



Background Paper

Committee: World Trade Organization

Topic B: The breakdown of dollarization in the global economy

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The US Dollar has been the international currency since the Bretton Woods Conference in 1944. Throughout time, the dollar has been used as an international reserve currency, and for international transactions. In 1973, the dollar was adopted for the purchase and sale of oil. Also, many countries have adopted the dollar as their national currency (dollarization). These countries have protection against devaluation and inflation since they depend on a strong currency. However, currently there are now more powerful currencies than the dollar, and countries want to stop depending on it (de-dollarization) since they want to preserve their economic health. The WTO is responsible for resolving this worldwide issue. This problem is affecting international trade, since countries that rely on the dollar are being kept out of trading opportunities. The Chinese government started using their currency in international trade when they became a member of the WTO in the 1990s. If countries do not come up with a solution the global economy may be in danger.

In 2009, China and Russia proposed another international currency. However the dollar remained. Then the US dollar has begun to breakdown against its major competitors. "In October 2014, the central banks of China and Russia signed a 3-year ruble-yuan currency swap deal up to \$25 billion. The currency swap agreement, which has yet to be used, was designed to boost trade using national currencies while lessening dependence on the dollar and the euro," according to *walkerworldtrade*. Also, the Indian, Iranian and Turkish economies decided to be more dependent on their own currencies. In 2009, the UN made the recommendation of having a successor currency for the dollar. According to *steemit.com*, the countries that stopped selling their petrol barrels in petrodollars (U.S. dollar payment in exchange for oil) are Libya, Syria, Iran, Russia, and China. However, many countries are in debt with the United States in dollars, to the tune of approximately 6 trillion dollars. Also, China owns \$1.1 trillion worth of the US treasury.

The IMF (International Monetary Fund) was created to promote international economic stability to reduce poverty in the world. In 1969, the IMF created a monetary currency that supplemented a member country's reserve: the SDR (Special Drawing Right). However, dollarization seemed more attractive for some countries instead of acquiring a huge debt to the IMF. This was because the

dollarization meant a stronger economy and reduction in borrowing expenses. However, with more dollarized countries the more dependence the world has on the US dollar, since with a breakdown of this currency, a lot of countries could be affected. In changing the international currency, the dollar will not be used anymore for international trade. In doing so, the currencies of the countries that relied on it would be devalued and devastated by economical problems. On the other hand, leaving the dollar would create problems with powerful countries that hold a stronger currency, (the United States is a great importer), since the United States is increasing tariffs on importation products and powerful countries want to change that.

Many countries rely on the US dollar. However, many others do not, such as China and Russia. They argue that their currency is more stable than the dollar. While doing this, they traded with their own currency. If the committee decides to change the international currency, it will affect the global economy, since many countries are in debt to the US. If the committee takes the decision to abandon the dollar as the international currency, it would need to develop a way to make it a stronger currency. Remember, if the problem isn't solved, the global economy will be badly damaged.

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