

Committee: United Nations Economic and Social Council

Topic: The Question of the Shift in Global Key Currencies and Its Economic Implications

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Introduction

Historically, the US currency, the USD, played a role as one of the most influential key currencies. The initiative of this circumstance was the establishment of the Bretton Woods System. Since the implementation of the Bretton Woods System, Dollar has officially gained its supremacy. In spite of the collapse of the Bretton Woods System, USD's influence on the world economy is still valid in modern days. USD dominance provided a number of advantages to the US. Therefore, the US strived to maintain the status of its currency.

In fact, the USD is currently considered as the most influential key currency. To rephrase, international transactions should be conducted through dollars. Presently, the US benefits from this situation both economically and governmentally. Based on the cheap commodities and credits of nations highly dependent on dollars, the US can freely implement various financial schemes. Moreover, Dollar's status helps the US be in charge of controlling the international trade network. The US can also produce more dollars whenever they need it and have a significant role internationally.

The biggest threat to dollar dominance is the US itself, two top economists said. That's due to the risk of "severe deterioration" in the US's financial situation. The national debt balance notched \$34 trillion for the first time ever this year. There are also external events challenging dollar dominance. Several countries are either expanding their currencies' influence or cooperating with other nations to use a new kind of currency. Moreover, the rise of cryptocurrencies is also affecting dollar dominance. Thus, the forum calls for the issue of the global key currency to be addressed to prevent possible conflicts and confusion among nations.

Definition of Key Terms

Key Currency

According to the OECD, key currencies are currencies that heavily contribute to global trade and commerce around the world. These currencies have a significant role in the world's global market. There are several key currencies in the world. Most key currencies are the currencies of countries that are economically stable, financially strong, developed, and are participants in the global market. A key currency acts as a reference value in global financial transactions. The most representative example of a key currency is the Dollar.

Petro Currency

Petro currency, are currency that are utilized in oil trade. In the current situation, the petro currency is mostly considered as dollars. However, China's Yuan is seeking opportunities to become the petro currency. Oil can be produced only in specific regions and it plays a vital role in industries and technology development. To sum up, oil trade is one of the most important transactions in the global market. Having their national currency as a petro currency can ensure international status.

Exchange rate

Exchange rates are defined as the price of one country's currency in relation to another country's currency. The value of currencies are determined by the exchange rate. Their value depends on the rise or fall of supply and demand in the foreign exchange market. Some currencies, exceptionally, fix their value according to a specific country's currency.

There are mainly two different factors that cause a shift in the exchange rate. First is inflation. If a country has a relatively low inflation rate, they experience a higher currency value. The second is interest rates. Higher interest rates offer banks and other lenders a better return. Consequently, higher interest rates will attract foreign capital and cause the exchange rate to rise.

Interest Rate

The interest rate is the cost of borrowing. Interest rates are applied to saving accounts or certificates of deposit. The greater the lender thinks the risk is, the higher the interest rate is. As a lender, when the interest rate rises, borrowing becomes more expensive. The prominent factor which fluctuates interest rates is the supply and demand of credit. If the demand for credit increases while supply of credit is low, interest rate tends to increase.

Reserve currency

According to CFR, a reserve currency is a foreign currency that a central bank holds as part of its country's formal foreign exchange reserves. Countries take this action for several reasons, including to weather economic shocks, pay for imports, service debts, and moderating the value of their own currencies.

Cryptocurrency

Forbes explains cryptocurrencies as a form of currency that exists solely in digital form. They have several advantages and disadvantages over traditional currencies or paper money. As for an advantage, these currencies enable cheaper and faster money transfers and the decentralised systems ensures their stability. On the other hand, the disadvantages of cryptocurrencies include their price volatility, high energy consumption, and privacy information being used in criminal activities

Background Information

History of Key Currency

By the end of World War II, the USA's currency, Dollar, had gained supremacy in the international currency market. It was made possible by the Bretton Woods System, established in 1944. The Bretton Woods System(BWS) was established as an adjustable peg system, with every country fixing their currencies to an anchor currency, which is the US dollar, and the value of the anchor currency was fixed to gold. Nevertheless, in the 1960s, the dollar had struggled within the system set up under the Bretton Woods agreement. As a result, in 1971, US President Nixon suspended its convertibility into gold.



Ghizoni, Sandra Kollen. "Creation of the Bretton Woods System." *Federal Reserve History*,

Soon after the collapse of the Bretton Woods System, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States gathered for the Smithsonian meeting. Amid the meeting, the United States agreed to devalue the dollar against gold by approximately 8.5 percent to \$38 per ounce. Other countries also offered to revalue their currencies

relative to the dollar. The Bretton Woods Agreement was soon replaced by another system, the Kingston system. The agreement about the system was concluded after meetings 7–8 January 1976 at Kingston, Jamaica by a committee of the board of governors of the IMF. The accords allowed the price of gold to float with respect to the U.S. dollar and other currencies. The agreement also included provisions for financial assistance to developing countries representing the Group of 77 member countries to compensate for lost earnings from the export of primary commodities.

Since the collapse of BWS, The United States's Dollar has lost its supremacy. However, the United States still endeavoured to prolong its dominance by mainly two ways. The first method was authorising the USD as Petro Dollar. A year after the 'Oil Shock', 1974, US and Saudi Arabia signed the 'petrodollar' deal. This permitted the use of USD when trading oil. The second method was the Plaza Accord or Plaza Agreement. The G5 nations, France, Germany, the United States, the United Kingdom, and Japan, depreciated the U.S. dollar relative to the Japanese yen and the German Deutsche mark. This served as a benefit to the US. Following the depreciation of the USD, USA's exports became relatively cheaper than other countries' products. Consequently, the US could reduce its trade deficit and maintain dollar dominance.

The Characteristics of Key Currency

Key currencies have a considerable amount of impact on the global economy. In modern times, the key currencies are considered as the ones which are included in the SDR basket. The SDR is an international reserve asset. SDR's value is based on a basket of five currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. These five countries share similarities which made their currencies as key currencies. First and foremost, they reserve sufficient amounts of gold. Moreover, they have a sophisticated financial system. Last but not least, they receive trust among other nations and maintain a stabilised price level.

The Global shift in key currencies

The USD has been the most influential key currency since the institution of BTW. According to the Bank for International Settlements' latest triennial survey, the dollar as of 2022 was part of 88 percent of all international transactions. The data infers that the USD, still, constitutes most of the global economic transaction. However, recently, there are a number of threats which are destabilizing the USD's dominance. Accordingly, several recent studies revealed that dollar dominance is gradually weakening. The IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) data

indicated that there is an ongoing gradual decline in the USD's share of allocated foreign reserves of central banks and governments.



“Triennial Survey Shows Global Foreign Exchange Trading Averaged \$7.5 Trillion a Day in April 2022, OTC Interest Rate Derivatives \$5.2 Trillion.” *The Bank for International Settlements*, 27 Oct. 2022,

In 1969, the International Monetary Fund(IMF) introduced the Special Drawing Rights(SDR), which are international reserve assets having a similar value as gold. After discussion and development of the system, the IMF finally approved the SDR. Currently, the SDR includes Dollar, Euro, Yuan, Yen, and Pound. Some specialists maintain that this system is triggering the collapse of dollar dominance.

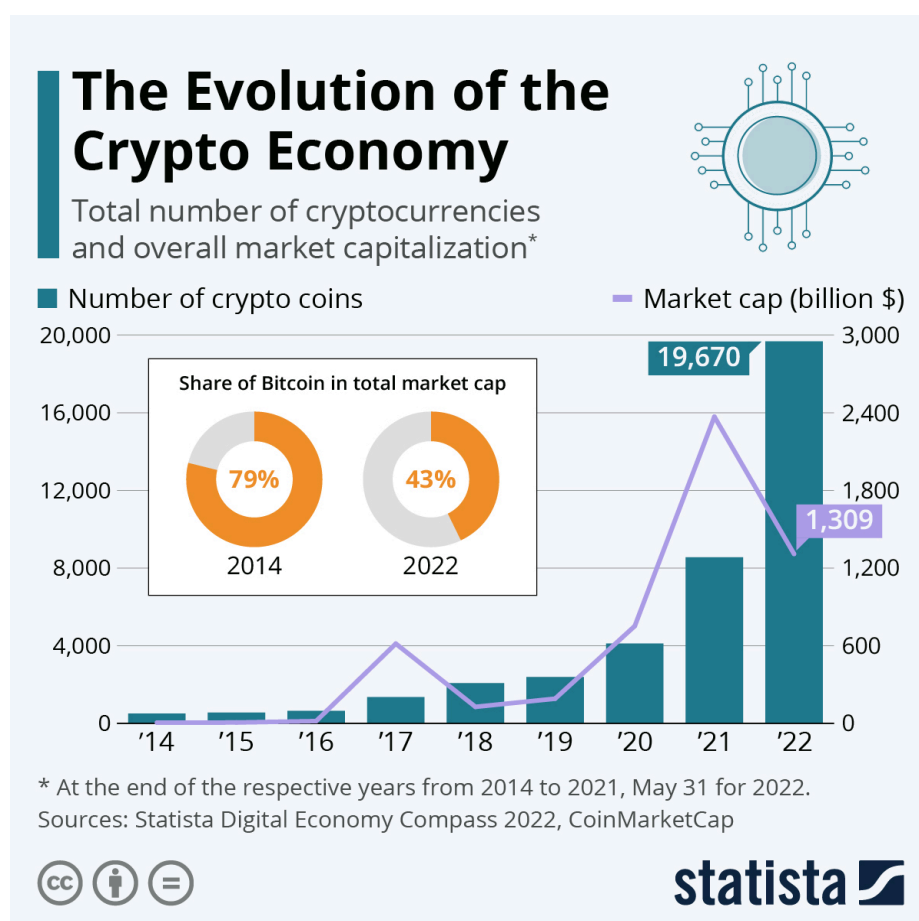
One main currency threatening dollar supremacy is the Chinese Yuan. On December 7th, 2022, the Chinese president visited Saudi Arabia to have a summit talk. There, the Chinese president requested the use of Yuan amid oil trade. In other words, China challenged dollar dominance by attacking the dollar's status as a petro currency. Amid the Russia-Ukrainian war, China supported Russia and in return traded with Yuan instead of the dollar. Not only with Russia but also in the middle-east, and asian countries including Saudi Arabia and Bangladesh, China is striving to increase their economical influence.

China had a massive trade deficit in trade with the USA. According to the Department of Commerce, USA exported commodities of 375 billion to China while import from China was only 130.4 billion.

This was considered as an unfair trade from the perspective of China. Although the start was trade deficit, currently the two countries have been facing technological conflicts. Mainly debating about the transfer of technologies and intellectual property rights. Recently, the US president has increased tariffs on China's main export commodities from 25% to 100%. This enduring trade war led to China's action of shifting the key currency into the yuan.

Another example is the Indian Rupee. July 15th, 2023, UAE and India concluded a trade agreement. This included contents permitting Rupee as their trading currency. India has also announced that they will continuously expand the use of Rupee during trades especially in the middle-east asian countries.

Numerous countries are putting their efforts to reach de-dollarization. Brazil and Argentina released their plan to produce a key currency which will be used throughout South America. Russia and Iran also joined together to develop a cryptocurrency securing its value regardless of the dollar.



Digital currency or cryptocurrency has also spread its popularity and has been threatening USD dominance. Digital currencies are decentralised, which means there is no organisation which takes full control of transactions. Cryptocurrencies have a number of advantages compared to other currencies. Initially, there would be less concern about inflation. Unlike the key currencies nowadays which can be produced in unlimited amounts by specific nations, cryptocurrencies cannot be produced by one specific entity. In addition, the use of cryptocurrency can reduce the inconvenience of possessing currencies and exchanging currencies when needed. On the other hand, there are also challenges we have to face due to this shift. For instance, there are remaining security issues. Due to the characteristic of anonymity, people are prone to be exposed to digital crime.

Possible Actions

Partially replacing key currency with digital currencies

Key currencies are now solely dependent on the country's (countries having the key currency as their national currency) economic situation. Moreover, there are concerns over political use of key currencies. Since the countries producing key currency can freely increase or decrease the amount of currency production, the country might negatively affect other countries on purpose.

Partially replacing key currency with cryptocurrencies or digital currencies will be a solution toward this issue. One of digital currencies main distinct characteristics is decentralization. Unlike most economic systems which have a central bank controlling the nation's economy, there is no central power to control the digital currencies. Therefore, nations will be free from fluctuations caused by inflation or economic crisis and lessen the pressure of banks on foreign countries.

However, digital currencies also have several drawbacks. Initially, there are risks of cybersecurity. Cryptocurrencies can expose people to more hacking attempts and scams. To add on, the undeveloped key transaction policies is another con over cryptocurrencies. There aren't sufficient policies on refund or cancellation. To successfully adopt cryptocurrencies as key currencies, nations should renew their policies to protect people's information and ensure a safe economic environment.

Holding annual meetings

Abrupt alteration of dollar dominance can cause a catastrophic situation. Nations that have not yet stabilised their economy will suffer difficulties. They would have to afford the new key currency in such ways as currency swap. However, currency swaps mostly triggered a sudden increase in foreign currencies' exchange rate making them pay more money to exchange for the key currencies. Hence, countries should prevent these issues in advance to ensure economically vulnerable countries' economic stability. To be more specific, nations should set up agreements to maintain economic stability in economically unstable nations.

Moreover, nations should be aware of the fact that nations having their currencies as key currencies may gain excessive amounts of power in international organizations. Since these nations are capable of producing the key currencies, they potentially have the ability to control the supply of key

currencies in order to economically distract other countries. Therefore, nations should also discuss the topic of the key currencies being abused for political purposes. Nations owning the key currencies might gain overwhelming power over other nations since they are capable of controlling the supply of the key currency. Thus, amid the conference, they should set up limitations on key currency production.

Abrupt alterations in the key currencies might cause a catastrophe in the global economy. Nations should prevent the threat of this danger by promoting gradual changes in key currencies. During the meetings, member nations will decide the specific fields in which they will apply the new key currencies.

Major parties involved

Argentine Republic

24th of May, 2023, Argentina media has reported that Argentina will have a conference with China to figure out the severe foreign exchange reserve issue. Argentina has suffered national debt as a dollar. During the conference, they discussed establishing a currency swap treaty. With the conference meeting the consensus, the two countries exchanged their currencies and therefore, more Yuan was reserved in the central bank of Argentina. Since Argentina lacked dollars, they sought to continuously increase the percentage of Yuan.

The Federative Republic of Brazil

March 29th, 2023, the Brazilian government declared that the Chinese Yuan and Brazilian Real will replace the role of USD during trade between China and Brazil. The solid economic relationship between Brazil and China triggered the movement. Brazil mass produces oil, crops, and iron and exports them to China. China, likewise, manufactures electronic devices, machinery, and consuming goods at a relatively cheap price which are then supplied to Brazil. In addition, Brazil received financial support from China to figure out their ongoing infrastructure shortage issue. According to the Brazilian report, the Chinese government lent 289 billion dollars to Brazil between 2005 and 2019.

The People's Republic of China

The Chinese government aimed to globalise its currency, Yuan. They encourage the use of Yuan during international trade. As a result, according to a recent research held by Business Insider, the proportion of Yuan in the global economy has increased 3.6% between 8 months. In December 2023, the Chinese government suggested the use of Yuan during oil and natural gas trades. In the current situation, China is using Yuan in transactions with countries such as Brazil, Argentina, and Russia.

The Russian Federation

The United States House of Representatives passed a law mentioning that all of Russia's national budget as dollars will be confiscated. The US also supported Ukraine with Russia's dollar budget too.

Russia gained support of China during the Russia-Ukrainian war. In 2023, the president of Russia has also declared that Russia will support the use of Yuan in Asia, Africa, and South America.

The Kingdom of Saudi Arabia

Saudi Arabia was the country which established the petrodollar treaty with the US. However, reaching the end of the treaty, Saudi Arabia has recently initiated to accept Chinese Yuan. Saudi Arabia is in charge of the highest proportion of oil production. Therefore, this change can be significant in the global economy. One of the reasons why Saudi Arabia allowed the transaction by Yuan was because China is the biggest consumer in the oil market of Saudi Arabia. March 16th, 2023, SCMP reported that Saudi Arabia and China reached a successful consensus. They concluded to use Yuan during trade, instead of dollars.

The United States of America

Soon after WW2, Dollar became the international key currency, however, the 'Nixon Shock' served as a threat of dollar dominance. To recover their status, the US thought of a solution which was a petrodollar system. This forced all nations to pay dollars for oil and the US succeeded in maintaining dollar demand. The petrodollar system established in 1974 was the start of dollar dominance and currently, the US dollar is still considered as the main key currency.

Timeline Of Events

Date	Description of event
July 1944, The Bretton Woods Conference	The Bretton Woods Conference established the Bretton Woods Agreement which put gold as a basis of dollars and pegged the dollar's value to other currencies.
August 1971, Nixon's "closed the gold window"	President Nixon's "closed the gold window" marked the end of the Bretton Woods Agreement.
December 1971, The Smithsonian Agreement	The Smithsonian Agreement was typically the revision of the Bretton Woods Agreement.
1974, The Saudi-US Petrodollar deal	The Saudi-US Petrodollar deal was the deal which made countries trade oil with dollars.
1976, Kingston Agreement, January	Kingston Agreement, also known as Jamaica Accords was a set of international agreements which ratified the end of the previous system.
2023, Saudi Arabia-China	Saudi Arabia agreed to accept Yuan during oil trades.

UN Involvement, Resolutions, Treaties and Events

- The Bretton Woods Agreement

Forty-four nations gathered in Bretton Woods in July 1944 to agree to the establishment of the IMF and initiated dollar dominance.

<https://www.federalreservehistory.org/essays/bretton-woods-created>

- Special Drawing Rights(SDR)

The SDR is an international reserve asset. The value of SDR is based on a basket of five currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

<https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr>

- The Smithsonian Agreement

In December 1971, monetary authorities of developed countries made an attempt to rescue the Bretton Woods global monetary system.

<https://www.federalreservehistory.org/essays/smithsonian-agreement>

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