

Financial Times 번역요약본 ('25. 4/23)

1. Why Xi holds a stronger hand than Trump ('25. 4/14)

- 트럼프 행정부의 관세 전쟁에서 최근 스마트폰을 제외하는 등 정책 조정을 하고 있는 듯 보이지만, 트럼프는 중국의 시진핑 주석보다 약한 패를 들고 카드 게임을 하고 있다는 주장. 미국이 중국에 수출하는 양은 중국이 미국에 수출하는 양의 1/5에 불과하며, 이러한 사실이 중국의 지렛대가 되고 있음. 스마트폰 관세 면제에서 보듯 미국 소비자들을 중국산 제품을 위해서 구매하며 (아이폰의 80%는 중국에서 생산), 제품 가격 상승을 원하지 않을 것. 이는 단지 시작일 뿐이고, 여름이 다가오는데 전 세계 에어컨의 80%가 중국산이고 미국이 수입하는 전기 선풍기의 4/3도 마찬가지임. (크리스마스 시즌 전에 무역 전쟁이 끝나기를 바라는 이유는, 미국이 수입하는 인형과 자전거의 75%도 중국산이기 때문) 또한 미국 시장은 중국 수출의 14% 정도만 차지하여서 미국 소비자들이 다른 수입품을 찾는다 해도 큰 충격은 아닐 것. 중국이 먼저 연락할 유인이 없고, 중국 공산당이 통제하는 권위주의 체제는 고통을 미국보다 오래 견딜 수 있는 구조임.

2. Europe helped teach China to make cars. Now the tables are turning ('25. 4/16)

- 과거 유럽 (특히 독일)은 한때 중국 자동차 산업의 성장을 도왔으며, 유럽 기업들은 시장 접근권을 얻는 대신 기술을 이전해주는 합작 투자 형태로 중국에 진출하였음. 하지만 현재는 중국이 전기차 시장을 지배하게 되었고, 오히려 유럽에 기술과 노하우를 수출하는 입장이 되면서 유럽은 이제 뒤쳐진 쪽이 되었음. EU는 이제 중국 기업들이 유럽에 진출할 때 합작 투자나 기술 라이선스 제공을 요구하는 새로운 산업 정책을 준비 중이며, 이는 과거 중국이 유럽 기업에

요구하던 방식을 그대로 따라 하는 것임. 중국은 현재 유럽 내 배터리 생산 투자에서도 강력한 주도권을 쥐고 있으며, 유럽이 현지 기술 이전과 부가가치 창출에 대한 규제를 적절히 하지 않으면, 결국 유럽은 단순 조립 공장에 불과하게 될 수 있음. 산업 전략, 기술 주권, 새로운 시대에의 적응의 문제이며, 이에 대응할 전략을 시급히 마련해야 하는 시점에 와있음.

3. Is the world losing faith in the almighty US dollar? ('25. 4/17)

- '전능한' 미국 달러화의 패권의 종말 가능성에 대한 질문이 계속되고 있음 (지난 한 주 동안 달러인덱스는 2.8% 하락, 2025년 누적으로는 8.2% 하락) 전 세계 외환 보유고의 57%가 달러로 보유 중인 것 등 그동안은 달러의 기축통화로서의 프리미엄과 글로벌 수요가 있었고, 이는 미국인 낮은 금리로 자금을 조달할 수 있게 하였음. 하지만 트럼프 행정부 내부에서는 달러의 기축통화 지위가 미국 경제에 해롭다고 보는 시각이 늘어나고 있음. (달러 수요가 미국의 금리를 낮추긴 했지만, 동시에 통화시장을 왜곡하고 미국 수출을 어렵게 만들었다 - 스티븐 미란 미국 경제자문위원회 의장) 시장은 스위스 프랑, 일본 엔화, 금 같은 '안전 자산'으로 조금씩 이동하고 있으나, 유로화는 20개국만 공유하는 통화로 통합된 정치 시스템이 없어 기축통화가 되기엔 불안정하고, 중국 위안화는 자본 통제가 심해 자유로운 전환이 어려우며, 일본 엔화와 스위스 프랑은 규모가 너무 작아서 당분간 달러 패권이 쉽게 무너지지는 않을 것으로 전망. 골드만삭스는 향후 6%의 달러 가치 추가 하락을 전망하며, 미 연준의 독립성 위협, IMF 탈퇴, 선택적 채무불이행 위협 등 상상 속에서도 존재하던 위험들이 공공연히 논의되고 있는 점 등이 위험 요소라는 지적.

Why Xi holds a stronger hand than Trump

The White House has miscalculated the balance of power in its tariff war with China

GIDEON RACHMAN



© James Ferguson

Gideon Rachman

Published YESTERDAY

When in doubt use block capitals. “NOBODY is ‘getting off the hook” insisted Donald Trump on Sunday — in a confusing clarification to an earlier announcement that the US would exempt smartphones and consumer electronics from tariffs. That exemption was itself a change to last week’s policy, announcing 145 per cent “reciprocal” tariffs on all goods from China — which was itself a dramatic increase to rates announced a few days earlier. Are you following?

A casual observer might think that all these sudden shifts in tariff policy are evidence of chaos in the White House. Trump fans beg to differ. Bill Ackman, a financier, [hailed](#) a previous screeching U-turn as “brilliantly executed . . . Textbook, Art of the Deal.”

The president’s most ardent supporters continue to insist that he is a master strategist. Those who suggest otherwise risk being accused of Trump Derangement Syndrome.

Unfortunately I am still afflicted with TDS. (The vaccine has been banned.)

To my feverish mind, it looks like Trump has a much weaker hand than he thought in the game of tariff poker that he is playing with China. The longer it takes for Trump to accept this definitively — the more he and the US stand to lose.

The starting assumption of Trump and his trade warriors is that China is automatically at a disadvantage in a conflict over tariffs. Scott Bessent, the US Treasury secretary, argued that China is “playing with a pair of twos . . . We export one-fifth to them of what they export to us, so that is a losing hand for them.”

The flaws in Trump and Bessent’s logic are lucidly explained in a recent [article](#) by Adam Posen in Foreign Affairs. As Posen points out, the fact that China exports far more to the US than the other way around is actually a source of leverage for them — not a weakness.

The US is not buying products from China out of charity. Americans want what China makes. So if those products become much more expensive — or disappear from the shelves altogether — Americans will suffer.

The significance of the agonising over smartphones is that Trump has finally had to tacitly acknowledge something that he has always denied — tariffs are paid by importers not exporters.

More than half the smartphones sold in America are iPhones and 80 per cent of those are made in China. Americans will complain loudly if they more than double in price. “Liberation day” was not supposed to mean liberation from their smartphones.

Phones and computer equipment are the most obvious candidates for a climbdown. They are not isolated examples. Trump will have to hope that it is not a hot summer because about 80 per cent of the world’s [air conditioners](#) are made in China; along with three quarters of the electric fans America imports. The White House will certainly want the trade war to be over by Christmas because 75 per cent of the dolls and bicycles that the US imports are also made in China.

Can all this stuff be made in America? Just possibly. But it will take time to set up new factories and the end products will be more expensive.

Trump hates bad headlines and will want them to go away. So rather than endure the pain of shortages and inflation, he is likely to add more and more items to the list of goods that are exempt from tariffs.

Under these circumstances, China can afford to play a waiting game. But if Beijing decides to get nasty then it has some really powerful tools that it can deploy. China makes almost 50 per cent of the ingredients that go into the [antibiotics](#) that Americans depend on. The F35, the backbone of the US Air Force, [requires](#) rare-earth components sourced from China. The Chinese are also the second-largest foreign owners of US Treasury bonds — which could matter at a time when the market is under strain.

Even if the Trump administration can find a category of imports that nobody in America will miss — it seems unlikely that it can inflict game-changing damage on China.

The American market represents only about 14 per cent of Chinese exports. Joerg Wuttke, the former head of the European Chamber of Commerce in Beijing, [argues](#) that American tariffs are “inconvenient, but it's not going to be a threat to the economy . . . It's a \$14tn-\$15tn economy and the exports to the US are \$550bn.”

The White House keeps [suggesting](#) plaintively that President Xi Jinping should pick up the phone and call. But with Trump in headlong retreat, there is no incentive for the Chinese leader to talk — let alone plead for mercy.

An authoritarian system — tightly controlled by the Chinese Communist party — is also probably better prepared to absorb a period of political and economic pain than the US, where economic turmoil swiftly translates into political pressure.

Xi is perfectly capable of making bad mistakes of his own. China's handling of the Covid-19 pandemic proved that. But the Chinese have been preparing for a trade showdown with the US for a long time — and have thought through their options. By contrast, the White House is making it up as it goes along.

Trump has dealt himself a losing hand. Sooner or later he is going to have to fold.
Textbook Art of the Deal!

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Follow the topics in this article

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Trump tariffs

The Big Read Electric vehicles

Europe helped teach China to make cars. Now the tables are turning

The EU is trading market access for expertise in key technologies, just as Beijing once did

Kana Inagaki in London, **Edward White** in Shanghai and **Patricia Nilsson** in Frankfurt

Published 2 HOURS AGO

Two decades ago, German engineers used to joke among themselves about the prototypes for new cars presented by their Chinese joint venture partners, which in at least one case were cut and pasted from advertisements of German models.

“They had no ideas of their own — they were just copying,” says a senior software executive at a German carmaker.

The same engineer was recently presented with a wish list for a future vehicle operating system his company wants to develop. Point for point, it mirrored features that have been unveiled by Chinese electric-vehicle manufacturers.

“We’ve come full circle,” says the executive, who declines to be named because of the sensitivity of the subject to the future of his company.

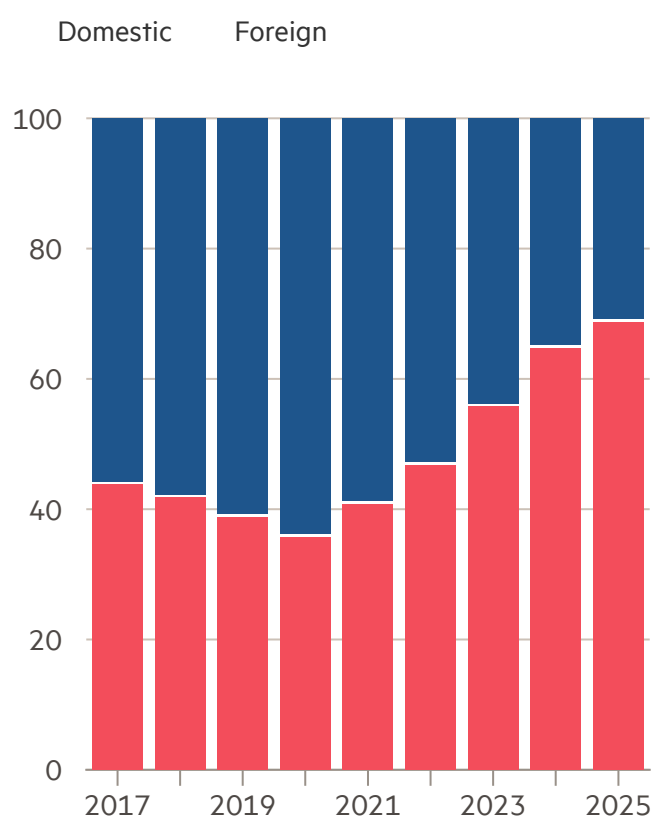
Rattled by the advance of Chinese companies, the EU last year imposed tariffs of up to 45 per cent on EVs from the country. But in a new approach that is being developed both by Brussels and by the auto industry, Europe is also now seeking to take advantage of Chinese expertise.

European companies are increasingly doing deals with Chinese rivals to prevent them from falling behind in the core areas — software, batteries and autonomous vehicle systems — that will drive the future of the automotive industry. Volkswagen, Mercedes-Benz, Stellantis and BMW have all signed agreements with Chinese groups to get access to technology.

A new EU policy framework seeks to give these companies greater leverage in their dealings with China. In an “action plan” for the industry published last month, the commission is looking to require Chinese companies entering the EU car market to enter joint ventures with European companies or license parts of their technology.

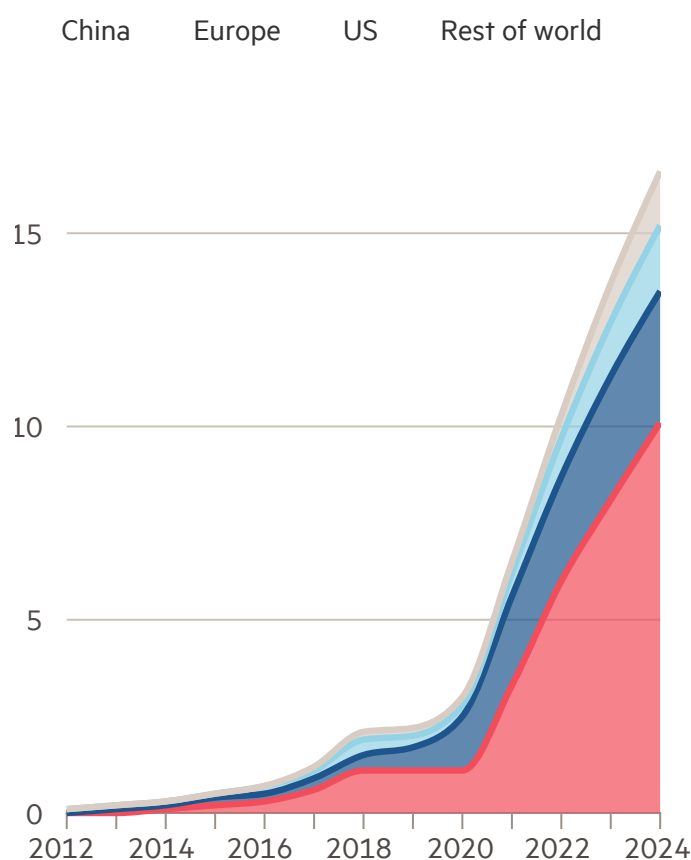
Chinese carmakers have come to dominate their home market as the country becomes the top region for EV sales worldwide

China passenger vehicle volumes by brand origin (%)



FINANCIAL TIMES

Unit sales, electric cars (mn)



Sources: Automobility; IEA Global EV Outlook 2024 • 2025 through end-Feb

If these efforts are successful, they would represent a striking turning point in recent economic history. For the past four decades, China has tried to use the promise of access to its market as a way to get foreign companies to transfer expertise and technology to its own companies — often much to the angst of the would-be investors.

Now Europe is trying to use some of the very same tools to catch up with innovations from China.

“It’s a change in the sense that it welcomes investment from abroad in a sector that has been one of the prides of European industrial development,” says Elisabetta Cornago, senior research fellow at the Centre for European Reform think-tank.

“It’s also an acknowledgment that there is a gap between the European homegrown knowhow and what is available externally.”

Executives in the sector agree the EU’s action plan for the automotive industry is a frank admission that European carmakers need the technological expertise of companies established decades later.

“We overestimate ourselves but we definitely underestimated others,” says Robert Falck, founder and chief executive of Swedish start-up Einride, which became the first company globally to deploy a fully autonomous truck on a public road in 2019. “What we need to do is wake up to reality.”

Raymond Tsang, an automotive technology expert with Bain in Shanghai, says after losing a third of their market share in China since 2020, foreign automakers simply “have no choice” but to partner with Chinese technology companies to have even a chance of survival.



Einride became the first company globally to deploy a fully autonomous truck on a public road in 2019 © Einride/Reuters

“Dig into why they are losing. Certainly the EV transition is the big thing. But they’re under-indexing on their infotainment systems and connectivity and ADAS [advanced driver assistance systems],” he says. “If they do not fix that, there’s no chance.”

European companies are reaching out to China at a time of intense turbulence in the industry. Demand for cars is stagnating in Europe, amid rising costs and regulatory pressure for cleaner vehicles, while China is grappling with overcapacity in its own car industry. And in the background, US President Donald Trump has launched a trade war against Beijing and other countries.

Some industry executives believe the EU is responsible for many of these headwinds. “Europe shot itself in the foot, then accused the Chinese of holding the gun,” one executive says, pointing to the planned phaseout of combustion engine cars, strict emissions penalties and the decision to cut itself off from cheap Russian energy.

They also warn that the EU’s imposition of tariffs on imports of Chinese-made EVs last year will make technology sharing far more challenging.

Ola Källenius, chief executive of Mercedes-Benz and president of European car industry body Acea, says Europe has the most to lose from an acceleration in protectionism because its companies have reaped the most from globalisation.

“When we came to China . . . there was a call upon us by the policymakers to ‘industrialise here if you want to come to the market’ and from my understanding, European policymakers have said the same vis-à-vis the Chinese,” he says.

“But that means that you would actually open up markets, create as much as possible a level playing field, and then let the best market actor win.”

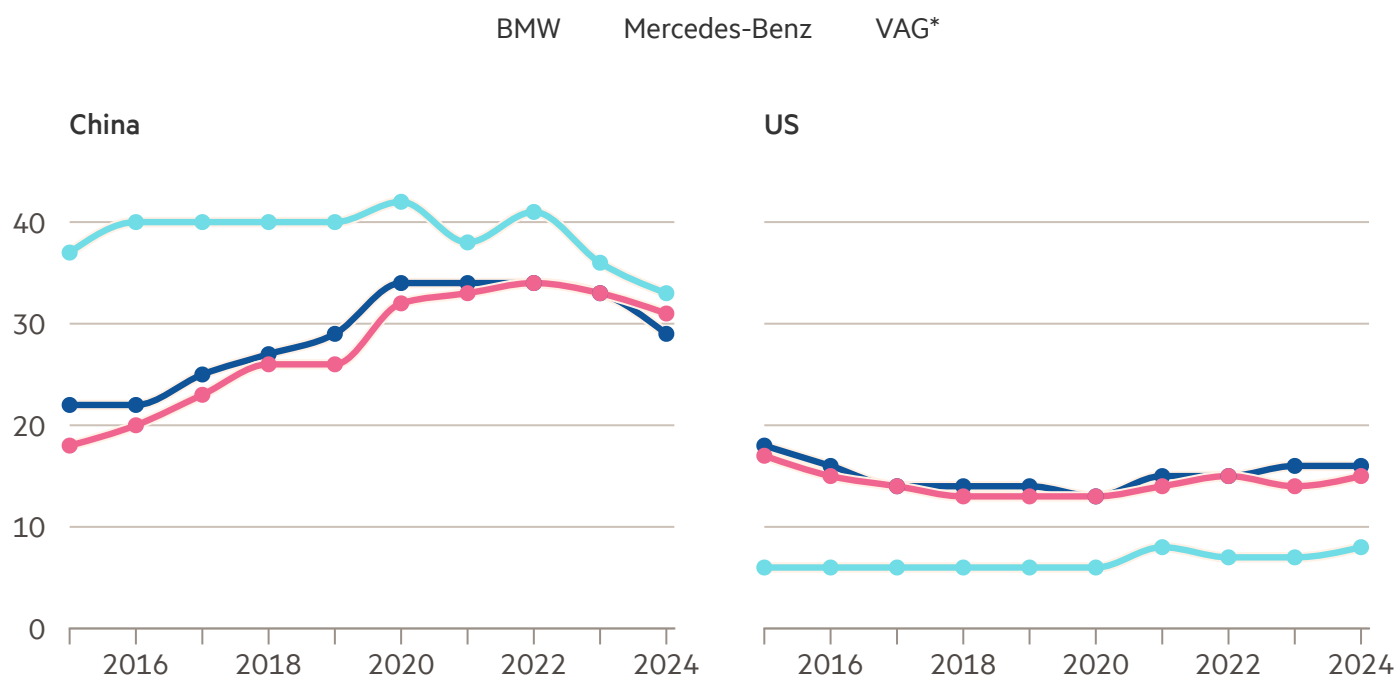
No country captures the reversal of the global automotive order better than Germany.

The wealth of Europe’s largest economy was built in large part on exports to China as the country grew rapidly following its economic opening-up in the 1980s.

Germany’s automotive giants — Volkswagen, BMW and Mercedes-Benz — were in the vanguard and spent decades earning a significant share of their revenue and profit in China.

China has long eclipsed the US as a market for European carmakers

Per cent of total sales (in \$ terms), by group



FINANCIAL TIMES

Source: IHS, AlixPartners analysis • *includes Audi and all Volkswagen Group brands

Volkswagen was one of the first western companies to enter the country, after rival Toyota famously snubbed an offer from Beijing and chose instead to produce cars in Taiwan.

The company formed a joint venture with Shanghai-owned SAIC in 1984 to build its Santana sedans for the local market. This early willingness to work with Chinese partners, a requirement for market access that was only recently lifted, paid off handsomely. VW's position as China's best-selling brand was only overturned last year when it was dethroned by BYD — a domestic rival that only began making its own cars in 2005.

For decades, German executives returning from the biennial Shanghai Auto Show would trade stories about local brands clumsily trying to imitate their best-selling models.

But the mocking stopped in 2023 — the first show held since the pandemic — as it became clear just how far Chinese EV makers had leapt ahead in software and battery technology during the years that the country was under strict lockdown and closed off.

In July of that year, Volkswagen announced a \$700mn investment in Chinese EV maker Xpeng, giving it a 5 per cent stake and a seat as an “observer” on its board. The following year, the two companies said they would jointly develop “intelligent connected vehicles” for the Chinese market.

Hundreds of VW engineers have been working with Xpeng in Guangzhou and Hefei, learning first-hand from the Chinese group's expertise in developing smart driving architecture.



Volkswagen formed a joint venture with Shanghai-owned SAIC in 1984 to build its Santana sedans for the local market © LightRocket via Getty Images
The project is one of a flurry of similar tech-focused tie-ups and joint ventures, including between Mercedes-Benz and Hesai, a developer of laser-based object detection systems, Stellantis and Leapmotor, Tencent and Toyota and BMW has with Huawei.

Despite the ventures and the clear evidence of China's advances, one European executive based in the country says "old tropes" of western technological superiority still linger in some quarters.

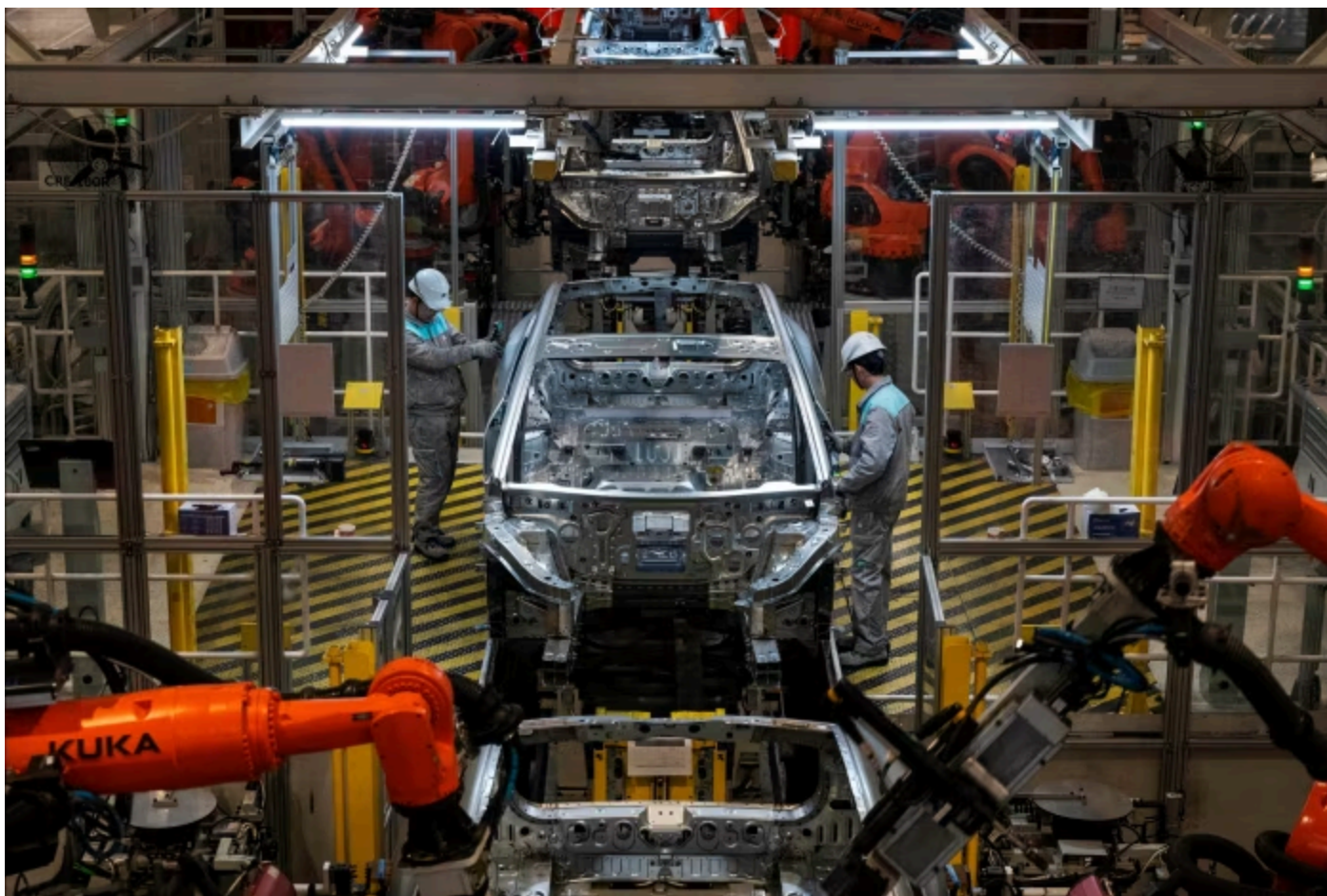
"Many have difficulty adjusting to the new reality of innovation in China," the person says, adding that it may be due to "a form of arrogance or naivety" or a "belief in the assumption that only liberal societies can produce true innovation."

Christoph Weber, who leads the China business of Swiss engineering software group AutoForm, says that "when it comes to developing competitive software, [western brands] tried and basically failed". But they have not "emotionally accepted" China's ascendance.

"Some people want to believe that we can still kick the can down the road," he adds, "ignoring that EV technology is absolutely superior, and the software-defined vehicle is coming."

John Lawler, vice-chair and former chief financial officer at Ford, says the EU is being realistic in seeking technology transfer from Chinese companies that want to form battery joint ventures in the continent.

"I would say they had a focus [on electrification] before the rest of the world because they didn't have a dominant position in internal combustion engines," he says. "And so here we sit now. They're leaders in electromobility and they're leaders in battery technology."



EV maker Nio's plant in Hefei, Anhui province. European companies are increasingly doing deals with Chinese rivals to prevent them from falling behind in the core areas — software, batteries and autonomous vehicle systems © Kevin Frayer/Getty Images

“There are things to learn. So it’s a pragmatic approach to understand that you can’t just step back and refuse to look at what the reality is.”

But critics such as T&E, an environmental campaign group, say the change in the EU’s industrial strategy has come too late. It contends that member states have used government subsidies to attract investment by companies such as CATL and Gotion to secure battery supply in the near term, without a regulatory framework for knowledge sharing and the transfer of intellectual property.

“Without European content requirements, we just won’t learn. We’ll just be an assembly plant,” says T&E senior director Julia Poliscanova. While the new requirements in the EU’s action plan are welcome, she adds that “timelines are not clear, despite the urgency”.

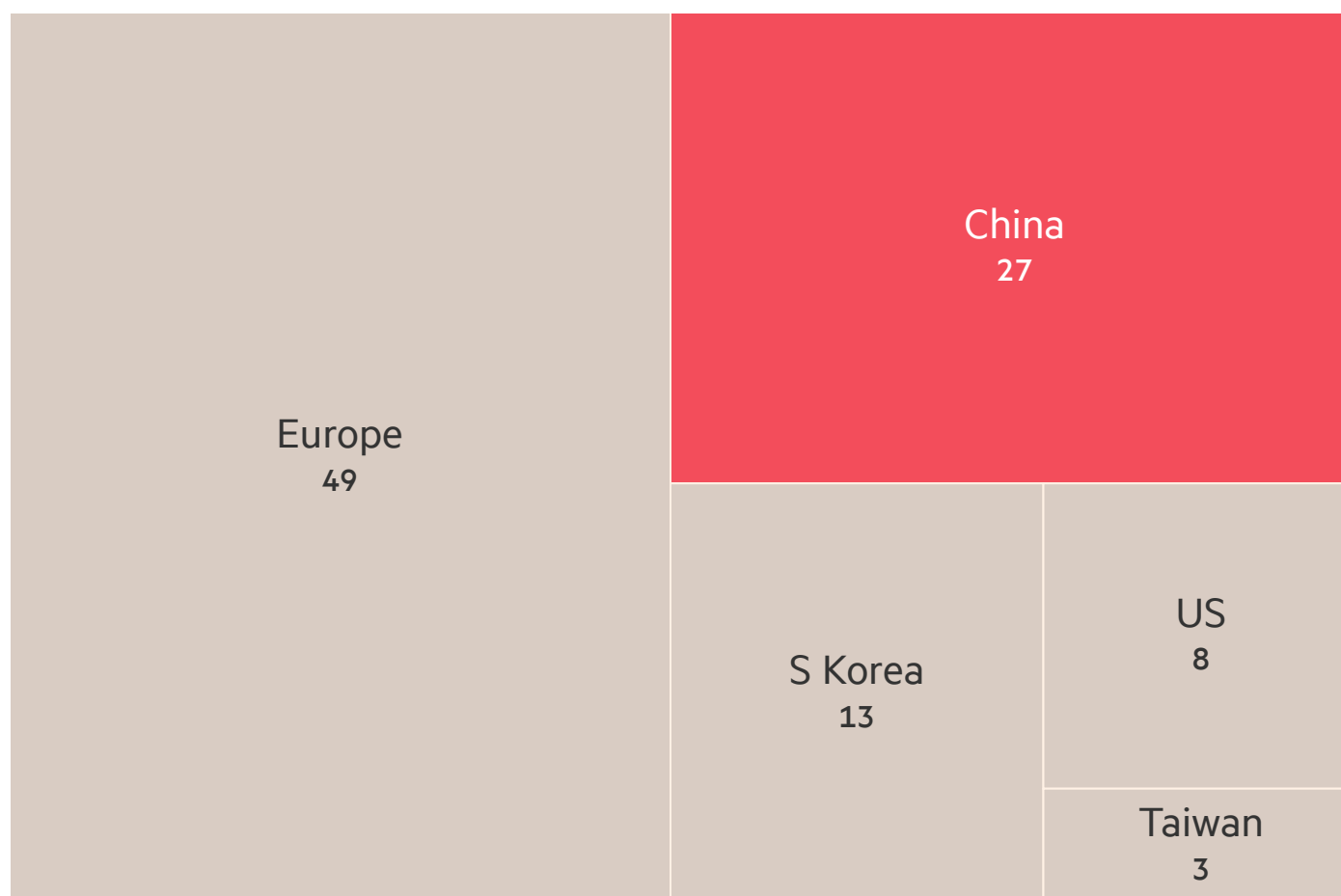
The pressure for more collaboration between Europe and China has become stronger since the Trump administration unleashed sweeping tariffs against America’s global trading partners, roiling financial markets and jeopardising deeply interconnected supply chains.

Top EU officials fear the US levies will be a double blow for Europe’s carmakers — reducing their exports to the US and leaving them vulnerable to a surge in Chinese vehicle exports to Europe in the face of overcapacity in China.

But Brussels is also partly responsible for the industry’s travails. Its imposition of sanctions on Russia after the invasion of Ukraine left European industry without access to cheap gas and facing soaring energy prices.

Europe depends heavily on China for its battery investment

Announced gigafactory capacities in Europe, by origin of investment (% , Jan 2025)



FINANCIAL TIMES

Source: T&E analysis of publicly announced battery cell projects

In the early 2020s, as Covid-19 ravaged supply chains and reduced demand, the EU formulated and implemented rules setting out an ambitious emissions reduction road map culminating in a ban on new combustion engine car sales by 2035.

Progress towards adoption of electric cars has been slow because of their high upfront cost and consumer concerns about charging infrastructure. The rules were eased last month to give carmakers more flexibility in meeting overall emissions targets in the coming three years.

Chinese-made cars are cheaper, but Brussels has imposed a 45 per cent tariff on them, arguing that Chinese manufacturers have benefited unfairly from generous state subsidies.

In response, BYD and Chery have announced plans to build factories at sites in Hungary and Spain, while Leapmotor has partnered with Stellantis — owner of Peugeot, Fiat, Opel and other brands — to expand sales in Europe.

Beijing has always denied providing unfair or illegal support for its industries, but China's economic planners have long viewed transport electrification as a key means to reduce dependence on imported oil and gas.

Ilaria Mazzocco, an expert on Chinese industry with the Center for Strategic and International Studies, a US think-tank, wrote in a recent policy brief that “it is difficult to distinguish where subsidies end and innovation begins”. She added that “even outside of China, the state is beginning to play a far more active role in supporting strategic industries”.

The CSIS estimates official state support for the EV industry at \$230.9bn between 2009 and 2023. Though experts caution that subsidies are notoriously difficult to calculate given the many forms of implicit support for companies.

Falck, the Einride founder, believes China is in some ways “fiercely more market liberal” than Europe due to the vigorous competition between domestic players. More than 60 companies are fighting for a share of the Chinese EV market, although almost 80 per cent of sales are soaked up by 10 Chinese companies — including around 27 per cent by BYD.

“Europe tends to see China as the big red machine that controls everything,” he says. “But the most successful companies coming out of China are built by entrepreneurs.”



VW's position as China's best-selling brand was overturned last year when it was dethroned by BYD © Qilai Shen/Bloomberg

He adds that while Europe has the technology to compete in areas such as autonomous vehicles, it also has many structures and processes in place that make it difficult for companies to deploy and scale the technology as quickly as their Chinese competitors.

Western companies that once worried about intellectual property theft when doing business in China are now finding that their counterparts have similar concerns.

Executives in the sector say Beijing is pushing for assurances that technology developed in China will not make its way to Europe as a result of co-operation deals. Two people familiar with the matter told the FT last month that Chinese officials are also delaying approval for a BYD manufacturing plant in Mexico amid concerns that the company's smart car technology could leak across the border to the US.

There is also a risk that Chinese-made components, systems and software within European-made cars could cause issues if those vehicles are then exported to the US.

Elisa Hoerhager, Beijing-based chief representative in China for the Federation of German Industries (BDI), says the US-China "decoupling saga" could ultimately mean western companies are forced to choose between access to the US market and their research and development efforts in China. "That is definitely a squeeze that German companies are feeling," she says.

Despite the rising geopolitical temperature, industry executives say Brussels and Beijing will need to find a way to work with each other, given that the Europeans need to improve their competitiveness and the Chinese need new markets to soak up their domestic overcapacity.

Stefan Borgas, chief executive of London-listed RHI Magnesita, the world's biggest producer of the industrial ceramics widely used in vehicle supply chains, says industry "suffered more in Europe than in the US and therefore, the realisation [for the need to work with China] is faster."

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The Big Read Global Economy

Is the world losing faith in the almighty US

dollar?

Donald Trump's trade war is forcing investors to confront the possibility that the dominance of the US currency might fade — or even end

Robin Wigglesworth, Kate Duguid and Arjun Neil Alim

Published 26 MINUTES AGO

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On August 15 1971, President Richard Nixon interrupted an episode of *Bonanza* to announce “a new economic policy” to American families gathered in front of their television sets that Sunday evening. Among the myriad measures the president outlined was a 10 per cent import tariff — and the suspension of the US dollar's convertibility into gold.

Nixon himself was more worried about the political backlash from Americans expecting to spend their evening with the Cartwright family at Ponderosa Ranch than the nefarious “international money speculators” his announcement targeted. Yet the consequences were enormous. Although couched as a temporary measure, the US would never again return to the so-called gold standard.

What became known as the “Nixon shock” marked the end of one financial era and the beginning of a new one. The global monetary framework thrashed out at the Mount Washington Hotel in New Hampshire's Bretton Woods in 1944 — with the gold-backed US dollar as the Sun around which every other currency circled — was dead.

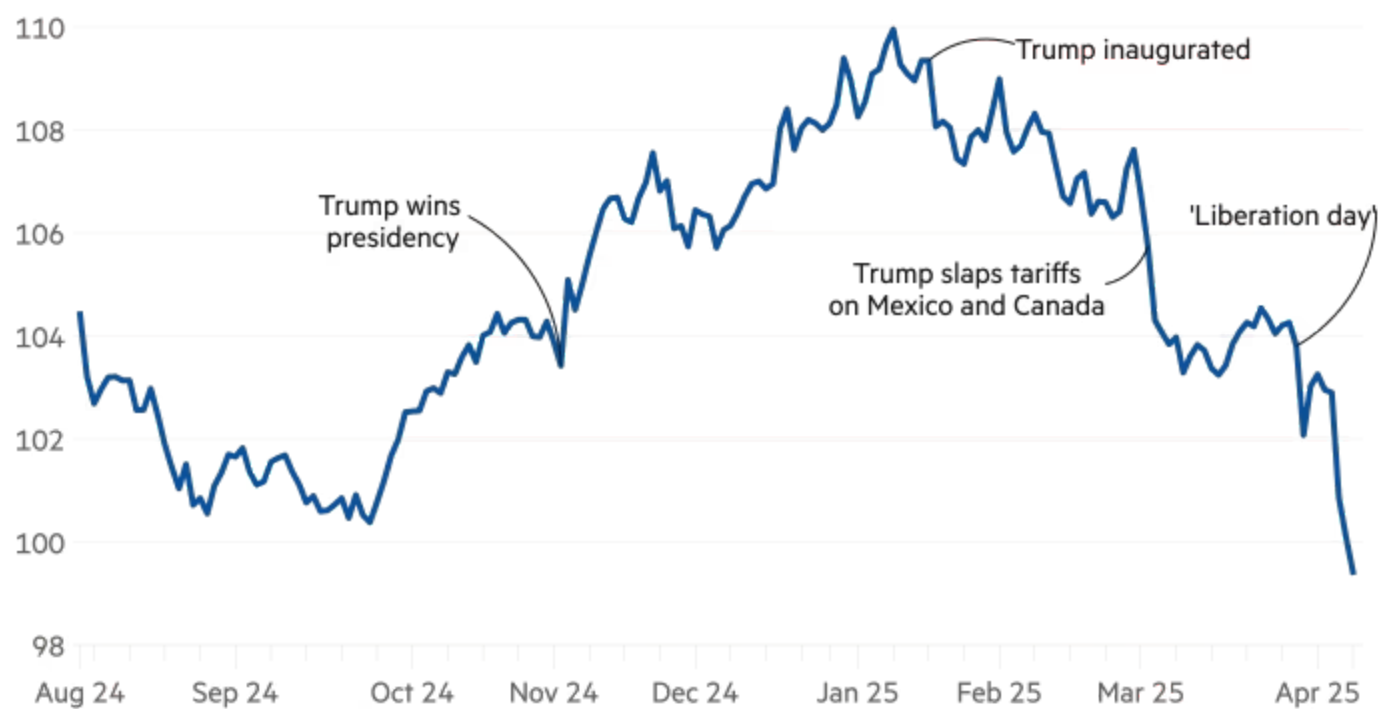
The Nixon shock helped usher in a new age of freely traded floating currencies, rapid credit creation and global capital flows, untethered by gold and increasingly unrestricted by governments.

More than half a century later, the world is grappling with a shock of similar magnitude. Earlier this month the US administration of Donald Trump unveiled an aggressive tariff regime where both the size of the levies and the facile methodology underpinning them shocked even many supporters.

Faced with a revolt in financial markets, the president announced a 90-day partial pause, but investors remain on edge. The dollar, which normally strengthens at times of financial and economic strife, has instead nosedived.

The Trump slump

US dollar index (DXY)



Source: LSEG

Coming amid an increasingly bellicose attitude towards historical allies and an ambivalent attitude to the dollar's hegemony by some key figures in the administration, it has forced investors and analysts around the world to confront the possibility of a new era where the US dollar's dominance might fade — or even end.

“The trade war is just the latest example of this administration's contempt for the rest of the world,” says Mark Sobel, US chair of OMFIF, a financial think-tank, and a former senior Treasury official. “Being a trusted partner and ally is a key pillar of the US dollar's dominance, and has been tossed to the wind.”

There are two related but subtly different questions now being asked around the world's financial centres after this “Trump shock”. First, how far can the dollar's recent decline go? Foreigners own \$19tn of US equities, \$7tn of US Treasuries and \$5tn of US corporate bonds, according to Apollo's chief economist, Torsten Sløk. If even some of these investors start to trim their positions, the dollar's value will come under sustained pressure.

Second, if the outflows gather pace, could it eventually even erode the dollar's unique role in the global economy and financial system? Although the dollar's value has always waxed and waned, and critics have constantly sought to tear it down, the greenback's primacy has remained undiminished. Yet some analysts and investors now think the scale of the Trump shock could end a near-century of dollar dominance.

“The US has benefited from reserve currency status for 100 years. It's taken less than 100 days to unwind it,” says Gregory Peters, co-chief investment officer at PGIM Fixed Income. “It's a very big deal.”

When Nixon's Treasury secretary, John Connally, attended a G10 meeting in Rome shortly after the US ended the dollar's convertibility, the bombastic Texan told his shocked international counterparts: “The dollar is our currency, but it's your problem.”

The Trump administration's view is the opposite: the dollar is everyone's currency, but America's problem. And this is not as perverse as it might seem.

Despite Nixon severing the dollar's link to gold in 1971, the greenback has remained at the centre of the monetary universe. In fact, thanks to the dollar's importance in the expanding and increasingly interconnected global financial system, its importance has only grown. Far from eroding the dollar's importance, the Nixon shock entrenched it in new ways.

Currency volatility has spiked

CVIX index of markets-implied currency volatility



Source: LSEG

Nowadays, the US only accounts for about a quarter of the global economy, but more than 57 per cent of the world's official foreign currency reserves are in dollars, according to the [IMF](#). While much has been made of its relative decline in central bank reserves over the past few decades, the reserves statistics arguably underplay the dollar's centrality. There are many other pots of sovereign and quasi-sovereign money that are not captured by the IMF's data on foreign exchange reserves, and whether you are a bank in Mongolia, a pension plan in Chile, a European insurance group or a Singaporean hedge fund, dollars are the ultimate reserve asset.

The dollar is equally central in trade, with 54 per cent of all export invoices denominated in dollars, according to the [Atlantic Council](#). In finance, its dominance is even more total. About 60 per cent of all international loans and deposits are denominated in dollars, and 70 per cent of international bond issuance. In foreign exchange, 88 per cent of all transactions involve the dollar.

Even physical US bank notes are widely held abroad, thanks to the dollar's broad acceptance. In fact, about half of the more than \$2tn worth of US bank notes in issue are held by foreigners, according to the [Federal Reserve](#).

This enormous international demand for dollars translates into an embedded premium to US assets and means that the US borrows more cheaply than it would otherwise do — what France's former president, Valéry Giscard d'Estaing, once famously referred to as America's "exorbitant privilege". It also gives the US the power to sabotage another country's financial system through sanctions.



President Richard Nixon, right, talks to his Treasury secretary, John Connally, in the White House. Donald Trump's measures this month could be as seismic as Nixon's 1971 economic policy changes © Bettmann Archive/Getty Images

However, many in the Trump administration argue that the costs of the dollar's reserve status outweigh the benefits, by making the US currency unduly strong and hurting American exporters.

“While it is true that demand for dollars has kept our borrowing rates low, it has also kept currency markets distorted,” Stephen Miran, chair of the Trump administration's Council of Economic Advisers, said in a speech last week. “This process has placed undue burdens on our firms and workers, making their products and labour uncompetitive on the global stage.”

Whether by accident or design, almost every action taken by the Trump administration in its first three months has hammered at the dollar's support. Last week the DXY dollar index — which measures the strength of the currency against a basket of its biggest peers — fell 2.8 per cent. This was its seventh-worst week in the past three decades. It has kept dipping this week, extending its 2025 decline to 8.2 per cent.

“It's not just that you can't trust the US any more, be it on geopolitics or trade,” says an American finance executive. “We have also managed to massively piss off the rest of the world. There's genuine, personal animosity towards us, and that hurts the dollar.”

Most notably, the dollar has been particularly weak against other “haven” currencies that typically strengthen when markets are turbulent, such as the Swiss franc and the Japanese yen, and against gold. That the greenback is seemingly being excluded from this select club of currencies is a shocking development to many analysts and investors.

“Despite President Trump's reversal on tariffs, the damage to the USD has been done,” George Saravelos, global head of foreign exchange research at Deutsche Bank, wrote in a report last Friday. “The market is reassessing the structural attractiveness of the dollar as the world's global reserve currency and is undergoing a process of rapid de-dollarisation.”

Nonetheless, most analysts say that the dollar's reserve status is unlikely to end, simply because of a paucity of feasible replacements. The euro is one monetary union but 20 different countries, China keeps the renminbi on a tight leash, limiting its convertibility, and currencies such as the Swiss franc and Japanese yen are far too small to be contenders. To adapt a well-worn cliché, the dollar is not only the least smelly shirt in the closet, it is the only one that fits.

The dollar is still well above its 2008 low

US dollar index (DXY)



Source: LSEG

“The dollar's dominance will remain in place for the foreseeable future because there are no viable alternatives,” predicts Sobel at the OMFIF. “I question whether Europe can get its act together, and China is clearly not opening its capital account any time soon. So what's the alternative? There just isn't one.”

Moreover, the dollar's dominance is so thoroughly embedded into the fabric of the global economy, thanks to a complex multitude of independent but interlocking factors, that even the Trump administration is unlikely to be able to fundamentally alter the status quo.

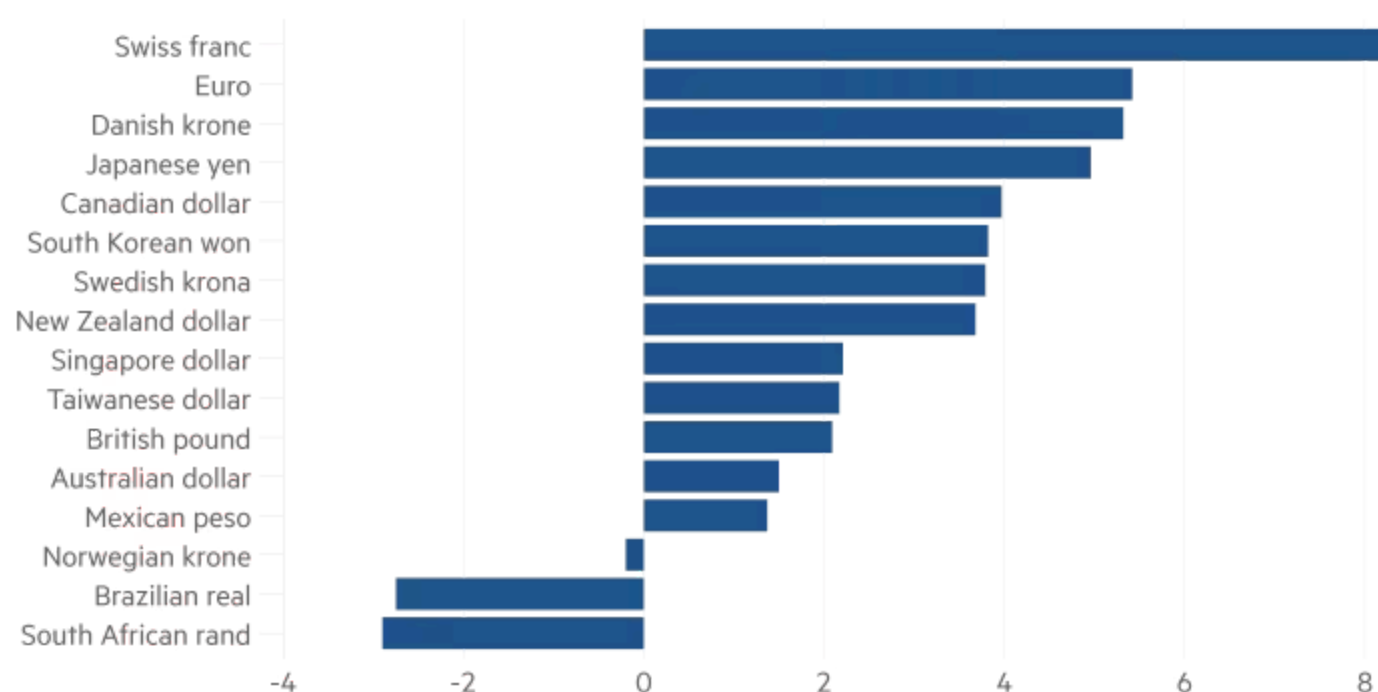
Nonetheless, even though the dollar's unique role may be sustained by inertia and a lack of alternatives, it can still lose value. Despite its declines in April, the DXY dollar index is still 12 per cent higher than it was at its lows in 2020, and almost 40 per cent over its nadir in early 2008. Many foreign exchange analysts are now ripping up their previous forecasts and predicting further falls for the dollar.

For example, Goldman Sachs — previously optimistic on the dollar — now [predicts](#) the US currency will fall to \$1.20 against the euro and ¥135 against the Japanese yen over the next 12 months, equivalent to another 6 per cent weakening from the current levels. “The negative trends in US governance and institutions are eroding the exorbitant privilege long enjoyed by US assets, and that is weighing on US asset returns and the dollar, and may continue to do so in the future unless reversed,” Goldman's foreign exchange analysts warned.

The longer-term trajectory is more uncertain. Bill Dudley, the former head of the New York Federal Reserve, argues that the US currency could even strengthen. Tariffs will weaken both weaken the US economy and fuel inflation, while elsewhere the impact on economic growth is likely to be far more pronounced, Dudley argues. That means other central banks are likely to cut interest rates more aggressively than the Fed, and could lead those currencies to weaken against the dollar.

The dollar has fallen against almost every major currency

Relative performance against US dollar in April (%)



Source: Bloomberg

Others are more pessimistic. Stephen Jen, a longtime foreign exchange strategist and the head of Eurizon SLJ Capital, has long pointed out that a lot of macroeconomic oddities — such as the average dollar income of Mississippi, America's poorest state, being comparable to Germany and the UK, and markedly higher than that of Japan — are best explained by a “grossly” overvalued dollar.

Jen estimates that the dollar is about 19 per cent overvalued against its main peers, and suggests that it could weaken even beyond this if the US economic downturn is so strong that it forces the Federal Reserve to aggressively cut interest rates. Then, cyclical, structural and political forces would all conspire to meaningfully weaken the greenback.

“The stars are aligning for the dollar to embark on a multiyear correction,” Jen wrote in a letter to clients last week. “The dollar's overvaluation has been one factor contributing to the US' loss of competitiveness over the years, and the burgeoning trade deficit and tariffs are a reaction to this unpleasant reality.”

For critics of the Trump administration, that the White House started April by celebrating “National Financial Literacy Month” was in retrospect archly appropriate, given the widely mocked “reciprocal” tariff methodology unveiled the very next day, and the mayhem that subsequently unfolded.

The US government's subsequent partial suspension of this new tariff regime has restored some order to the stock market, and over the weekend it exempted smartphones and some other consumer electronics from tariffs – including those imported from China. That has encouraged some investors to think that the final outcome might not be as bad as initially feared.



買	出	成交	漲跌	總量
	價	20.60	▼ 2.25	6114
	0	44.20	▼ 4.90	64
	賈	8.08	▼ 0.89	532
	賈	18.85	▼ 2.05	622
		6.39	▼ 0.70	1170
		31.05	▼ 3.45	24
		29.20	▼ 3.20	1206
		20.10	▼ 2.20	91
		29.15	▼ 3.20	9
		22.00	▼ 2.40	319
		27.00	▼ 3.00	54
		65.7	▼ 7.30	30
		12.85	▼ 1.40	278

A pedestrian passes a screen displaying stock market prices in Taipei. Foreign investors and governments own trillions of dollars in US equities, Treasuries and corporate bonds © I-Hwa Cheng/AFP/Getty Images

Nonetheless, many analysts caution that the Trump administration's willingness, even eagerness, to upend norms means that previously unthinkable issues are now being openly discussed. These range from concrete dangers, such as whether the Federal Reserve's independence is under threat, to suggestions that once would have been considered fantasy – such as whether the US could impose levies on Treasury purchases, capital controls, withdraw from organisations such as the IMF, or even threaten selective debt defaults.

“These are shocking questions, but they are now being asked,” says Ajay Rajadhyaksha, chair of global research at Barclays. “We can't close our eyes to that.”

This means that a gradual investor exodus may be inevitable even if the Trump administration continues to back down from the bellicose positions staked out in its first three months. “Our real concern is that while Trump may be able to cut a few tariff deals, when the issue is a broader loss of confidence in the United States, even a much fuller retreat on trade might not work,” argues Sarah Bianchi, a senior analyst at Evercore ISI, a US investment bank.

As Walter Wriston, the late Citicorp boss who was one of the titans of American banking, once observed: “Capital goes where it is welcome and stays where it is well treated.” For close to a century, the US has been the world's ultimate destination for money. Now, investors suddenly worry this may no longer be true, and the ramifications could be dramatic.

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