Opinion – China's Worldview in the Petroyuan Era

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GUAN KIONG TEH, JUL 25 2024

Monday 10 June 2024 marked the first international business day since the expiry of the 1974 agreement on military and economic aid signed between the Nixon administration and Prince Fahd Ibn Abd al-Aziz Al Saud. Henceforth, Saudi Arabia is free to sign oil trade agreements that involve payment in any currency, having previously been restricted to US Dollars. Although the actual impact of the end of this agreement will only be apparent in time, it is difficult to envision a future where the US dollar's status as the dominant foreign reserve currency will not come under threat amongst the United Nations' G77 nations. In 1999, US Dollars accounted for 71% of global foreign currency reserves, which had dropped to 58% in 2022.

Could Nixon and Kissinger have predicted the present economic climate? Perhaps some of it. Russia and the United States are back at loggerheads, but not directly at war. The opinions of Middle Eastern states still matter, although the term 'buffer state' counts for a lot less in an era where any organized (or indeed disorganized) body of people with access to the internet has the ability to broadcast propaganda directly to computers, smartphones, smart watches… the list goes on. Kissinger, who only died last November, believed until his death that Russo-American relations are even more strained than during the Brezhnev years of his premiership. But crucially, neither could have predicted what the Petrodollar would be replaced by upon its demise: the Petroyuan. This, to an extent, is due to China's immeasurably stronger economic position with Hong Kong (increasingly) under its jurisdiction – a pipe dream without the integrity Britain displayed in its respect of the 1898 Convention (bear in mind – the modern Chinese state did not come into existence for fifty-one years after the convention was signed).

Amongst G77 nations, there are many local and regional reasons for this decline. One of the main lessons of the 2008 financial crisis was the fact that globalization has more often than not led to the creation of economies that are actually more regional and local in terms of the accumulation and distribution of capital. However, the overwhelming majority of these were only facilitated by the rapid growth in the size of the Chinese economy. Saudi king Mohammad Bin Suleman's decision against the renewal of the 1974 agreement will only accelerate this growing reliance. Few other countries have access to resources that allow the provision of oil currency. Renminbi (RMB) foreign reserves will grow, seizing upon the vacuum created within a system where one trading currency dominates. These changes only bring good news to Chinese soft power strategists in the Politburo, and/or heads of private corporations. This assessment seems vague, but is necessarily so. There is little credible public information on the true demarcation between the state and private enterprise in China, in the twelve years that Xi Jinping has had to consolidate his reforms towards authoritarianism. Yet, we have enough information to make some broad predictions.

There is a lot of variation in the sympathies of the G77 towards the American government, which means that pre-existing roles will probably be enhanced. Let's take Asia first. Eyes will be on Singapore, which has had some form of consistent economic loyalty to the United States since the halcyon of American foreign aid expenditure during the early 1960s from before the signing of the 1974 Accord. For a country of its physical size and population, Singapore has a staggering amount of USD reserves. Indeed, despite China's attempts to win over the large ethnic Chinese population in Singapore through various forms of media influence, the country's leaders still flinch when Singapore is described as a 'Chinese country', insisting that while a majority of its population is of Chinese descent, its values and worldviews are unique. The consumption of petroleum products is still rising, despite advancements in 'greener' energy production, and the Petroyuan will cause division within the increasingly politically-savvy population.

Others, such as Vietnam, have seen major improvements in relations with the United States since 1974, but will never see the same instinctive partnerships that the United States has crafted with Singapore. There is also the Philippines, whose location in the South China Sea is strategically important in the shipping of oil into (and out of) Chinese ports. The Philippines' relationship with the United States is probably the most complex amongst Asian countries, annexed as an unincorporated territory during its struggle against Spanish rule during the late 19th and early 20th centuries. The United States is well-perceived in the Philippines, with approval ratings hovering around 90%. However, Rodrigo Duterte's time in office 2016–2022). showed that the country's loyalties can be easily tested, ramping up trade with Chinese brands relevant to oil production during his premiership. By 2018, Volkswagen Philippines had replaced its model range exclusively with models produced in China for its domestic market. Although the American position is relatively stable under Marcos, a recapitulation towards China would undermine America's soft power advantage in South-East Asia more than it did during the previous decade.

The hodgepodge of ASEAN reactions to the end of greenback legislation in oil purchases will weigh heavily on the development of the Brazilian economy. The South American industrial heavyweight's interest in trade with South East Asia is well documented in the resources its government has recently invested into improving ties with countries like Indonesia. It is also caught between the two superpowers, with compelling reasons not to commit to either. Nonetheless, Saudi Arabia exported nearly US$4.8 billion worth of crude oil to Brazil last year.

And what about Iran – another geographically expansive nation with mixed feelings about being on the receiving end of Anglo-American soft power? The direct Iranian contribution to Chinese wealth that results from the cessation of the Petrodollar Accord is minimal: Iran produces its own oil, and its relationship with Saudi Arabia is strained, with ethnic and religious contexts that transcend the economics of the oil trade. In short, Iran will not become a trading partner. However, there will be imminent changes to the Chinese export automotive market, of which Iran is already presently a significant consumer. Oil for cheap cars: it is reasonable – predictable, almost – to suggest that China buys oil from Iran in RMB. Proportionately, the most pervasive change will occur slightly further south from Iran: the sub-Saharan subcontinent. For the past twenty years, China ramped up stadium diplomacy efforts in Africa during the last decade. Still at it, Chinese developers have also branched into infrastructure. More construction projects in Africa means more Chinese fuel burnt, more Chinese vehicles on the road and more RMB reserves. In short, the Petroyuan will effectively work as a discount card for infrastructure development in the region.

Finally, there is Oceania. The American loyalties of Australia and New Zealand seem to be a foregone conclusion, with historic agreements such as the 1951 Australia, New Zealand and United States Security Treaty (ANZUS) and, more recently, the 2021 Australia, United Kingdom and United States treaty (AUKUS). Nonetheless, money talks. In Australia, road trains still transport the incomes and existences of many remote communities. Although the country produces an ample amount of oil, annual crude oil production steadily declined from 16,570 to 5,210 megalitres between 2012 and 2024. The rise of the Petroyuan has not occurred a moment too soon regarding China's soft power on the continent. Both Australia and New Zealand have received significant Chinese interference upon the right to freedom of expression in their media and academia. Protests and government pledges tend to go nowhere, with US$2 billion invested by the Chinese state in Australia in 2022 and 2023.

The end of the Petrodollar Accord, and the rise of the Petroyuan, will cause ripples in global economic inputs and outputs. Xi Jinping and the Chinese Communist Party have waited for a policy lapse like this. It would be folly to discount the impact that the Petrodollar Accord has had upon domestic economies around the world for the past half century. With pivotal elections looming, the US would do well to come together in a bipartisan fashion with Britain's new Labour government to discuss economic opportunities. With the hostilities of the Israel-Hamas War and the Russian invasion of Ukraine, the protection of petroleum interests is more important than it ever has before.

About the author:

Guan Kiong Teh completed his doctorate in 2024 with the University of St Andrews. Affiliated with the Institute of

Iranian Studies, Teh's thesis examined how the British and American automotive industries developed Iranian automotive infrastructure and consumerist taste, playing its role in the shaping of commercial diplomacy interests in Iran and its utility as a Cold War containment strategy.