few decades, and has fuelled the global economy, meeting half of the world's energy needs. With an annual trade value of \$14 trillion, crude oil can be termed as the world's most traded commodity, forming a major part of international trade. Since the mid-1970s, all oil market transactions have been conducted in the United States dollars, as a result the term 'petrodollar' was coined by Ibrahim Oweiss, a professor at Georgetown University.

A petrodollar is any United States. Dollar paid to oil-exporting countries in exchange for oil, and it has been an infallible means of transaction for the past 4 decades. The petrodollar emerged as a means of sustaining the artificial demand for the dollar after the fall of the international gold standard in 1973, at a time when public debt in the US was soaring due to rising government expenditure and the oil price boom of late 1973.

This demand for the dollar can be termed artificial since it has not stemmed from the desire to buy a US good or service, but rather because the dollar acts as a means of transaction for a different product.

In sync with the objective of ensuring that the dollar remains the world's reserve currency, President Nixon and Henry Kissinger began negotiating a deal with Saudi Arabia, the largest exporter of oil in the world. As per this agreement, the United States would provide military support and Saudi Arabia, and in turn, other OPEC countries would accept only the United States dollar for all oil transactions.

The dollar's reign over the crude oil market has lasted for over four decades now, but for the first time its hegemony faces a real threat. China has been growing at a rapid rate over the past few years, and now its Yuan may seek to endanger the existing petrodollar world order.

On 26 March 2018, China introduced Yuan-denominated crude oil futures in Shanghai. (Mamdouh G Salameh ) This was the first step as the dragon spreads its wings. It is already in talks with a range of oil

exporting countries, namely Russia, Saudi Arabia, Venezuela among others, in order to make its Yuan the new reserve currency of the 21st century.

This paper will explore the possibility and feasibility of such a scenario and analyse to what extent the introduction of the Petro-Yuan will affect the economies of China, the United States, and global economies as a whole, and the likely impacts on the current geopolitical scenario.

**Literature Review: The Tale of the Petrodollar:** Studies of the International Monetary Fund has acknowledged that the world's monetary system depended heavily on the Bretton Woods agreement which was formed in 1944 (The end of the Bretton Woods System (1972–81), n.d.). In this system, currencies around world would be pegged against the dollar and the dollar would be backed by gold. (Lexicon, n.d.) The primary objective of this system was to facilitate a post-war monetary system (Russell, 2016) as this system embraced both the features of a fixed and a flexible exchange rate system leading to an 'adjustable peg rate' system. (Objectives Of The Bretton Woods System Economics Essay, 2016) The US dollar was pegged to the gold at the rate of \$35 per ounce and every other currency was pegged to the dollar which allowed dollar to be as good as gold. This strategy was in the favour of the United States while it still had more exports than imports however, it soon turned against the economy in the early 1970's.

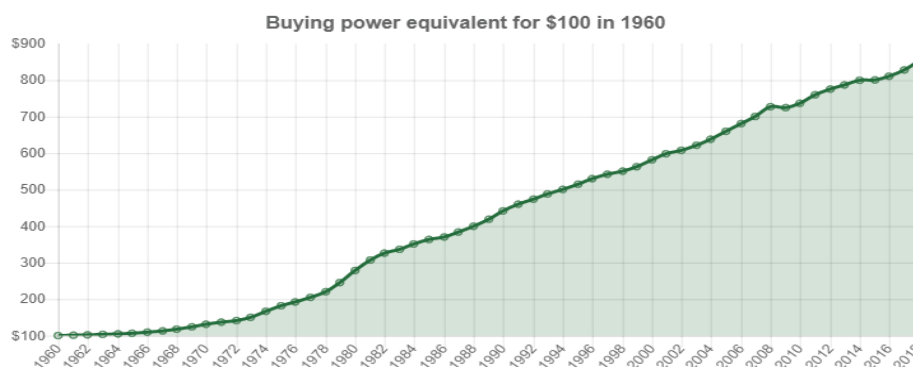
According to the World Gold Council (The Bretton Woods system, n.d.), the United States was faced with a major budget deficit along with a price inflation in the late 1960's. This problem arose as a result of increased military spending due to the ongoing war in Vietnam. In order to fund this, the United States Federal Reserve printed dollars on a large scale. Other economies such as Japan had improved their economic situation and were at a better position as compared to the United States economy in the post-war scenario which resulted in a chronic United States trade deficit. (The Bretton Woods system, n.d.)

Thus, investor confidence in the United States dollar dipped, as foreign central banks started exchanging their dollar reserves for gold. The United States began losing its credibility, and the dollar predominance was slowly coming to an end. In response to this, it completely detached itself from the Bretton Woods agreement, marking the end of the international gold standard.

Now that the dollar had no firm support, it was left 'floating' in the global monetary market and was it turned into fiat money. (Kramer, 2018) According to the research done by Mamdouh G Salameh, one of the advantages of demolishing this system was that now the United States could supply dollar without having to fix it against a gold value. However, the cost of demolishing this system included several nations losing their trust and confidence in the dollar which could lead to a collapse of the United States imperialism.

### **The Value of Dollar Over The Years (U.S. Inflation Rate, \$100 in 1960 to 2017, n.d.) Buying power of \$100 since 1960**

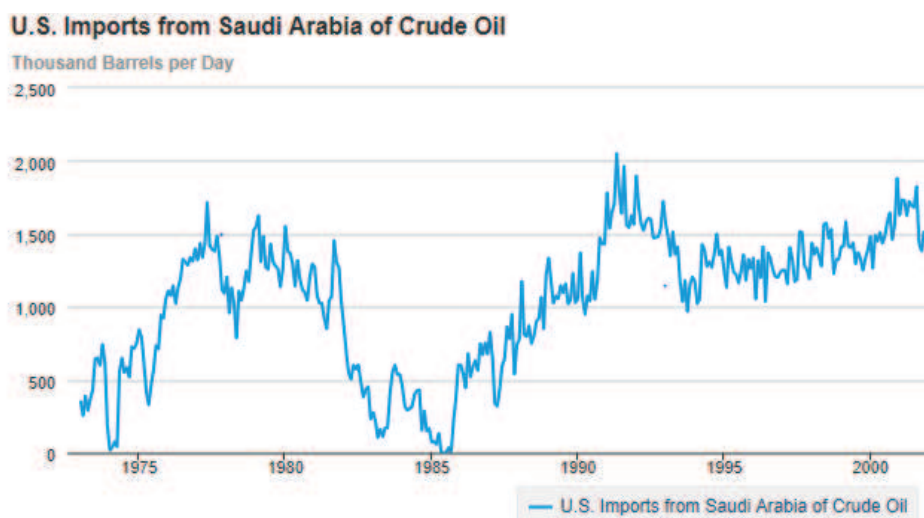
This chart shows calculations of buying power equivalence over time for \$100 in 1960 (price index tracking began in 1635).



Data collected by the Bureau of Labour Statistics reflects the situation where the value of the dollar has been steadily increasing over the years. However, the most prominent increase was between the 1960's to 1970's. United States, wanting to remain superior, devised a strategy which will keep the dollar in demand by the nations.

**The Rise of the Petrodollar:** Born of the fear of these consequences and the threat of losing its grip on other economies, was the petrodollar. Existing papers point out that using dollars as the medium of exchange for all crude oil transactions resulted in an increase in the demand of currency which prompted the strategic 1974 agreement with Saudi Arabia. In this bilateral agreement, every barrel of imported from Saudi Arabia would be denominated in the dollar which required foreign nations to exchange their own currency for dollar. As mentioned in the article called CFR (U.S.-Saudi Relations, 2017), this agreement was made to benefit both the parties where the Saudi Arabia had to reinvest their surplus in the United States debt securities, known as petrodollar recycling, and the United States promised to safeguard the Saudi oil fields and supply weapons and most importantly ensure that Saudi Arabia remains superior crude oil exporter.

#### Oil Import from Saudi Arabia (Petroleum & Other Liquids, n.d.)



As per the research done by United States Energy Information Administration, the demand for the oil imports increased rapidly in the year 1974. However, prior to this sudden increase in demand, the United States imports from Saudi Arabia was close to zero in 1973. This was due to an embargo that was imposed on the United States by the Arab which acted as a retaliation for the United States decision to support the Israel during the 'Yom Kippur War', also known as Arab-Israeli war. (Arab oil embargo, n.d.) This was a political move from Saudi's side and resulted in large social consequences in the Western Countries which included a huge surge in the oil prices leading to an energy crisis due to decrease in oil production. This led to a strain in the economy as United States was heavily dependent on the foreign oil in order to sustain its domestic energy demand. (Oil Embargo, 1973-1974, n.d.)

This conflict was solved through the negotiations which resulted in the rise of Petrodollar recycling and led to a sharp increase in the crude oil demand from the United States.

In 1975, OPEC agreed to follow this system, thus causing an immediate increase in the demand for the dollar, inflating its artificial value.

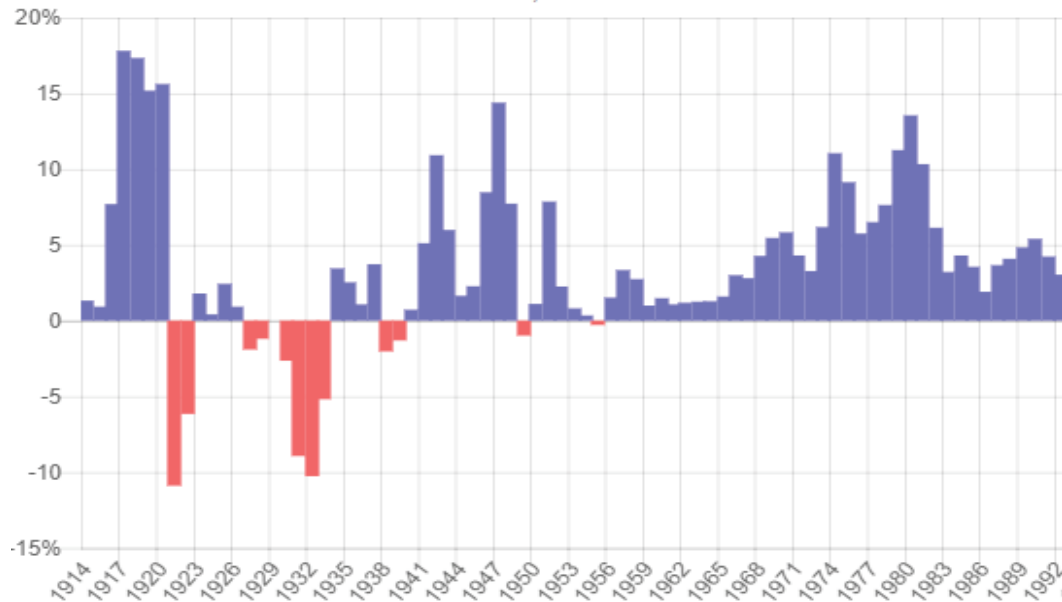
Petrodollar was a game changer for the United States, as it not only increased the dollar demand artificially but also gave it the opportunity to buy the oil with money it can print at its will.

It became the key for the United States as it opened the doors to economic and political power, and granted it the keys to global domination for the following decades.

### The Impact of the Petrodollar on the United States economy (Petroleum & Other Liquids, n.d.)

#### U.S. Inflation since 1913

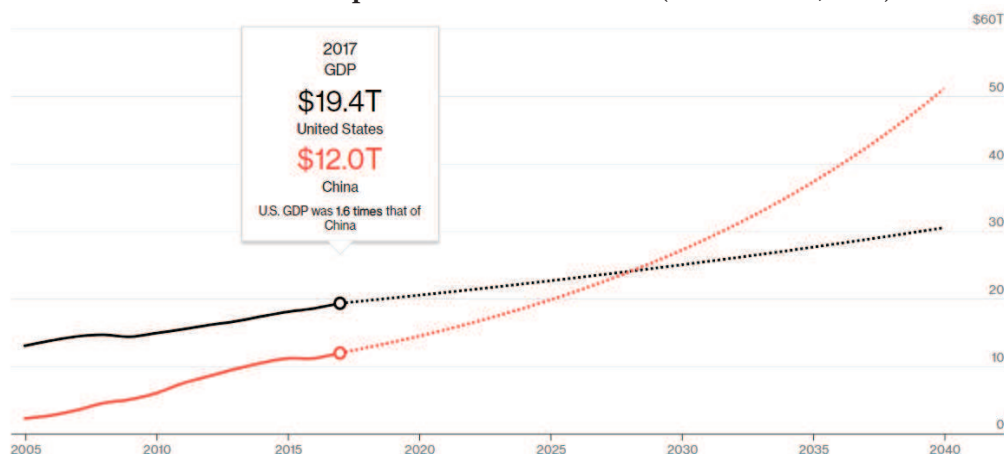
Annual Rate, U.S. Bureau of Labor Statistics CPI



The findings by Bureau of Labour Statistics highlight the value of the dollar which has been steadily increasing over the years. However, the most prominent increase in the value of dollar was around the 1970's, the birth year of the petrodollar. Along with the increase in the 'artificial' value of the petrodollar came inflation of 11.04% as compared to 6.22% (Petroleum & Other Liquids, n.d.) in the previous year. This was due the excessive spending done by the United States in order to improve its economy as petrodollar increased the inflow of foreign capital.

**The Inception of the Petro Yuan:** China has been one of the fastest growing economies in the world for the past 2 decades. According to a study done by Bloomberg's Malcolm Scott and Cedric Sam, the Chinese GDP will be level with the United States GDP by the year 2029 using the average projected growth rates. This is a monumental feat, considering the fact that the United States economy was nearly 6 times as large as China's in 2005.

#### China's GDP in comparison to the US's GDP (Scott & Sam, 2018):

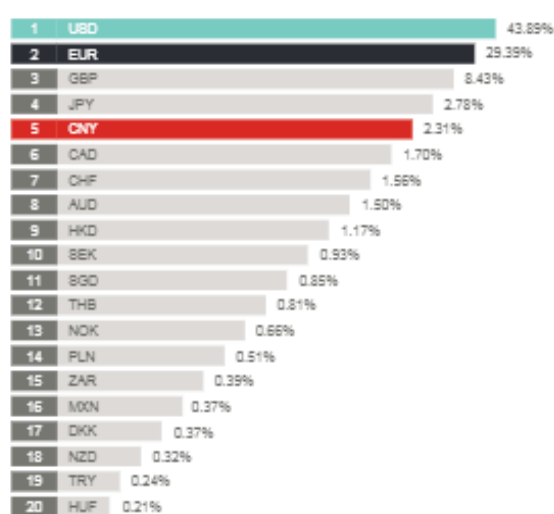


The same article also points out that China has already become the world's premier trading nation, with a trade value of \$4233 billion, as compared to the \$3843 billion in the United States.

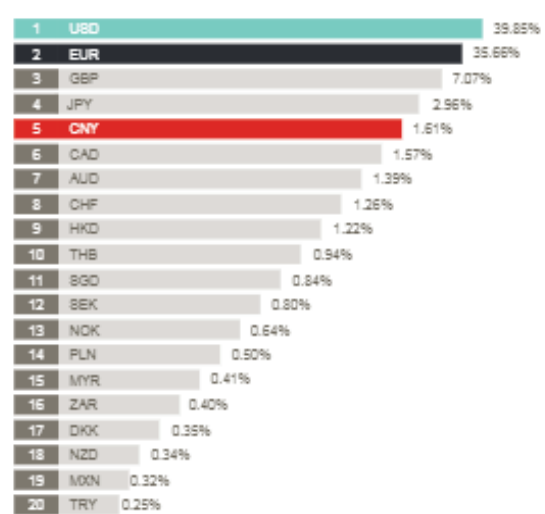
However, for China to realise its dream and take over the role that the United States has been playing for the past several decades since World War 2, it still has one feat yet to be accomplished. No matter how far the dragon has spread its wings, the Yuan still remains a mere shadow in front of the might of the dollar.

One of China's major objectives currently is to popularise the use of the Yuan, but it has made very little progress in that area. According to a report by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) published in January 2018, the Yuan is the fifth most used currency in the world for domestic and international transactions in December 2017.

December 2015



December 2017



The United States dollar holds the number one spot with a monstrous share of 39.85%, although it did fall from 43.89% in 2015. The euro grew more powerful, with its share increasing from 29% to 36%. However, the Chinese Yuan dropped to 1.61% in 2017 from 2.31% in 2015.

**The Rise of the Petro Yuan:** The hopes of making the Yuan the global reserve currency may have remained just a dream if not for the launch of the crude futures market in Shanghai in March 2018. These futures may facilitate the growth of the Yuan as the means of exchange for crude oil, known as the Petro Yuan.

Global Times, (Ferreira-Marques, 2018) in an article, states that Shanghai International Energy Exchange (INE) had a 7% share in global crude turnover in the first four months since its launch. Moreover, the article states that INE had a 14% market share in front month volumes in July, a feat which took Brent nearly 2 decades to accomplish. The success of the Shanghai crude futures may mean that the Petro Yuan might just become a reality in the years to come.

Numerous other factors can lay a crucial role in the eventual success or failure of the Petro Yuan. One such example is the foreign policy of the United States.

President Donald Trump has decided to increase economic pressure on Iran, with 2 major decisions in this foreign policy. As per an article by GlobalResearch (Publica, 2018), the United States backed out of a nuclear deal with Iran this year. In addition to this, the United States has also implemented a wide range

of sanctions on trade dealings with Iran. The article states that this move is likely to hurt America's case, and what is now being called the de-dollarisation movement is picking up pace. In response to these moves, a number of countries have decided to move away from the dollar as the means of international transactions. The article mentions how India has also decided to pay for Iranian oil not in dollars, but in rupees, in order to circumvent the newly imposed sanctions.

Another research article by GlobalResearch (Publica, 2018) points in a similar direction, stating that the European Union has plans to make all crude oil transactions with Iran in euros, a direct consequence of the actions of the United States.

Caleb Fundanga, the executive director of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) stated that the Yuan would soon play a larger role in their economies for a multitude of reasons, but mainly because of the high volume of trades the respective countries engage in with China, and also because of the loans and investment these developing nations were receiving from the country.

Russia has always wanted to get rid of the dollar supremacy, and after the failure of its own attempts, it decided to back the Chinese Yuan in its quest to overthrow the US dollar. The article by GlobalResearch states that Gazprom Neft, the third largest oil producer and supplier in Russia started accepting Asian currencies, especially the Yuan as opposed to the dollar for crude oil transactions.

Negotiations are still going on with Saudi Arabia, which is the world's largest exporter of crude oil. Saudi Arabia was the United States' original partner, but China may be able to persuade OPEC's largest player to join its cause. China's greatest opportunity is the upcoming IPO of Saudi Aramco, which is expected to be one of the largest ever, and a significant proportion of the funds are expected to come from Chinese investors and Chinese sovereign wealth funds, as outlined in a report by oil price.com. This could help pressure the Saudi government into accepting Yuan for crude oil. In addition to this, Saudi Arabia cannot risk upsetting the largest importer of crude oil in the world.

Apart from this, the Yuan garners strength from the Chinese government's ever ambitious expansion plans like the Silk Road or One Belt One Road (OBOR) initiative. The OBOR was initiated by the Chinese government in 2013, with the hope of strengthening the economic, social and trade relations between 5 dozen countries in the Asia Pacific, European and African region.

This massive project, with an estimated investment between \$1 trillion and \$8 trillion, can open up a range of trade opportunities for China, and increase the chances of success of the Petro Yuan. According to an article by Global Finance magazine, Chinese exports to the OBOR region grew by 12% between the years 2016 and 2018, and imports rose by 27%, with the Yuan being the most widely used currency used to settle the accounts. This initiative has already started paying off, as the central bank of Pakistan has started taking measures to replace the dollar with the Yuan as its foreign reserve currency. The OBOR initiative can help increase China's and the Yuan's economic power in the years to come. (Bateman, 2018)

**Body: Benefits of the Petrodollar:** Over the past four decades, the petrodollar has provided a wide range of benefits to the United States' economy. One of the most prominent examples is that it creates artificial demand for the dollar, which means that the US dollar is demanded in international markets, however it is not because of a direct demand for any American product or service. As a consequence of this high demand, the dollar usually remains strong in comparison to other currencies, and any upward oil price shocks lead to an appreciation of the dollar.

Another advantage of the petrodollar is the increase in demand for US government bonds and debt securities. This happens because of a concept known as petrodollar recycling, where oil exporting countries which are flush with dollars reinvest them into the US economy through US government bonds. In this way, the United States not only funds its own trade deficit with multiple countries, but the high demand for bonds means a lower interest rate, boosting the American economy.

The final and one of the most important benefits is that the US has the ability to buy as much oil as they require, with currency they can print as per their own requirements. In this way, the dollar hegemony has immensely benefited the economy of the United States.

**Fall of the Petrodollar:** The extremely volatile global energy market has been pointing towards the de-facto end of the petrodollar regime. United States monopoly over the international trade of oil is slowly coming to end due to the growing opposition from several nations such as Russia and Saudi Arabia which are the major part of OPEC. (Bradley, 2017) However, under the facade of dominance, United States is going through uncontrollable debt and political problems (Bradley, 2017) which puts it at vulnerable position, reducing the investor confidence in the dollar. Aforementioned, the United States has been spending large sum of money in foreign nations and with humongous investments in the military resulting a deficit in the governmental budgets. In addition, the economy of United States is heavily dependent on the debts securities provided by the Saudi Arabia and Saudi Arabia, one of the biggest oil exporter, is already planning to withdraw from the petrodollar regime. (Saudi Arabia wants to kill the petrodollar - economist, 2017)

The US dollar status as the leading global currency is attached to the petrodollar. It has been following the system of low interest rates together with monetary policy of quantitative easing which was meant for the benefit of the economy which ironically turned against its petrodollar system. Being so dependent on the policy of low interest rates, the US could never adjust the oil prices without resulting in large fluctuations in the financial system. (Durden, 2014)

In the current scenario of the oil market, China has achieved the state of dominance over the crude oil imports, surpassing the United States. As per the statistics, China has control over 18.6% crude oil imports as compared to the United States 13.9% imports of the crude oil. (Workman, 2018)

The non-dollar trading has begun in several nations such as China and Russia who have started trading in their own national currencies, Ruble and Yuan (Wallace, 2018) indicating that the petrodollar is no longer the most preferred medium for trading of the crude oil. Furthermore, other nations such as Iran has also started trading in other currencies as well. (Bentley, 2014)

Therefore, China has the highest value of dollar value worth of crude oil and its decision to withdraw from the petrodollar system will further reduce the demand for the dollars, having a negative impact on the economy of the United States.

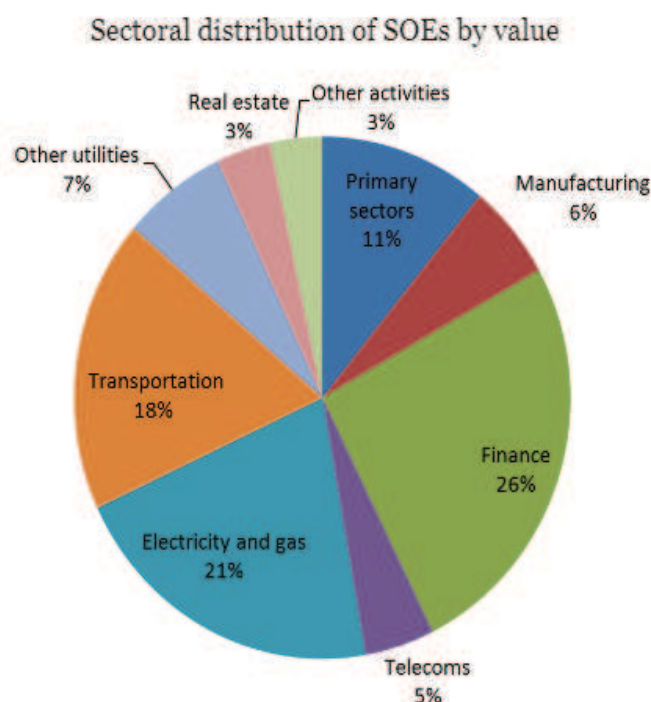
**De-Dollarisation:** China, once before, attempted to displace the dollar in 1993, and make the Yuan as the world's leading currency. Then, oil futures exchanges were launched in Beijing and Shanghai. However, these were taken down within 2 years, due to the instability that existed in the commodity markets at that time. In addition to this, the Yuan has only recently gained prominence, but back in the 1990s, it did not hold even a fraction of its current influence.

The situation has changed now. Over the past decade, China has made quantum leaps in all fields, is the second largest economy in the world with a GDP of \$12 trillion, and is now the largest oil importing nation.

In addition to this, as a part of its five yearly re-evaluation, the International Monetary Fund added the Chinese Yuan to its Special Drawing Rights (SDR) basket in 2016. (IMF Adds Chinese Renminbi to Special Drawing Rights Basket, 2016) Special drawing rights are monetary instrument used by the IMF as an artificial currency, and comprise of a basket of national currencies. They are a means of supplementing the money reserves of the member nations. The main motive behind the formulation of SDR is to improve liquidity in international transactions, and reduce the dependency on gold or the dollar as the only acceptable means of settling trade accounts on a global scale. (Special Drawing Rights - SDR, n.d.)

The Director of the IMF's Strategy, Policy, and Review Department, Siddharth Tiwari claimed that this step could help integrate the Yuan, and in turn the Chinese economy, better in the global financial system. He also stated that the admittance of the Yuan into the SDR basket was an important milestone in the "internationalization" of the currency. An additional benefit of this move is that it intensifies the appeal of the Yuan as an international reserve asset to foreign institutions. (IMF Adds Chinese Renminbi to Special Drawing Rights Basket, 2016)

The first step in this grand scheme of things would be the Chinese government ensuring that state owned enterprises buy crude oil using only the Yuan as the means of transaction. This can have a very significant impact on the world energy market, as China has a sizeable public sector, with around 51000 state owned enterprises, 51% of which deal in electricity and gas, transportation, telecoms and other utilities, according to a study conducted by OECD Steel Committee in September 2017.



Therefore, Chinese SOEs switching over to only Yuan denominated crude oil contracts may be an important step in the realisation of the Petro Yuan dream.

The next step would be China dumping a part or all of its holdings in US treasury bonds, a staggering sum of \$1.2 trillion. This move can have a double impact in the ongoing battle for the superior petro currency. Firstly, as China dumps the bonds into the market, people will lose faith in what can be called the safest investment in the world. The value of the dollar would plummet as confidence in the US economy falls, and oil exporting nations would have to look for other currencies to trade in, and in this instance, the Yuan.

The second impact of this move is more long term oriented. China would have surplus funds, and instead of investing them in US government bonds, it could invest them in developing economies in Africa, some of which are oil rich. This move is likely to build up goodwill and further the cause of the Petro Yuan. This has already happened on a small scale as discussed earlier, where countries which form a part of the MEFMI have agreed to increase their dealings in the Yuan.

The upcoming IPO of Saudi Aramco is also likely to play a very large role in the future of the Petro Yuan, and Chinese investors are going to form a large part of the inflow of capital into the company. Thus, by

acquiring a sizeable portion of the gigantic oil exporting company, the Chinese government gains the ability to further pressure the government of Saudi Arabia to finally shed the dollar after 4 decades and accept the Yuan as the new means of global oil trade.

Other nations will also play a crucial role in the de-dollarisation movement. Foremost among them would be Russia, which has been trying to get rid of the dollar supremacy for a long time. Russia is China's largest trading partner in the crude oil market, with a trade volume of about 1.32 million barrels per day in the first quarter of 2018.

China and Russia already conduct most of their bilateral trade in Yuan, and the launching of the crude futures exchange might help increase the range of goods traded in Yuan to energy and commodities. Crude oil trade between China and Russia is likely to increase further in the years to come, owing to the opening of a second direct pipeline between China and the East Siberia Pacific Ocean (ESPO) crude oil extraction system. This new pipeline led to a 17.8% year on year increase in crude oil imported into China between the years 2017 and 2018, as per the Chinese General Administration of Customs, (Petro-yuan helps Russia & China dump US dollar in oil trade, 2018) and is likely to further promote the use of the Petro Yuan.

Another aspect in this battle is the range of sanctions that the United States has levied against Russia, which the Russian Natural Resources ministry claims limit the flow of foreign investment, new technologies, and equipment for the crude oil extraction sector and have also complicated the development of new projects in Russia. (Paraskova, 2018) All of these reasons substantiate why Russia is willing to back China to overthrow the dollar as the global reserve currency and bring in the era of the Petro Yuan.

As discussed earlier, the world's largest exporter of crude oil will also have a big role to play here. Saudi Arabia has historical ties with the US, owing to the fact that it was the United States' original crude oil trading partner and the first to sign the deal that gave birth to the petrodollar. Another hindrance in the de-dollarisation of Saudi Arabia is its own currency, the riyal, which is pegged to the dollar. Any depreciation in the dollar would hurt Saudi Arabia's own currency, which is why any decision taken by them would have far reaching consequences. China's only ray of hope lies with the grandest IPO in history, that of Aramco, which is valued close to \$2 trillion, and its ability to pressurise the Saudi government into accepting Yuan as the means of settling accounts. This may be China's last big obstacle, once Saudi Arabia embraces the Petro Yuan, all of its partners in the OPEC will soon have to follow suit. China already does have some support in the OPEC cartel. Iran, which is also facing problems from sanctions levied by the United States has agreed to make transactions from oil in Yuan. However, at this point, the Yuan denominated transactions are only with China, which buys about 25% of Iranian oil exports. (China's petro-yuan 'thundering into action' as Iran ditches US dollar in oil trade, 2018) Venezuela, another member of OPEC, has started listing all oil prices in Yuan since September 2017, quoting that this move is to get rid of the 'tyranny of the dollar.' This shocking move was once again a result of United States sanctions that limited foreign investment into the country.

**Petro Yuan Versus Petrodollar:** The power shifts are clearly visible as United States dominance over the crude oil market is slowly eroding. Already standing at the position of the top oil importer, China has implemented the plan to make the Yuan as the reserve currency. China is already capitalizing on the evident disadvantages that United States has.

The dollar due to being highly used on a global scale has an appreciated value which makes the domestic production highly expensive. (Petro-yuan to launch renminbi as global currency & kneecap petro-dollar, 2018) This consequence adds to the inflationary state of the economy resulting in a slower economic growth as compared to China which is a threat to the United States hegemony on the oil markets.

China has started purchasing its raw materials in its own currency which is a strategic move to increase the supply of its currency in the market and is encouraging its domestic oil industries to adopt the Yuan based transactions. This will also be beneficial for China as it does not have to pay an oil premium which is imposed on the Asian countries by the Middle East. Not only it will increase the demand of the currency internationally, it will also improve the liquidity of the currency. On a larger scale, China's first step is start purchasing from nations such as Russia and Saudi Arabia who are a big part of OPEC in Yuan. These are the nations which are keen on destroying the dollars domination and therefore, are highly involved in this new strategy.

A strategy which was adopted by the United States is now being used by China where the Yuan will be backed by gold which is the decline of the dollar. Having the currency backed by gold, it will make it more trustable and stable as gold's value is universally recognizable. Furthermore, now that the Yuan is backed by gold and Petro Yuan future contracts are trading in the market, other countries can easily switch from the USD to the Petro Yuan. (Ebeling, 2018)

One of the reasons that make Petro Yuan more appealing than petrodollar to other countries is the fact that United States has imposed tariffs on various countries. This results in negative relations and the United States losing its control on the global market.

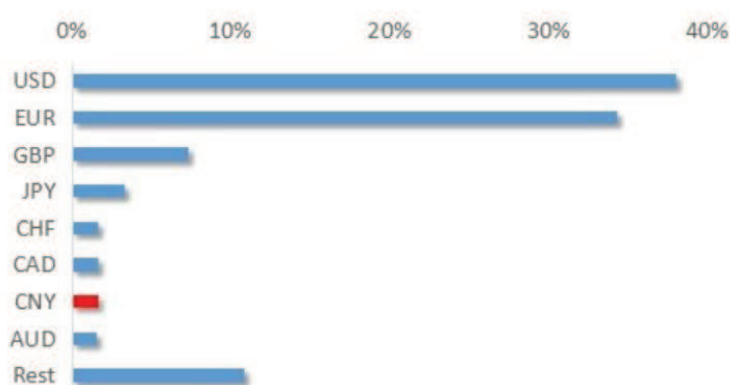
Central Asian republics will take a large step towards the petro-Yuan as it grows. The petro Yuan provides the Middle East with a path to diversify its investments overseas and China can attract the Middle East to invest in its capital markets. (Katsomitros, 2018)

China has already paved the path for the Petro Yuan which is quite different from the way United States did for petrodollar. China introduced the PVP (payment versus payment) system with Russia where all the transactions took place between Yuan and Ruble. This strategy will be expanded to other nations as well by the Chinese Exchange Trade System (CFETS) (Steinbock, 2018) and in the long term, the Yuan may end up becoming the global reserve currency.

However, petro Yuan has yet to dethrone the petrodollar as petrodollar is still being used on a large scale as represented in the graph below.

Currencies being used for international trade (Steinbock, 2018)

**Figure 1. Major International Payments Currencies**



Source: SWIFT, Feb 2018

As per the statistics, the USD is still highly used as compared to other currencies whereas the Chinese Yuan is one percent (Steinbock, 2018) used for the international payments. China is slowly integrating into the global financial system as it is already the largest trading country.

It will not be an easy battle for China to make its mark globally in terms of Petro Yuan however if China continues to increase the demand for Yuan assets in the global market.

The faith in petrodollar is slowly diminishing to the US debt crisis and Trump policy blunder and this will result in a progressive shift in the demand for the Petro Yuan.

**Conclusion:** The fight for the superior petro currency is just a small aspect of the much larger battle for the superior nation, the superior nation, the superior ideology. Analysts and experts from all over the world are now comparing the dollar to the US dollar to the British pound which was overthrown by the dollar a century ago as the leading currency in the world. Some have even gone so far as comparing the dollar to the post World War 1 German mark, where the government kept printing notes to cover budget deficit.

Even though this is not exactly the case with the dollar, the dollar may be drawing closer to its end faster than before. According to a report by the World Bank in 2011, the dollar would have to cede its position as the global reserve currency by 2025 (Trader, 2011), and the introduction of the Petro Yuan might catalyse this process. The current situation can be best summarized by the line, "the U.S. dollar is a house of cards sustained by a delusion of value entangled in massive debt." (What the Petro-Yuan Means for the U.S., 2017)

China will have to face numerous obstacles on the path to establishing its currency as the global reserve currency. It still is yet to convince a large number of member nations of OPEC, including its largest player, Saudi Arabia to adopt the Yuan as the means of exchange for crude oil. The dollar has retained its position as the world's most respected and used currency since world war 2, even after the collapse of the international gold standard in the 1970s. The chief economist and managing director at High Frequency Economics, Carl Weinberg, in 2017 stated that "moving oil trade out of dollars into Yuan will take right now between \$600 billion and \$800 billion worth of transactions out of the dollar." (De-Dollarization: How Russia and China May Soon Dethrone the Petrodollar, 2018)

In addition to this, the Chinese Yuan has been often associated with what is known as a 'dirty float' or a managed float, where the currency is not allowed to naturally appreciate with increasing demand, but is undervalued by government intervention, so as to make exports cheaper. It is believed by many that this form of currency manipulation is the backbone of China's massive export sector.

However, the international community may not be able to substantiate these claims, especially because of the recent appreciation seen in the Yuan. China's partners, namely Russia, a powerful economy, and Iran, which is slowly becoming a powerful player within OPEC, are sure to help further its cause.

On the whole, the Petro Yuan may mark the beginning of the end for the petrodollar. The Petro Yuan may still take a while to replace the hegemony that the United States tediously built up for the past decades, but it will slowly and surely chip away at the mighty dollar and we may soon a new world order, with the Chinese Yuan as the global reserve currency.

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