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Currency Hegemony as a Tool of US Global Dominance

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ABSTRACT

Subject. The formation of new centers of global influence predetermines corresponding changes in the global balance of power. At the same time, the lack of real reforms of the global monetary system allows the United States to continue to set the rules of the game in the global economy, despite its increasing crisis potential. In this regard, there is a need to identify the driving forces capable of producing constructive changes in the global monetary order. **Objective.** A summary of the practice of using the US dollar to suppress global competition and maintain American superiority in international economic relations. **Results.** The control of the international monetary sphere by the country — hegemon of the world economy can be traced at all stages of the development of international economic relations (IER). Currently, the hegemonic country's self-interest from issuing international liquidity, with non-resistance to such a policy on the part of all other IER participants, hinders the development of effective anti-crisis measures and worsens the general condition of the world economy. Scattered attempts to overcome the failures of global currency regulation at the local level (including through the use of digital technologies) seem to be ineffective, since they are not systemic in nature. **Conclusions.** A qualitative reform of the global monetary system is impossible without combining the efforts of the world's largest economies to counter the destructive policies of the country that issues key international liquidity. Otherwise, the costs of financial crises become an insurmountable obstacle to the global economy entering a path of sustainable development.

Keywords: international liquidity; reserve asset; foreign debt; currency standard; purchasing power; international price benchmark; currency wars; digital currencies

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INTRODUCTION

Leadership in the world economy has been accompanied by the establishment of control over the sphere of international monetary circulation since ancient times. The technique of binding countries through international liquidity was known in the pre-Christian era, when in the vast territories of the Persian, Macedonian and Roman empires circulated the first “world” money in the form of gold coins, embodying the power of the then conquerors. The British Empire borrowed much from the Romans in terms of organising its own monetary system [1, p. 35], which was the first to put into practice the idea of a “reserve asset”, with the help of which it became possible to settle mutual claims and obligations between participants in foreign economic activity. The binding of the reserve asset to the currency of the country — the hegemon of the world economy — secured the status of the first world reserve currency for the pound sterling within the framework of the gold standard, endowing Britain with an exorbitant privilege to service its debt obligations to the outside world in its own currency [2]. To this day, most of the British foreign debt is denominated in pound sterling [3, p. 416], including outstanding debt obligations to former colonies.

Meanwhile, Britain’s inability to timely abandon its superiority in the international monetary sphere after the loss of leadership in the world economy in the late 19th century led to two world wars, the Great Depression and the destruction of the world trade system based on the gold standard.

The USA as the new leader of the world economy reproduced in the post-war monetary order practically all the elements of the previous “English” monetary standard with the only difference that the US dollar was adopted as the world money, and the Bank of England as the institutional basis of the world monetary system was replaced by the International Monetary Fund, formally represented by sovereign states, but actually dependent on the US Federal Reserve System as the exclusive supplier of dollar international liquidity to the world market.

Despite the consistent erosion of the American-centric monetary order, expressed in the increasing frequency of economic crises, growing socio-economic polarisation and geopolitical tensions, the end of 80 years of global hegemony of the dollar is not quite certain. The likelihood of maintaining the status quo is largely due to the manifestations of financial opportunism, network effects and the “indispensability” of the US currency for the private and public sectors as a means of saving and adding value, stemming from the innovative potential and huge size of the US capital market [4].

The inseparable relationship between the US dollar hegemony and American global dominance has been discussed in numerous academic publications [5–13]. This study focuses on the facts of using the US dollar to weaken the economic potential of global competitors in the absence of consolidated opposition from the latter to the voluntaristic policy of the country — the issuer of key international liquidity.

THE CONTROVERSIES OF THE DOLLAR AS A WORLD CURRENCY

The fundamental difference between the modern US dollar and the 19th century pound sterling is that its intrinsic and extrinsic value are not identical. During the gold standard, there was no difference between the purchasing power of money and its exchange rate, which were equally expressed in gold. Today, the gold equivalent purchasing power of the dollar has been devalued many times over. Whereas an ounce of gold (31.1 g) was worth $ 35 before 15 August 1971, today it is worth more than $ 2,000. At the same time, the external value of the dollar (its exchange rate) remains virtually unchanged. This is due to the fact that there are direct quotations on the international currency market, in which a certain amount of foreign currency is equated to a dollar unit.[1] In addition, the dollar acts as a price benchmark for all strategic resources traded on major commodity exchanges.

[1] The only exceptions are the euro, pound sterling, Australian and New Zealand dollars, for which reverse quotes apply.

The dollar's function as an international price benchmark overvalues it against all other currencies. This revaluation is most evident when comparing the GDP of countries expressed in market (dollar) prices and purchasing power parities. The revaluation of the dollar is reflected in the permanent decline in the relative level of well-being not only in developing countries but also in developed countries. For example, per capita income in Japan as a percentage of per capita income in the US (expressed in current dollars) fell from 128.4 to 44.3 per cent between 1996 and 2022, in Germany it fell from 102.3 to 63.7 per cent, and in the UK, it fell from 81.3 to 59.3 per cent.[2]

The current international monetary standard forces all other countries to permanently adapt their own monetary, exchange rate and macroeconomic policies, as well as the structure of production and exports to the national interests of the United States as the issuing country of the key reserve currency, while bearing the main costs of insuring currency and liquidity risks, which leads to non-equivalent exchange and reproduction of global imbalances.

This adaptation is exemplified by the so-called "currency wars" of 1985–1990 and 2002–2008, when the real effective exchange rate of the dollar fell by 60 per cent and 35 per cent respectively.[3]

The first large-scale devaluation of the dollar began after the Plaza Agreement (1985). In the 1980s, Japan began to actively push the US out of the world market, taking leading positions in key industries — from shipbuilding to integrated circuit production. Japanese credit institutions held 8 places in the world's top ten banks in terms of deposits. Among the 25 largest banks in the world in terms of assets, 17 were Japanese [14]. In 1987, the USA gave way to Japan in terms of stock market capitalisation. The Bank of Japan was the largest investor in high-yield debt obligations of the U.S. Treasury, at the expense of which the U.S. financed imports from Japan. To counteract the global Japanese expansion and prevent the collapse of the dollar pyramid, in 1985, together with other leading industrialised countries, the US implemented concerted currency interventions aimed at strengthening the value of the yen. As a result, the exchange rate of the Japanese monetary unit appreciated from 261 yen per dollar in March 1985 to 121 yen per dollar in November 1988, resulting in a loss of competitive advantage for Japanese exporters in the world market. The bursting of the Japanese stock market bubble in 1990 marked the era of the "lost decades", when Japan's economic growth began to be financed mainly by a forced build-up of public debt (*Fig. 1*).

The Japanese financial crisis was a prerequisite for the Asian financial crisis of 1997–1998, which led to a $ 2 trillion decline in world GDP and a subsequent progressive increase in the demand for international reserves. Thus, between 1999 and 2021, the demand for dollars as a reserve asset was three times greater than the demand for euros: in absolute terms, dollar reserves grew by $ 6.2 trillion, while euro reserves grew by $ 2.2 trillion.[4] (*Fig. 2*).

The second devaluation of the dollar, which began immediately after the introduction of euro cash, was caused by the pumping of liquidity into the US economy after the Federal Reserve's sharp cut in the interest rate to 1 per cent in June 2003. As a result, the exchange rate of the single European monetary unit appreciated from 1.16 in January 2002 to 0.63 euro per dollar in July 2008. The devaluation of the US dollar against the euro has created significant problems in adapting the structurally heterogeneous members of the Eurozone to the new conditions of foreign trade, which provoked a balance of payments crisis in the EU. Before joining the Economic and Monetary Union, the international competitiveness of countries such as Greece, Portugal, Spain and Italy was ensured by periodic devaluations of their national currencies. However, the rejection of national currencies by the countries of the EU Mediterranean periphery and their inability to unilaterally influence the exchange rate of the appreciating euro led

[2] URL: https://www.imf.org/en/Publications/WEO/weo-database/2023/April (accessed on 18.01.2024).

[3] URL: https://www.imf.org/ru/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022 (accessed on 22.03.2023).

[4] URL: https://data.imf.org/?sk=E 6A5F467-C 14B-4AA8–9F6D-5A09EC 4E 62A4 (accessed on 12.02.2024).

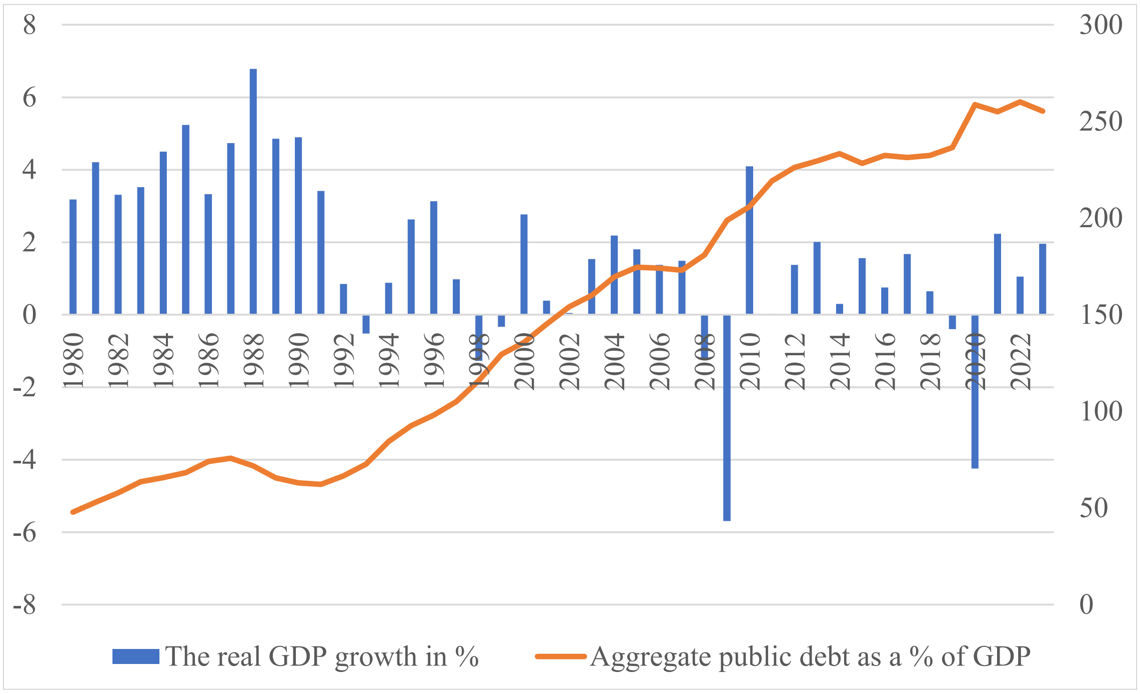

Fig. 1. **Dynamics of economic growth and the size of public debt in Japan in 1980–2023**

Source: compiled according to the data of IMF. URL: https://www.imf.org/en/Publications/WEO/weo-database/2023/October

to a sharp increase in their current account deficit (*Fig. 3*), the repayment of which required an active build-up of external debt obligations.

The result of this policy was the debt crisis, for the resolution of which the EU first turned to the IMF and then to the US Federal Reserve. Between 2007 and 2010 alone, the total dollar liquidity provided to the ECB by the US Fed totalled $ 8.0 trillion.[5] Thus, the devaluation of the US dollar and the generated mortgage crisis destabilised the development of the common European economic and monetary space and led to a significant outflow of capital from the Eurozone, the deficit of which is still covered by dollar swap lines between the Fed and the European Central Bank.[6]

So, the sharp change in the value of the US dollar as world money has weakened the global positions of the main US competitors — Japan and the EU. According to WTO data, Japan's share in world exports between 1993 and 2022 fell from 9.8 to 3.1 per cent, the EU's — from 45.3 to 35.8 per cent.[7] The average annual real GDP growth rate in Japan between 1980 and 1991 was 4.3 per cent compared to 0.8 per cent between 1992 and 2014. In the Eurozone countries, GDP growth was 2.7 per cent between 1994 and 2001, and slowed to 0.9 per cent between 2005 and 2014 (*Fig. 4*).

The pumping of dollar liquidity into the global economy, primarily associated with the redemption of illiquid assets of US corporations, manifested itself in 2022 in double-digit inflation rates, to combat which the US Federal Reserve System sharply increased the interest rate. The tightening of the monetary policy of the US regulator materialised in large defaults in the US banking sector. Thus, in March — May 2023, the bankruptcy of three U.S. banks could have escalated into a crisis of the global finan-

[5] URL: https://www.gao.gov/products/gao-11–696 (accessed on 22.03.2023).

[6] URL: https://www.ecb.europa.eu/mopo/implement/liquidity_lines/html/index.en.html (accessed on 10.02.2024).

[7] URL: https://www.wto.org/english/res_e/statis_e/wts_e.htm (accessed on 28.02.2024).

cial market, if it had not been for the extraordinary intervention of the Fed, which on 15 March 2023 provided a record for the entire history of refinancing in the amount of $ 153 billion. [15, p. 34].

The second "side effect" of the increase in the global dollar supply was the growing U.S. government debt. The author of the original concept of hard-to-predict rare events in financial markets N. Taleb compared the growing US debt burden

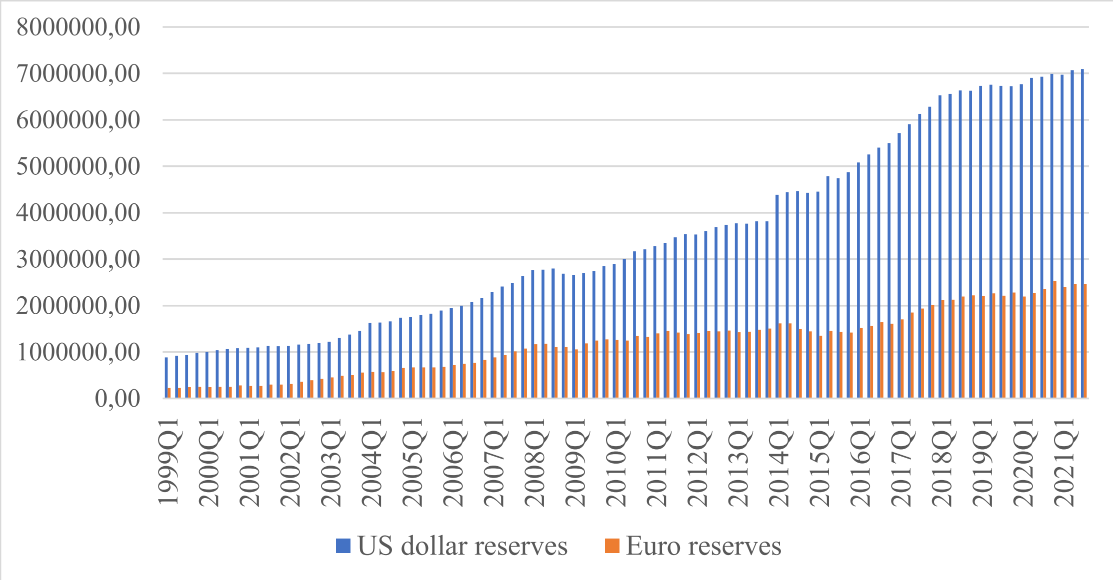

Fig. 2. **Dynamics of growth of international reserves denominated in US dollars and euros in the period 1999–2021, million US dollars**

Source: compiled according to the data of IMF. URL: https://data.imf.org/?sk=e6a5f467-c14b-4aa8–9f6d-5a09ec4e62a4

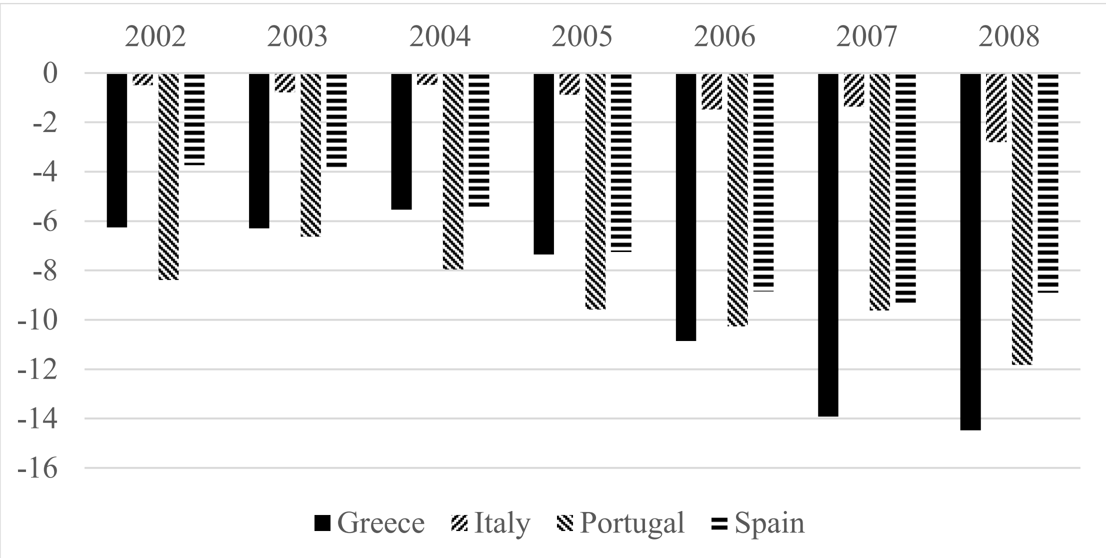

Fig. 3. **Dynamics of the current account balance of the Eurozone peripheral countries in 2002–2008, as a percentage of GDP**

Source: compiled according to the data of IMF. URL: https://www.imf.org/en/Publications/WEO/weo-database/2023/October

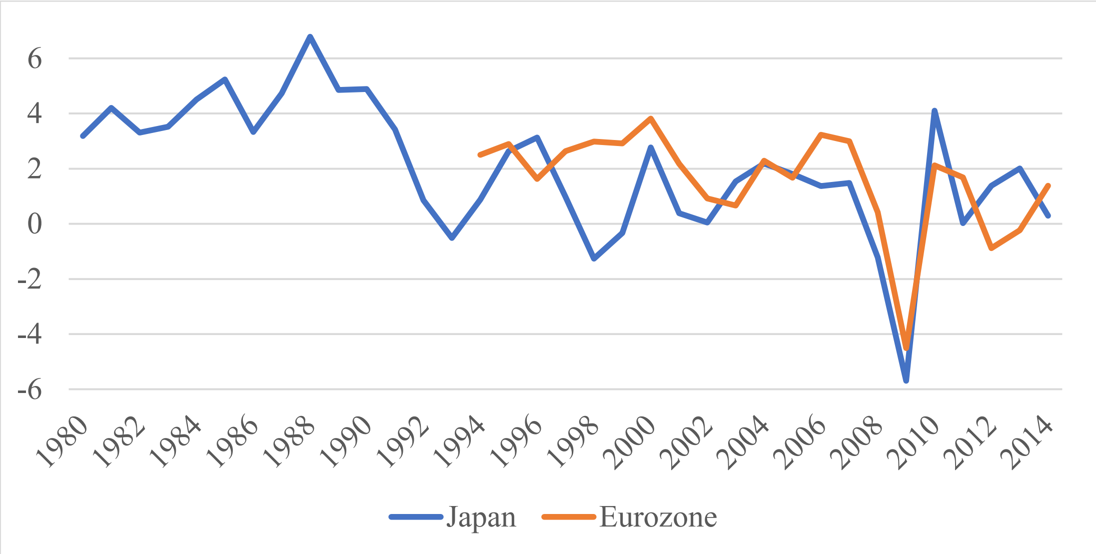

Fig. 4. **GDP growth rates in Japan and the Eurozone in 1980–2014, %**

Source: compiled according to the data of IMF. URL: https://www.imf.org/en/Publications/WEO/weo-database/2023/October

to a "white swan", i.e., a risk, the occurrence of which is more likely than an unexpected event of a "black swan".[8]

As global debt increases, the risk of sovereign default increases not only for the US, but also for developing countries, whose debt structure has traditionally been dominated by the US currency. A debt crisis could trigger disruptions in global supply chains and lead to another spike in inflation. Capital outflows from developing countries strengthen the exchange rate of the U.S. dollar and reduce the competitiveness of U.S. manufacturers. To counter the expansion of competitors in foreign and domestic markets, the United States wages currency and trade wars that destabilise fuel, commodities, and energy markets. Together, these factors necessitate the creation of alternative international liquidity.

A FUTURE WITHOUT THE DOLLAR

The modern architecture of world finance is under increasing pressure, firstly, from the United States, seeking to maintain financial power in the emerging multipolar world, and secondly, from the most dynamically developing countries, objectively claiming parity in the distribution of benefits and costs of economic and financial globalisation.

The pronounced crisisogenicity of the world economy against the background of the increasing global importance of the Eastern countries and the development of digital technologies requires a change in the current international monetary standard.

Meanwhile, the inability of the rest of the world to abandon the dollar as world money and to offer a viable alternative to the existing international liquidity, apparently, means that only the United States itself, through its aggressive foreign policy, will force countries to gradually abandon the dollar and switch to alternative means of international settlements and payments.

It is obvious that the excellent qualities of the dollar as world money today are supported not so much by the United States' own economic potential, whose successes throughout history have depended on the inflow of talents and resources from the rest of the world, as by the skilful work of political technologists and image-makers, as well as Wall Street financiers and Silicon Valley programmers, who at the present stage, in fact, have

[8] URL: https://www.bloomberg.com/news/articles/2024–01–30/nassim-taleb-says-us-faces-a-death-spiral-of-swelling-debt (accessed on 09.02.2024).

substituted the implementation of real reforms of the world monetary system with the introduction of increasingly sophisticated financial and technological innovations.

The global financial crisis and the Covid crisis confirmed the increasing dysfunctionality of the current monetary standard with regard to the regulation of international monetary and financial relations and the resolution of acute global socio-economic problems, which led to the emergence and rapid development of the decentralised financial market (DeFi) operating on the basis of cryptocurrencies.

Market excitement around crypto-assets is helping to promote the idea of launching sovereign digital currencies, which could bring significant adjustments to the credit money-based growth model. In practice, however, the future of cryptoisation of global finance looks uncertain. For example, the creators of the global cryptocurrency private money project Diem (originally Libra) had to abandon its implementation, and its related assets were sold under pressure from the Fed to Silvergate Bank, which went bankrupt in March 2023.[9] The official White House position on crypto-assets was unequivocally articulated in the President's annual address to the U.S. Congress in March 2023, which noted, in particular: "While digital technologies are a clever solution to the problem of executing transactions without a trusted party, crypto-assets do not currently provide widespread economic benefits. They are mainly speculative investment instruments and are not an effective alternative to fiat currency".[10] In the view of H. Waller, a member of the Board of Governors of the Federal Reserve System, the digital dollar could do more harm than good to the U.S. financial system, including cyber threats and disintermediation of commercial banks. In his opinion, neither the digital dollar nor the digital currency of another central bank will help to overcome the existing differences in the sphere of international payments without violating international standards of financial reporting (IFRS).[11]

Meanwhile, Asian, and European central banks are joining their efforts to create international payment and settlement systems based on their own digital currencies. Pilot tests of such projects (e.g., Mariana, Dunbar, mBridge, Icebreaker) are being conducted at the Innovation Hub of the Bank for International Settlements, which has offices in London, Stockholm, Singapore, Hong Kong, Paris, and Frankfurt.[12] Despite the achievement of certain positive results of testing, expressed in the increased speed and reduced cost of cross-border payments, there remain a large number of unresolved contradictions related to the problems of privacy, accessibility, cybersecurity and divergence in regulatory approaches and principles at the level of individual jurisdictions [16, p. 49]. The use of proprietary technologies, standards, and protocols by central banks to handle digital currencies means fragmentation of the central bank digital currency ecosystem [17]. On the other hand, the creation of a universal multi-platform CBDC regulated by the unified norms of international law puts it in a long-term dependence on Anglo-American law firms, which actually monopolised the servicing of transactions in the global financial market.

The second most significant challenge to the US dollar as a global currency is the unprecedented seizure of over $ 300 billion in Russian reserve assets, which could have far-reaching consequences for the US dollar as a reserve and international settlement currency. The imposition of an embargo on reserve assets multiplies the risks of under-receipt of foreign currency proceeds for the supply of goods and services by participants in international trade.

As early as 1944, the IMF's Articles of Agreement stipulated that 75 per cent of a member

[9] URL: https://www.bloomberg.com/news/articles/2022–01–31/meta-backed-diem-association-confirms-asset-sale-to-silvergate (accessed on 12.02.2024).

[10] URL: https://www.whitehouse.gov/wp-content/uploads/2023/03/ERP-2023.pdf (accessed on 12.02.2024).

[11] URL: https://www.federalreserve.gov/newsevents/speech/waller20221014a.htm (accessed on 12.02.2024).

[12] URL: https://www.bis.org/press/p221102.htm (accessed on 12.02.2024).

country's share in the capital of the Fund should be paid in its national currency. This provision is still in force today. In practice, it means, for example, that it is quite realistic to pay for Russian gas supplies in roubles. For this purpose, importers of Russian blue fuel need only to use the mechanism of correspondent accounts specially created for this purpose, demanding that the IMF should unfreeze its rouble holdings [18].

The precedent with the confiscation of Russian foreign assets may be repeated with respect to any other participant of the international trading system that shows disloyalty to the US foreign policy. Therefore, the IMF member countries should demand that the Fund take measures against the voluntaristic actions of the US and its allies, and put back on the agenda the priority use of national currencies in the settlement of mutual financial claims and obligations in order to restore the status of the world monetary system as a mechanism for multilateral settlements with real, not declarative, use of an unlimited number of national currencies.

The seizure of Russian assets has already led to a number of initiatives to move away from the dollar as the currency of international settlements, for example, the China-Brazil agreement reached in March 2023 to settle bilateral foreign trade transactions in local currencies; the beginning of the use of the Indian rupee to settle certain transactions between India and Malaysia, as well as Sri Lanka, Bangladesh, Egypt, Russia, several African and Persian Gulf countries; the completion of the first liquefied natural gas sale to a Chinese national oil company CNOOC and France's TotalEnergies in Chinese yuan (CNY) through the Shanghai Petroleum and Natural Gas Exchange; Russia's foreign trade settlements in Chinese yuan not only with China, but also with countries in Africa, Asia and Latin America; Saudi Arabia, the main US outpost in the global oil market, is considering the possibility of selling oil for yuan instead of the US dollar, etc.

The pace of dedollarisation of the global economy depends to a large extent on the future development of economic relations between Russia and the European Union. The reduction of Russia's share in the EU's foreign trade balance increases the EU's costs in two main areas: the loss of a source of relatively cheap energy resources and the loss of a geographically close market for the products of its manufacturers.

Although Russia's position towards the EU has so far remained more than loyal, given the 13 sanctions packages against Russia, the persistence of European politicians in worsening relations with Moscow could eventually have a very negative impact on the revenues of European companies and citizens.

Another gas storage utilisation problem, which the EU could face as early as winter 2024/2025, could trigger a very serious crisis, the consequences of which could be mitigated if the EU countries were to build up their foreign exchange reserves in roubles to pay for future gas supplies from Russia. The EU could provide the necessary rouble liquidity by creating a net trade surplus with Russia by settling exports of European goods to the Russian market in roubles. The EU could use a similar scheme in trade with China, for example, to replenish the stock of rare earth metals needed for the production of solar panels, wind turbines and electric cars and to fulfil its plans to move towards a carbon-neutral economy.

The formation of a reserve "cushion" in yuan and roubles would help diversify the EU's foreign exchange reserves and reduce dependence on New York and London to finance the dollar deficit of the balance of payments. Such diversification could also contribute to the implementation of the EU's course towards strategic autonomy, which implies the creation of its own independent financial markets where transactions in Russian roubles and Chinese yuan could take place (in the latter case, only London has such a prerogative in the European space so far). In turn, for Russia and China, such a step on the part of the EU would mean a real advancement of plans to internationalise their national currencies.

Similarly, settlements on foreign economic transactions with other countries friendly to Russia and China could be organised in a similar way. For example, Russia could pay for imports from African, Asian, and Middle Eastern countries in roubles (yuan) without fear of secondary sanctions, and these countries, in turn, could use roubles (yuan) to pay for imports from Russian producers. However, this requires the creation of an independent settlement and payment circuit to pre-empt the intermediate conversion of yuan and roubles into dollars using Western-controlled settlement infrastructure (SWIFT, CLS).

These signals may prompt the US to take action to modernise the current currency standard. However, by the time American conservative financial circles decide to undertake such a transformation, Russia and China will have already formed their own system of cross-border payments in roubles and yuan, which will serve as the best guarantee against future financial shocks.

Despite the current geopolitical tensions between the EU and Russia, the possibility of forming a European liquidity buffer in Chinese yuan and Russian roubles does not seem quite utopian, given the rising degree of domestic political and economic tensions in major European countries, particularly in Germany, France, and Italy. Meanwhile, the actual implementation of this unconventional approach depends on combining the subtlety of diplomatic art with financial innovation and political wisdom, as well as on further developments on the European continent.

CONCLUSIONS

The global leadership of the United States after World War II is largely due to the privileged role of the dollar in the world monetary system. The non-resistance to this fact on the part of other leading economies of the world has created an illusory perception of its exclusivity, which gives the US the right to receive financial rent from all other countries as a payment for the use of the American monetary unit for international settlements, payments, savings, and investments.

A closed circle of financial obligations was formed in 1944 at the Bretton Woods Conference, when 44 participating countries supported H.D. White's plan to create a new world monetary order with the US dollar at its centre. None of the conference participants objected to the American plan, although in the run-up to the conference an alternative British project to create supranational money, in the issue of which a wide range of countries were supposed to participate, was discussed in expert circles. Subsequently, some elements of the British "alternative" were reproduced within the framework of the multilateral international settlement mechanism of the Council for Mutual Economic Assistance (CMEA). Despite the achievement of significant results in smoothing the imbalances of socio-economic development, the experience of the convertible rouble circulation within the CMEA was not transferred to the global level.

With the abolition of dollar convertibility into gold in 1971, the world community had another chance to free itself from dependence on the US as a solo issuer of world money and switch to the use of SDRs, the collective settlement and reserve liquidity created on the basis of the IMF in 1969. All developed countries, including the member states of the European Economic Community and Japan with large trade surpluses, refused to use SDRs as full-fledged world money. None of the significant IMF shareholders agreed to commit to redistribute excess international liquidity in favour of countries with balance of payments deficits. This passive attitude to the reform of the world monetary system automatically preserved the dollar's status as the world's key currency.

During the oil crises of the 1970s, the US and OPEC countries reached a tacit agreement to convert all contract prices for oil into dollars, with a subsequent transition to exchange pricing in the markets of strategic commodities. These informal agreements were never challenged by the international community, and as a result, the dollar was finally consolidated in the status of a virtually non-alternative benchmark of world commodity prices.

In turn, the role of the US currency as a reserve asset was strengthened by the Asian financial crisis of 1997–1998, which hit fast-growing East Asian economies whose currencies were pegged to the US dollar the hardest. After the crisis, these economies began to actively build up dollar reserves to protect themselves against future shocks. To this day, Asia-Pacific countries are the largest holders of dollar reserves.

Each of the above-mentioned crises only strengthened the US confidence in the stability of its position. The sense of impunity was very clearly manifested in the mid-1980s, when the US currency war against its strategic partner Japan plunged the "Land of the Rising Sun" into a state of "lost decades". Paradoxically, the Bank of Japan was directly involved in coordinated currency interventions aimed at appreciating the yen. Similarly, the euro appreciation game in the noughties weakened the international competitiveness of European companies. However, even these US demarches against its political allies were not reciprocated. Such amorphousness finally unleashed the White House, which dared to freeze the seventh largest international reserves in the world of the Bank of Russia, indisputably violating the fundamental principles of the Jamaican monetary system.

Thus, the privilege of issuing a key reserve currency serves as a powerful tool for consolidating global leadership. However, the opposite is also evident — without dominance in the world monetary system, it is impossible to project its power on a global scale. This is confirmed by the minor role of the EU, China, Russia, and India in establishing the global rules of the game, despite the fact that these key IER actors have, respectively, the largest "common market", the largest industrial production, the largest military potential and the largest population in the world.

So, the lack of reforms of the current international monetary standard means the need to prepare the world community for new even more devastating crises. Expanding the use of national currencies, CBDCs and crypto-assets in international settlements will not solve the problem of regulating final settlements between countries and displacing the U.S. dollar, because in addition to the currencies themselves, a long period of their internationalisation — adaptation of economic agents around the world to accept substitutes for the U.S. dollar in settlements — is needed. Therefore, in order to accelerate the transformation of the current international monetary standard, it is necessary to combine the efforts of the EU, Japan, India, China and Russia in carrying out a real reform of the world monetary system aimed at increasing the international use of national currencies of IMF member countries in proportion to their contribution to the development of the world economy. Only in this way is it possible to ensure real, not declarative, conditions for sustainable, confident, secure, balanced, innovative and inclusive growth.

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