Understanding the Decline of the US Dollar: Key Factors and Implications

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This paper mainly focuses on the declining dominance of US dollar especially in the recent century and the role of different factors in this phenomenon. Recently decline is seen in the power of US dollar. The global dollar reserves faced so much pressure in recent times. Within two decades a sharp decline is seen in US dollar share of global currency reserves. This paper starts with the review on the factors that are causing the decline of US dollar. Many internal and external factors are causing this decline in dollar’s hegemony. These factors include external factors like de-dollarization, rise of other currencies like renminbi, euro, rise of China as a global power, rise of digital currencies, geopolitical risks, US sanctions on the Russia etc. and many internal factors like monetary policy given by US central bank, rising prices or inflation, demand for currency, economic growth, export prices, increasing federal debt etc. Countries mainly BRICS countries are moving towards de-dollarization by proceeding their trade in their local currencies or currencies other than dollar, similarly rise of China as a big economic power also fastening this process as China increasing the scope of its renminbi, digital currencies also replacing paper currency effecting dollar’s hegemony, US sanctions on countries like Russia, Iran etc. also forcing states to move towards other banking systems. Likewise, US internal factors like inflation is on 40 years peak and federal debt rise up to 110% of GDP, economic growth is declining. These internal and external factors speeding up this process. As major world trade is still happening in dollar so decline in its dominance has a major impact on the global financial system. So, to study about its declining phenomenon is very important and this research mainly analyze on this declining trend of US dollar. The paper also looked at the short history of dollar that how it became the paper currency and how it emerged as main currency of the world. At the last of paper, I also talked about whether the decline of dollar is imminent? which is an important question asked by different economists and political analysts. These observations hint how the dollar’s hegemony is under threat.
1. Introduction

From the start of nation state system or even before currencies get power and their power move toward decline after certain years of hegemony. These currencies include the currencies of Portugal, Spain, France, The Great Britain and currently US dollar. If we talk about US dollar, we see that ever since the Bretton Woods Conference most of the countries of the world started relying on the US dollar to back up the value of their own currencies. Dollar became the reserve currency of majority of the states of the world (Vanguard, 2024). International trade started to proceeded in dollars, So US dollar became the main currency in the world and became the sole hegemonial currency in the world. However, since the start of this new century due to certain internal and external factors US dollar started to lose its hegemony. In the last century the US hold a high number of global reserves and they are Dollar was the largest reserve Bank currency. It is still the largest currency of the world but the reserves seen a sharp decline in this century that is the sign of danger for the hegemony of US Dollar in the international Financial Market. Faith in a particular currency determine its importance that how much effective a particular currency is. If there is a lack of faith on the stability of a particular currency then the currency might be collapsed or lost its hegemony and according to many economists’ faith in US dollar is declining so it might be resulted in its decline.

Many factors are involved in this ongoing decline of US dollar. These factors might be internal factors or external factors. It includes external factors like de-dollarization drive, China rises as a major power, Rise of other currencies, geopolitical risks, US sanctions on Russia, Iran, North Korea etc. and rise of digital currencies etc. (LIoudis, 2024). Similarly, it included certain internal factors like increasing inflation, hike in federal debt, economic growth etc. Many countries started to trade in their local currencies or currencies other the dollar mostly done by Russia and China, rise of other currencies also contributing in dollar’s decline. These currencies include euro, renminbi etc. Sanctions on certain states also causing dollar decline. IMF first managing director Gita Gopinath warned that US sanctions on Russia after Russia-Ukraine war threaten to gradually dilute the dominance of dollar. Likewise, internally US dollar is facing serious threats like federal debt of US reached almost 123% of its GDP. Its debt reached almost 33.17 trillion dollars (Zaidi, 2024). Her irregular financial policies unlimited aid programs that put pressure on the economy of USA and as a result face such a dangerous situation and surviving to retain its hegemonial power.

An important question raised that whether the decline of dollar is imminent? if we the history of powerful currencies from 13 to 20 century the average tenure of a currency was 94 years in which a particular currency retain it’s hegemonial power. The US dollar as a reserve currency already surpassed about 78 years (Novee & Bablu, 2022). Due to many of these factor’s dollar might lose its hegemony quickly. A particular currency can lose its power when another existing currency replaced the ongoing hegemonial currency. For instance, in 1900 US dollar 0 % whereas pound sterling stood as 60% of global foreign exchange reserves but in 2020 the global reserves of the US Dollar reached up to around 62% in 2020 (Eagle, 2023). Dollar within a small time became a powerful currency of the
world. So, dollar replaced the pound. Now many new currencies are on their way to replace the authority of US dollar. These are euro, renminbi etc. US dollar also facing certain geopolitical risks. These include weaponization. US is the best military power of the world and for this they are investing a lot of money in weaponization which put pressure on its currency.

Dollar is facing certain problems that are similar to problems faced by pound sterling before its decline. In 20th century US emerged as a major power along with British and at the same time other powers also emerged like currently China emerged as the major power threatening the hegemony of US dollar. Similarly, the monetary issues facing by the US dollar is similar to the problems faced by pound sterling at that time. In the last century US dollar sealed its position as the major currency in the trade of petrol and it was agreed that the trade of oil all over the world carried in dollars. Currently the talks are held between the China and oil producing countries and there are chances that it might shift the trend towards Petro Yuan. This can cause a threat to the hegemony of dollar.

Dollar still is the major currency of the world and still major trade is happening in dollar so decline in it has transform the global financial system but it is not easy or not an imminent process that will happen within few years its take time but certain factors is taking dollar towards decline and its power is diminishing. These factors will take time to diminish the power of the US Dollar because to remove the hegemony of any of the ruling currency is not an easy task which can be seen from the past experiences because in past all the major currencies took time of many years before their decline. Until another currency will become powerful enough and will become the major trade currency to remove the current hegemony of the US Dollar is not an easy task. Dollar is moving towards a decline but to say that the decline of the respective currency is near is early to stay because it is still fighting to keep is hegemonial position in its place and remain as the top trading currency in the world even after the rising of many of the above discussed factors that are creating hurdles to remain as the powerful currency.

US dollar is facing a sharp decline in the 21st century with many internal and external factors and geopolitical decisions like US debt problems, inflation, de-dollarization drive, rise of digital currencies, rise of China as an economic power, sanctions as a geopolitical tool etc. contributing in the phenomenon. An important question also studied that whether the decline of dollar is imminent or not.

1.1 Research Questions

1) How rise of digital currencies affecting dollar’s power?
2) How US domestic economic conditions contributing in US dollar decline?
3) Why rise of China seems as a major threat for the hegemony of the US dollar?
4) Why De-Dollarization is a big threat for the hegemony of US Dollar?

2. Theoretical Framework

In case of declining dominance of US dollar, the theory of realism prevails as all the actors want to achieve their national interests at any cost. US use the dollar in order to
achieve their national interests like by imposing sanctions on different countries. They want preserve their currency because their hegemony is totally based on it. As realism talked about the power maximization of the state. So, USA power in the international arena is directly linked with the power of their currency as the use it to increase their power and to enforce their power in the international use it as a tool of power maximization. USA has to preserve the declining dominance of US dollar at any cost without any concept of morality and they want to achieve this. On the other hand, China, Russia and other powers also want to increase their power in international politics and want to tackle the influence of US dollar and its’s use as the foreign policy tool by the USA. They want to achieve their national interest by influencing the influence of the US dollar. They want to defend them and also want to increase their influence which is an important assumption of the theory of realism. Russia after sanctions increase the de dollarization drive in order to preserve its national interest as after the Russia Ukraine war, they are facing severe sanctions and they want to pressurize the US dollar. Similarly, China wants to replace US as the super power.

3. Research Methodology

This research is a Qualitative type of research that can be write in order to understand the declining trend of the US Dollar. All the data in this research is a secondary type data that is collected from different certified sources. The information that is discussed in this research is taken from different articles and books. The data in the research is credible and verified. These articles and books are written by credible writers that have a strong knowledge about their relative topics. The articles and books are published by certified publishers. The articles are collected from different websites. The books are also collected from certain online sites. All the references of the articles and the books are mentioned.

4. Literature Review and Results

In the book “Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System” written by Barry Eichengreen (2011) the writer discussed about the rise of dollar and the current declining trend of the dollar. History suggested that the conflict between two powers has financial implications. China and USA are two powers confronting with each other that is affecting the international monetary system. If the dollar loses its importance, it is also not good for China because it has exported base economy and this decline hit its exports but China is kept on pressurizing the US dollar. The US is facing severe budget deficits and these deficits increasing debt on USA that is causing devaluation of US dollar. The competition is increasing and it is difficult for US dollar to sustain its power and might cause the decline of Dollar’s hegemony in the future. (Eichengreen, 2011)

In this work “Digital RMB vs. Dollar Hegemony? Friendly Foes in China-US Currency Competition” written by Falin Zhang, Yang Cui and Malcolm Campbell Verduyn (2023) the writers discussed about the rise of CBDCs and the impact of Chinese digital RMB on the hegemony of the dollar. Digital currencies are taking a complete status of currency like traditional currencies and these currencies are mostly state back currencies.
In future these currencies might replace the paper currencies as they might prove more sustainable and more useful currencies as compare to the paper currencies. The first digital currency was introduced in Bahamas in 2020 and later by Nigeria known as e-Naira. China is leading other countries in the field of digital currencies. China made many Digital currency transfer centers in different countries like Singapore, Hong Kong etc. It might not affect the dollar’s presence directly but firstly effect the usage of US Dollar. Chinese RMB might lead these currencies. (Zhang, Cui, Campbell, & Verduyn, 2023)

In this study “Geopolitical Implications of De-Dollarization: Shifting Power Dynamics and USA's Global Influence” written by Muhammed B. E. Saaida (2023) the author focused on the role of de-dollarization in losing power of US dollar. De-dollarization is one of the factor or tool use by the states in order to resist the increasing dominance of Us dollar. DE dollarization means that countries started trade in their local currencies and neglecting the use of dollar and earned lot of reserves of the local currencies that is supported their local economies and that might prevent them from impacts of sanctions in the future. Major reasons behind this De Dollarization included the monetary policy of US, geopolitical changes like sanctions on Russia, rise of digital currencies etc. This De-Dollarization also bring many opportunities for USA because through it US might bring many economic reforms especially in the field of digital currency that might prove so much helpful for US. (Saaida, 2023)

In the study “The Fall of the Dollar” written by Abdullah Al Mamun and Sanni Yaya (2021) the authors examine the future of the dollar and the possibility of the fall of dollar’s hegemony in the future. The Canadian billionaire Ned Goodman in his speech in the in the investment conference (2013) said that Dollar’s hegemony is over. The economic power of any country can be determined by its GDP. US is the largest economy of the world in the context of GDP. Euro is a balanced currency and there is a possibility that it might replace the US dollar. Similarly Chinese Yuan is also a rising currency and increasing its stake in the international arena and has an ability to replace dollar’s hegemony. However, it is not easy to replace the dollar. Almost 70% of international companies are belong to US. Chinese Yuan and Yuan are still facing many institutional and structural problems. So, they take time to replace dollar but US dollar is facing many threats. (Mamun & Yaya, 2021)

4.1 Historical Background of Dollar

Dollar has a very long history. Sixteenth and Seventeenth centuries were the centuries that provided a base to established a proper dollar currency. In this century dollar as a currency was not established but it provided the background under which it was established. America was basically the colony of several European states. So many currencies were used at that time in the America. Spanish Dollar was used in many of the states of America especially in the North American states due to its merits and as at that time especially after the union of Spain and Netherland the Spanish Dollar was one of the most stable currency in the world and was used in many parts of the world. Spanish mints were established in in Mexico in 1535 and in Peru in 1621 (Shaw, 1958). In 1775 during
American revolution the Continental Congress began issuing paper money known Continental Currency. In 1785 the US officially adopted the dollar sign using the symbol for the Spanish American peso as a guide. The United States Mint, established in 1792 issued the first dollar coins after the passing of Mint Act (Elasfar, 2019). The first United States dollar notes were published as demand notes to fund the Civil War of 1861. The notes were known as greenbacks because of their green color. The legal tender, called the United States Notes, was first published in 1862 and a standardized system for printing the notes was first developed in 1869 The Coinage Act became a law on Feb 12, 1873 and the new coins was established and the coinage of trade Dollars steadily increased until 1878 and develop on this was keep on going (Garnett, 1917).

In 1913 Federal reserve act was passed by the congress of the US. As the result of this act federal reserve bank of the USA came into being in 1914 (Lankipalle, 2020). The great depression came in 1930 which affected the economy of the world. In 1931 the Pond Sterling again surpassed the Us Dollar and became the largest economy once again. US survive well by policies of the Roosevelt administration which gave benefit to the economy of the USA and USA was not affected too much. WW2 began in 1939 USA was directly entered in the war in 1941 after the attack on Pearl Harbor by the Japan. USA became victorious after the end of war in 1945 and US dollar became the only hegemonial currency in the world (Chitu, Eichengreen, & Mehl, 2014). Delegates from 44 Allied countries met in Bretton Wood, New Hampshire in 1944 to develop a system to manage foreign exchange that would not disadvantage any country. Marshall plan was given by the US congress for re construction and development of the Europe in 1949 (Lim, 2019). During 1970s the Dollar’s hegemony start crumbling and possibility was coming that it might be replaced by any other currency. The Bretton Wood System was collapsed after the Nixon speech in 1971 (Truman, 2017).

In mid-2007 the global financial crisis came (Murau, Rini, & Hass, 2020). In the last decade the speed of the decline increases especially after the formation of the alliance of BRICS whose policies are affecting the dollar the most. Similarly in the last decade China rises as the big power and expanding its influence. Trump era policies also cause many problems for the US Dollar. Trump to facilitate the domestic gave many incentives to the domestic companies by ending certain taxes and many other things like a fixed monetary policy So, the dollar is kept on falling and losing its dominance in the international monetary system that caused a serious dent to its hegemony all over the world especially in the ongoing century the process is accelerated much more that might also affected the international economy system in the coming future and its impacts will be seen all over the world. (Ballard, 2021)

4.2 Factors Causing the Decline of US Dollar’s Hegemony

US Dollar’s hegemony is moving towards a sharp decline as losing its strength as a global currency leader with many factors playing their role as a catalyst in this decline. US Dollar that was enjoying its unchallengable hegemony in the last century is moving towards decline in the current century. These factors consist of both external factors that belong to
the external political and economic scenarios and internal factors that mainly belong to the internal economic conditions of the USA. Some of the important internal and external factors that causing this decline are given below.

4.3 External Factors Affecting the Hegemony of Dollar

Many external factors are affecting the hegemony of the US Dollar. These external factors threatening the hegemony of the US Dollar badly. Some of the important external factors are given below.

4.4 De-Dollarization

Dollar is the currency that is used all over the world for the trade purposes. Many countries all over the world started to trade in their local currencies instead of dollar due to different geopolitical decisions of the USA like sanctions. This phenomenon in which the countries are started to trade in their local currencies instead of Dollar is known as De-Dollarization. The financial superiority is helping the US economy since the last century and this also effected the economies of developing countries. Currently this power of US dollar is challenged by the process of De-Dollarization. The financial sanctions by US on other countries like currently sanctions on Russia due to Russia-Ukraine along with the rise of other currencies and digital currencies speeding this process of the De-Dollarization. BRICS is also contributing in the process of DE Dollarization. China is continuing its efforts to internationalize its Renminbi and the foreign exchange reserves of the Renminbi is rising. On the other side the foreign exchange reserves of the USA is facing a sharp decline and reached up to record lowest position around 58 percent (Salya, 2024). This can cause the decline of the importance of the US Dollar and countries might use Renminbi more as the trade currency instead of the US Dollar.

Major trade of oil all over the world is carrying in Dollar all over the world but currently many countries are started to trade of oil in their local currencies instead of Dollar and also using Renminbi for the trade of oil. Russia after the Russia-Ukraine war is selling its oil in the local currencies this is also affecting the US Dollar. The trade in the local currencies providing countries space to make their economic decisions freely and this can help the countries to trade in easy terms so the countries are now preferring to trade in their local currencies. Bricks countries started to trade in their local currencies. These countries have very big economies and that is why it is affecting the hegemony of the US dollar and in future many other big currencies are going to join the BRICS that might further harm the US Dollar. Russia is much more active in this process of DE-Dollarization by making certain bilateral agreements with many countries to trade in the local currencies. Similarly, they develop their online payment system to smooth the process of trade like MIR banking system of Russia. Euro and Renminbi also becoming stronger and stronger day by day that further causing increase in the process of DE-Dollarization. So the process of DE Dollarization is the big threat for the hegemony of the US Dollar. (Kumari, et al., 2023)
4.5 Rise of other Currencies

The rise of other currencies especially Renminbi and Euro is harming the US Dollar. The reserves of these currencies all over the world is continuously rising and the usage of these currencies all over the world for the trade also seen a massive increasing trend. China is continuously making efforts to recognize its currency internationally and Euro hold most international reserves all over the world. These two currencies are a major threat for the hegemony of the US Dollar. The international reserves of US Dollar are already declining and increasing worth of these currencies further harmed the US Dollar. International currency is basically a currency that is used outside of its issuing state for different purposes. US Dollar is still a largest international currency. Vehicle industry is the primary example of this in which 88 percent of the trade is done dollar according to the data of 2022 and its reserves that were 72% in 1997 now reached up to 58% while Euro is the second most important currency in the world that holds around 20.5% of international reserves till the year of 2022 (Iglesias & Agote, 2023). EU is taking up its main pillar to internationalize its currency and to increase the use of Euro for its trade purposes, Euro is using in trade by the EU countries and it is increasing its shares in the international payment transactions. In this way rise of Euro is the big threat for the hegemony of the US Dollar.

Chinese Renminbi is the other major threat for the US Dollar as China is continuously busy in internationalizing its currency more and more. Renminbi is increasing its stake all over the world and in many countries, it is started to use as the medium of trade. Renminbi might also be used for the trade of oil in the future that might further the US Dollar hegemony as major part of oil trade is done in US Dollar. To internationalize Renminbi China made many bilateral swap agreements with many countries that boost its currency. China is still making efforts to increase the the use of its currency in international trade and transactions. Renminbi is the potential threat for the US Dollar as it is continuously increasing its worth all over the world. Renminbi holds around 3.2% share in global payments and hold around 2.88% international reserves that is much less as compared to the 58% reserves of the US Dollar but it is still increasing its worth in the international economic system and it is a potential future threat for the hegemony of the US dollar. Renminbi as a progressive currency all over the world is now started to grow with greater speed and it is started to challenge the hegemony of the US Dollar international and might become the biggest currency in the future replacing the US Dollar. (Chan & Mingjiang, 2022)

4.6 Rise of China

China is a rising power and becomes a major threat for USA in the international arena politically as well as economically. Chinese economy is rising continuously and in terms of GDP is the second largest economy of the world after USA. So Chinese rising power is the major threat for the hegemony of the US Dollar. China takes so much benefit of globalization and spreading its economic influence in the other countries. According to many economic analysts China might surpass the US economy in term of GDP in the future and become the largest economy of the world. China is progressing day by day in terms of
technology and now brought this technology in the field of economy. As most of the international trade all over the world is done through an international payment system SWIFT controlled by the USA and used it as a geopolitical tool. China in 2015 developed its own payment system known as Cross Border Payment system used by many countries (Krasnicki, 2023). According to the report of 2020 China is the largest trading partner of USA (Khan, Ali, & Hammadudin, 2021). It is the third largest export market and biggest import market for the USA. This shows that both of the countries have very deep trade relations. China rise is the biggest threat for the hegemony of US dollar and increasing debt on US that belongs to China might harmed the US dollar much in the future and Dollar might lose its hegemony.

China is expanding its economic relations with other countries especially with the developing countries and the economies of many countries are started to depend on the China. They are under the bilateral agreements with many countries and providing them support in order to increase their sphere of influence. This also helps them to increase the worth of their currency which further cause the decline of the hegemony of the US Dollar. BRI is the landmark project started by China as a tool to increase its sphere of influence and to increase its economic and political role in the major part of the world. Around 140 countries are the participants of the BRI (Lindley, 2022). This is directly challenging the western order and effecting the hegemony of US in international arena. Us give it the name of depth trap but China is using it as a tool to make its country politically and especially economically stronger and stronger.

China is further increasing its role in the other international matters. It keeps on increasing its relations with the Middle Eastern states that are the major oil producers and exporters all over the world. Major trade oil is proceeding in the US Dollar. China is willing to change the Petro Dollar into Petro Yuan. Around 11.5% of the Chinese total foreign direct investment is in the Arab states and it further increasing its investments in these countries that Also included the energy and defense investments. In this way China is becoming closer and closer to the Gulf states and under talks to make at least bilateral agreement under which China buy oil in their local currency instead of Dollar and further increase it to a larger scale in order to achieve its aim of converting the Petro Dollar into Petro Yuan. In this way China as the rising power is the big threat for the hegemony of the US Dollar. (Wagdi et al., 2023)

4.7 Rise of Digital Currencies

This is the age of technology and technology is working in every aspect of our life along with the economic aspect of life. This can be seen by the rise of digital currencies and other nontraditional currencies that is affecting the hegemony of the US Dollar. Different types of nontraditional currencies that are directly controlled by the states are coming that is giving harm to the dominance of the US Dollar. China is the most active state in the context of digital currencies as they also launch their digital Yuan. US controlled the economic structure of the world and it used this advantage to suppressed its rivals. Due to these countries are started to take measures and digital currencies are one of them. China
is launching its digital Yuan that is directly controlled by the Central Bank of People Republic of China. The project was started in 2019 by the government of China and opened its centers in many different countries like Singapore (Stawotsky, 2020). This launch of the Central Bank Digital Currency in the form of Digital Yuan is big step of China to develop the international digital monetary system. China as a leading player in this field of Digital currencies threatening the dominance of US Dollar. These CBDCs are directly controlled by the Central Bank of the states and along with their use as reserves of the state they are also use for the trade purposes.

Many other forms of digital currencies like crypto currencies are also coming in the markets and in many states, they are hold by the central bank of the states. Cryptocurrencies basically first time used in 2008 with launch of Bitcoin (Fantacci & Gobbi, 2021). These currencies are affecting the hegemony of the use of Dollar as it is a primary source of De-Dollarization and used as the trade purposes. Countries are taking steps to develop their Digital currency systems and many other countries like Russia is also taking steps to developed its digital currency. Digital Euro is also under the process and it will also harm the US dollar in the future. EU want to launch the digital EURO at a large scale and for many purposes especially as the Central Bank Digital Currency. In a meeting of economic council of EU, the EU countries decided to develop the digital Euro till 2025. The main aim of this is to strengthen the EU in international financial markets and used it for smooth transaction especially used it for the purpose of Remittances. This will harm the Dollar as EU is one of the largest financial market such type of measures directly harms the hegemony of the US Dollar. This measure strengthens the Euro but harm the dominance of the US Dollar. The Euro is the second largest reserve currency of the world and such measure will give it so much benefits and might helped it to become the most dominant currency of the world in future. In this way the Central Bank Digital Currencies (CBDCs) is one the important factor that causing the decline of the hegemony of the US Dollar and might cause its decline in the future as a single dominant currency of the world. (Jones, 2020)

4.8 Use of Dollar as a Geopolitical Tool

United States of America is the largest economy of the world and US Dollar is the strongest currency of the world. USA has a very strong hold on the international financial system and as a hegemonial power run it according to its interests. US used this status to suppress its rivals by using Dollar as a geopolitical tool and imposing sanctions on its rivals. This can be seen in the case of Russia where currently it imposed financial sanctions. Iran and North Korea also facing financial sanctions. Due to these countries started to move towards non-traditional reserve currencies and many countries are started to use other powerful currencies like Renminbi for the trade purposes. Countries are positioning in a way that they come out from the interference of US in their economic decisions and prevent their economies. A primary example of this is the steps taken by the Russia after sanctions. SWIFT is an international payment system that is mostly used for the international transactions and payments and controlled by the US. US used it as a tool of sanction as it banned the use of SWIFT for Russia. Due to this Russia on Feb 5, 2024 develop its new
international payment system for the trade within BRICS and other countries after its old payment system MIR (Erin, 2024). This threatens the hegemony of US Dollar because Russia is a very large market and many other countries trade with Russia under this system.

Many other countries like China and Iran also developing its international payment system that is challenging the hegemony of the US Dollar and affecting its dominance all over the world. Some of the countries are selling their dollar reserves and changed these reserves with other currencies. Russia sold around 20% of its foreign exchange reserves in Dollars and hold around 13% of its reserves in Yuan (Gordon, 2022). In this way countries are taking measures to prevent from the effect of US sanctions in the future. This can play a role of catalyst in the process of DE Dollarization and countries started efforts to decrease the role of US Dollar in their economic structures. This further making the role Central Bank Digital Currencies (CBDCs) much more important and countries are started to use these nontraditional currencies as their reserve currencies and further using these currencies for their trade and directly controlled by the central bank of the respective states.

These sanctions that are facing by many countries harming the US economy which in turn has a bad impact on the dominance of US Dollar. It is giving space to other currencies to play their role much actively by replacing the role that is played by the US Dollar. Countries that are facing sanctions are surviving and they are supported by China that wants to increase the role of its currency in the international financial system. This might harm the US Dollar in the future and the countries all over the world are now to taking measures to make their economies independent. Many EU countries are also developing their payment systems. They are no using Euro for the medium of trade. In this way due to these sanctions a backlash is seen all over the world especially the countries that are facing these sanctions are taking measure to make their economies much more adaptable in these sanctions that is affecting the dominance of US Dollar. (Muhammad, 2024)

4.9 Internal Factors Affecting the Dominance of US Dollar

Along with external factors there are many internal factors that mainly belongs to the internal economic condition of USA is are also causing the decline of dominance of the US Dollar. The internal economic conditions of United States of America is keep on deteriorating and this is directly imposing harmful impacts on the hegemony of the US Dollar. These include problems like inflation, debt and many other problems that might cause US Dollar to lose its dominance. Here are some important internal factors causing the decline of US Dollar.

4.10 Rising Debt

US is currently facing debt problems. The largest economy of the world is also the largest debtor of the world and the debt is kept on rising. This increasing debt not only affecting American economic conditions but also weakening the US Dollar. This is imposing severe pressure on the economy of USA and also the shake the confidence of investors on US financial system that affects the US Dollar. Throughout the history the US remained busy in many wars and as a hegemonial power invested lot in these wars and also
give aid to its respective allies. Such a large amount of foreign spending put extreme
depression on US economy and they fulfill their needs by taking debt from different countries.
The budget deficits in USA also causing debt problems for USA. In 2018 the total national
debt on USA was around 22 trillion dollars and currently the figure is much high (Hojat &
Ginzo, 2019). This rising debt on USA not only affect the US economy but put adverse
impacts on the economy of the whole world because US is the largest economy of the
world. This can hinder the economic growth of USA that further cause many problems for
the USA. The currency is facing serious pressure due to this and do not perform well in the
international financial institution that further cause the decline of the dominance of US Dollar.

The other reason of increasing debt is that as economic growth becomes low the un
employment and poverty take place. Government provides subsidies and also increase
public spending that put pressure on the economy. President Trump cut these spending to
a large extent. But overall, a large amount of government spending cause problems for the
US and increase the debt on US. The largest part of debt taken by USA is from China and
US has to pay this debt to China. China if any time asked USA to pay this debt put a severe
pressure on the economic system of USA and also put adverse impacts on the US Dollar.
Due to this rising debt on US economy countries all over the world feeling their future un
secure as the collapse of US economy and Dollar put a serious impact on the economy of
these countries. Therefore, they are using alternative sources and taking measures to make
the dependency less on the US Dollar. They are moving towards other stable economies
like China and EU that are progressing festally and filling the space given by the US Dollar.
If the debt on US is keep on rising this can cause serious threat for the survival of the Dollar
and the Dollar might not be survived in the coming future as a stable economy is necessary
for any state to keep its hegemony in the international financial system. (Merill, 2017)

4.11 Monetary Policy of USA

Monetary policy is basically an economic policy that is given by the central bank
of the states in the according to the prevailing economic environment. The main aim of the
monetary policy is to increase the employment rate and decrease the inflation along with
economic growth. But problem is that sometimes it is difficult to balance these economic
sentiments. If attempts are made to increase employment rate it increases the inflation and
if the steps are taken to decrease the inflation rate, then it caused unemployment. So, there
is a need of balance monetary policy which is a difficult task. The monetary policy of
United States of America also weakening the US Dollar. The monetary policy of USA is
imposing adverse impacts on the foreign investments and firms as well as caused
unemployment issues.

The frequent changes in the monetary policy of USA shake the confidence of the
investors that caused decreased in the foreign direct investment (FDI). Most of time the
interest rates given by the Federal bank of USA remained low to attract investments and to
increase the employment rate but this can cause a disaster in increasing inflation rate. With
the increase of inflation, the government has to pay the subsidies and other public spending
that put pressure on the government. In the year 2022-23 the interest rates in USA keep on rising that decrease inflation around 3.4% in USA (Tarver, 2024). Therefore, the too much low interest rates impact the Dollar. The increase in the interest rates further cause the increase in the value of Dollar due to which Dollar become much more attractive and borrowing of Dollars started.

This increase in the price of the US Dollar cause increase in imports rates and decrease in net exports of the country that might cause the debt problems for the USA. Further increase in the interest rates also slows down the GDP growth of the state that further cause un employment and poverty in the state. The crumbling monetary policy of the USA is imposing serious threats to the dominance of the US Dollar. For a stable currency there is a need of stable monetary policy. Too much low interest rates and too much high interest rates both have serious impacts on the overall economy and the currency of any state especially on the state like USA that is the biggest economy of the world. Till last decade especially after the crisis of Corona Virus US is failed to give a stable monetary policy that is keep on harming the US Dollar. The monetary policy is changing so much speedily that the confidence of the investors all over the world are declining on the US economy and especially on the US Dollar. A stable monetary policy is needed for a stable Dollar and the United States of America is facing serious difficulties to give a stable monetary policy due to so much economic problems that is facing by the USA.

4.12 Inflation

Inflation is a big problem for governments all over the world. Due to Covid 19 and after that the Russia-Ukraine war the inflation rises all over the world. This can cause the decline of economies all over the world and countries are taking measures to fight this wave of inflation. United States of America is also facing problems due to this rising inflation and country is facing the record inflation that is affecting the weak segment of the society. Similarly with the increase of inflation the buying power of the people become less that make the currency weak as compare to other currencies. US Dollar during the period of inflation is facing serious problems. Due to inflation the poverty and un employment also increases that put pressure on the government finance. Governments provide subsidies remove taxes and also spend lot in public spending. This can cause fiscal and budget deficits that ultimately affecting the US Dollar. Inflation in USA throughout history not remained a serious problem. From 1984-2019 the inflation rate remained largely controlled below 6% and unemployment rate fluctuates but remained under controlled (Barros, 2022). Due to covid 19 the inflation rate become high which is now threatening the US Dollar badly. The poverty is also increasing due to rising inflation that further put pressure on the US economy. The government of US is taken steps to reduce this inflation as the currency of the US is losing its sustainability and losing its confidence. Inflation brought serious problems for the economy of USA and it is affecting its currency badly.

The inflation is rising all over the world and this inflation that is prevailing all over the world further cause problems for USA. The prices of crude oil are rising that further cause problems for USA in a way that increase in crude oil prices can brought inflation
within a country and further put pressure on the current account balance of the USA which is already disturbed due to rising debt. These factors further harming the hegemony of the US Dollar. In the same the rise of inflation in the Europe due to Russia Ukraine war further causing problems for the US economy. Us exports to EU is around 15%. Due to war the EU is facing serious energy crisis and as a result it affects their overall economy. Due to this the overall exports of the USA To EU is decreased. This affects the USA in a way that it faces difficulty in managing their trade balance in the condition in which the debt is already rising. The GDP growth due to this that caused further problems for the USA. This rising inflation in USA is also due to disruption in the supply chains that is occurring all over the world. This inflation bound the government to take further steps to controlled it and these steps also harming the dominance and importance all over the world as the investors is seeing this weakening of the US currency and pushed them to move towards other alternative economies that are much more stable as compared to the crumbling economy of the USA. These microeconomic and macroeconomic factors affecting the overall look of the world strongest economy and the world’s strongest currency the US Dollar. (Supyan, 2022)

4.13 Problems facing by US Dollar Similar to Pound Sterling

As pound sterling is the strongest currency in the world before the hegemony of the US Dollar, it rules all over the world in a large time in the history but a time came in the history in which the Pound Sterling is starting to lose its hegemony and US Dollar is started to become the largest economy of the world. Before declining the pound, sterling was started to face many serious problems. Many of these problems that sterling faced in 1900s are related to these problems that the US Dollar is facing now. At the time of the decline of Pound Sterling the Great Britain was facing a serious problem of inflation that was not easy to controlled. The poverty in the Great Britain was rising and government was spending lot on the welfare of people that was imposing severe pressure on the fiscal side. The unemployment rate was also rising at that time. The debt on the Great Britain reached at its peak and the value of Pound Sterling was kept on declining. Britain was facing extreme fiscal and budget deficits and situation was not remained under the control of government. The investors and the firms started to lose their confidence on the Pound Sterling and they were started to move towards US Dollar for their finances as at that time US Dollar was the main competitor of the Pound Sterling.

Currently the US Dollar is facing to some extent similar kinds of threats that might causes the downfall of Dollar because there are many other competitors of US Dollar that are keep on strengthening and Dollar is keep on weakening. In this century it already loses its hegemony to a large extent but still is the strongest currency in the world. The problems that were faced by the pound sterling at the time of decline is now threatening the US Dollar. Although the position of Dollar is not like the Pound of that time but still it is facing the similar kind of problems and these factors are the serious threats for the power of US Dollar and might cause the decline of US Dollar (Sheraz, 2022).
5. Conclusion

In this way the US Dollar which is currently the strongest currency of the world and that is enjoying this status after from the Bretton Woods Conference (1944) is now speedily losing its hegemony and the dominance of Dollar is moving towards decline. The reserves of the US Dollar are continuously declining that might take affect its status of the strongest economy of the world. The coming years for the US Dollar are very difficult and the pressure on the Dollar will continue to rise that weakens it. These above discussed factors are directly influencing the dominance of Dollar. This declining phenomenon will increase and speed up day by day in the coming days if the US failed to counter it which might not be an easy task for the US and at the end due to these factors the US Dollar will lose its hegemony and it might be replaced by the new currency and due to the decline of Dollar the financial system of the world will also change. There is a possibility that in the new financial system there might be more than one hegemonial currency that will rule the international financial system in the coming future and replace the US Dollar whose dominance is diluting day by day in the international arena. The US Dollar is declining and losing its hegemony in the financial system of the world. Here are some of the recommendations for the US Dollar that might reverse the declining trend of the US Dollar or at least slow down this process of declining dominance of the US Dollar.

6. References


