The Impact of the Russian-Ukrainian Conflict on the Hegemonic Position of the Dollar

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Abstract. After the outbreak of the Russian-Ukrainian conflict, the Western countries led by Europe and the United States imposed unprecedentedly severe sanctions on Russia, and the rise in Russian energy and food prices led to imported inflation in the European region, while the European Central Bank adopted a negative monetary policy, coupled with the eurozone debt crisis. Countries around the world have gradually realized that there are some problems with the United States as the central country of the international monetary system, and have had to take measures to reduce their dependence on the US dollar in order to maintain their own economic security. In this context, this paper studies and collates the current situation of the world currency under the hegemony of the US dollar, as well as the impact of the status of the US dollar and its causes. Meanwhile, on this basis, it briefly analyses the new trends of the international monetary system in the future.

Keywords: Russia-Ukraine conflict, dollar, status of currencies.

1. Introduction

Since July 1944, when the Bretton Woods system was established, the hegemony of the US dollar has lasted for 79 years. Its share in international trade settlement is 86.52%; according to the International Monetary Fund, its share in foreign exchange reserves is 60.89%; according to the Bank for International Settlements, its share in foreign exchange turnover is 88.30%. The hegemonic position of the dollar in the United States has brought a reduction in the cost of borrowing, air printing of U.S. currency, the global mint tax and maintaining global dominance and many other conveniences, and for the excessive reliance on the dollar will be caused by the countries of the world, such as the Federal Reserve interest rate hikes lead to spillover effects and many other unfavorable. In fact, as early as 2008, the world realized the negative impact of the hegemony of the dollar, and put forward the concept of “de-dollarization”. Sun Dan has mentioned in a study from the subprime crisis after the dollarization of the country’s macroeconomic performance, the higher the degree of dollarization, the better the economic performance [1]. Ending dollar hegemony seemed to become an unattainable idea, but the Russian-Ukrainian conflict, which broke out on February 24, 2022, brought about a turnaround. After the Russo-Ukrainian war started, the West suppressed Russia with sanctions in the energy sector, finance, and many other aspects. And Russia also quickly counterattacked, On July 5, the Russian State Welfare Fund announced the completion of the restructuring of assets, the dollar was completely removed. Since then more and more countries have started to use non-dollar currencies, for example, China is trying to de-dollarize, the Silk Road has popularized the use of the yuan, and transactions with Russia are conducted in yuan. The status quo of dollar hegemony is gradually changing.

The hegemony of the dollar is one of the most important topics of research today. Researchers have found that “de-dollarization” has gradually become a hot trend in various countries, and most researchers hold a positive attitude towards the view that the Russia-Ukraine war will deal a serious blow to the hegemonic status of the US dollar, however, the Russia-Ukraine war has a consolidating effect on the hegemonic status of the US dollar, which lacks a unified explanation, and this paper will start from the two aspects of finance and energy to sort out the positive effects of the Russia-Ukraine war on the hegemonic status of the US dollar. This paper will start with the two aspects of finance and energy to organize the positive impact of the Russian-Ukrainian war on the hegemonic position of the dollar.

2. Status of World Currencies Under the Hegemony of the United States Dollar

Dollar hegemony is one of the core pillars of the liberal international order under the leadership of the U.S. Also, it is an important connotation and maintenance means of U.S. hegemony [2]. Chen Wenling has mentioned in a paper that in today's society the U.S. mainly maintains its currency status by binding oil to be settled in U.S. dollars, establishing a mechanism for the return of U.S. dollars, creating a cycle of substantial depreciation or appreciation of the U.S. dollar, weakening other economies through military strikes, and forming a strong world international monetary settlement system called Society for Worldwide Interbank Financial Telecommunications (SWIFT) based on the U.S. dollar in these five aspects [3]. Nowadays, the world has gradually realized that the U.S. uses the hegemonic position of the dollar to harvest the global economy, but the hegemonic position of the dollar seems to have become a part of the global monetary system, and it is difficult to change the excessive dependence of countries on the dollar in the short term. There are two main reasons for this status quo, one is from the proportion of international trade settlement and the proportion of global foreign exchange reserves, the dollar is still the largest proportion of the currency, and there is no alternative currency that can compete with it; the second is that the U.S. of America's economic strength and military power is unquestionably the world's first, for the hegemony of the dollar to provide good protection.

The imposition of financial sanctions against Russia by the West in the Russia-Ukraine conflict is unprecedented. According to the sanctions tracking platform Castellum as of March 2022, Russia has been subjected to a total of 5,532 sanctions, with the U.S. using its financial market hegemony to restrict Russia's international financing. Today, the main currencies used for investment and financing activities on international financial markets are the U.S. dollar and the euro. After the Russian-Ukrainian conflict, the U.S. froze the assets of the persons concerned, froze the financing channels of the enterprises concerned, and threatened to stop the provision of international payment system services, among other sanctions. The European Union banned the provision of services such as issuing euro securities to Russian citizens and organizations. The dominant position of the U.S. and Europe in international monetary investment and financing has greatly compressed the overseas financing channels of the Russian government, institutions, and enterprises. In this context, Russia has dramatically reduced its dependence on the U.S. dollar to preserve its economic security. Former U.S. Treasury Department official and head of global short-term interest rate strategy at Credit Suisse, Zoltan Pozsar, had suggested in March that with financial sanctions against Russia, the dollar's hegemony is in decline and a new international monetary system is about to be established [4]. The sanctions imposed by the West on Russia will have a seismic effect on the dollar's international standing. Although Russia's typical and radical initiatives cannot completely remove the impact of dollar hegemony on the Russian economy in the short term, they have a significant demonstration effect on the formation of the worldwide trend of de-dollarization and are of great historical significance in breaking the dollar-dominated international monetary system and establishing a new global economic and financial system.

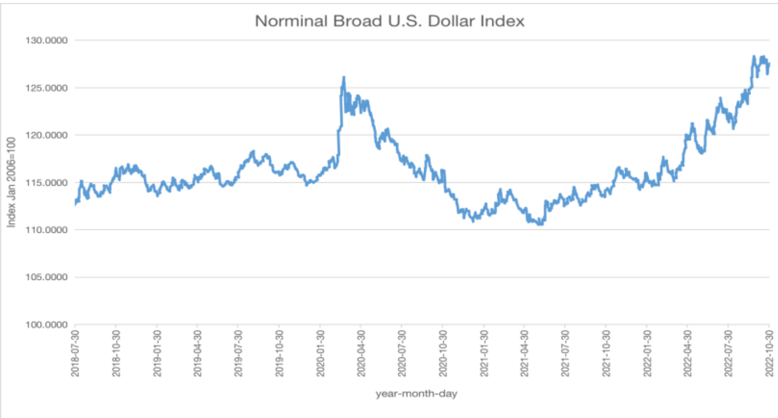

Figure 1. Nominal broad U.S. dollar index

As shown in Figure 1, [5] the U.S. Dollar Index had been trending upward in volatility until the end of February 2022, when the Russia-Ukraine war was fought. After the Russia-Ukraine war, the U.S. dollar index began to climb at an unprecedentedly high rate after having already risen at an even pace in the previous two months. This confirms the view in this article that the Russo-Ukrainian war will not reduce the world status of the dollar, but will strengthen its hegemonic position.

3. Analysis of the Reasons for the Strengthening of the Dollar

However, weakening the dollar's hegemonic position seems to be simple, but it is not something that can be productive in the short term, and during the Russia-Ukraine conflict, the dollar's hegemonic position will even be further entrenched. Although the financial sanctions triggered by the Russian-Ukrainian conflict may significantly weaken the dollar's international position, it is still likely that the dollar will continue to maintain its dominant position for a considerable period of time in the future [6]. In the short term, the dollar's role may even be strengthened by the unprecedented unity of the West since the Russia-Ukraine conflict [7].

First of all, the sanctions imposed on Russia by Europe and the U.S. are quite effective. 2022 On February 22, U.S. President Joe Biden announced the first round of sanctions against Russia. He blocked all Russian state development banks and private banks' assets in the U.S. and prohibited Russia's access to their trading markets, depriving Russia of flexibility in repaying its bonds. On February 24 the U.S. Department of the Treasury's Office of Foreign Assets Control enforced sanctions in accordance with Executive Order 14,024 against a number of banks including, but not limited to, Sberbank and VTB BANK, as well as three other major financial institutions Bank Otkritie, Novikombank, and Sovcombank. This meant that Russia lost a considerable amount of money, both from the state treasury and from individuals, and many investors looked away from politically unstable Russia to the relatively safer U.S. The demand for the U.S. dollar in the foreign exchange market was much higher, which resulted in a strengthening of the U.S. dollar.

Second, the Russian-Ukrainian conflict has led to supply gaps in energy and food, forcing Europe to import liquefied natural gas from the U.S.. Although Russia decided to settle its exports in rubles, the U.S. is less dependent on Russian gas than European countries. The U.S. is not a major importer of Russian gas, so this countermeasure will not greatly affect the value of the U.S. currency. Instead, for the eurozone countries, western sanctions have hit the Russian economy while pushing up the prices of coal, oil and gas, impacting energy security around the world. Affected by international sanctions, however, Russia's position in the energy sector is so important that in 2021 it was the world's largest exporter of natural gas, the second-largest exporter of crude oil after Saudi Arabia, and the third-largest exporter of coal after Indonesia and Australia. Western sanctions, while hitting the Russian economy, have pushed up the price of coal, oil and natural gas, dealing a blow to energy security around the world.

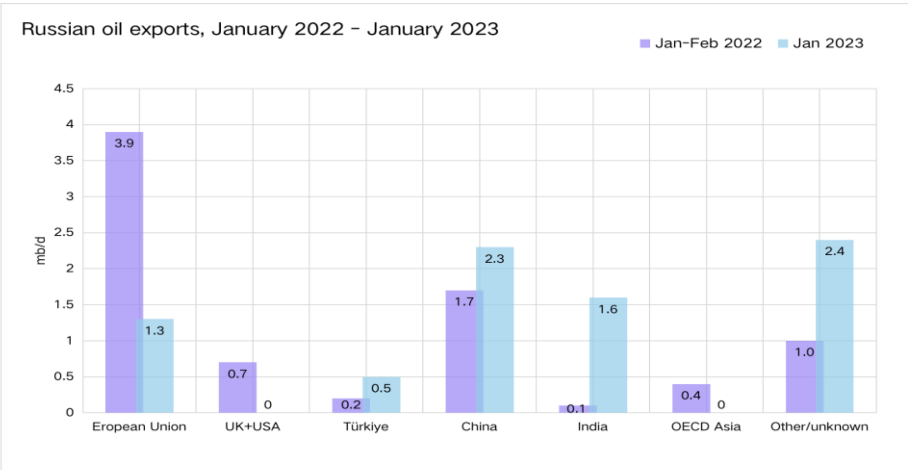

Figure 2. The change in Russian oil exports from 2022 to 2023

As shown in Figure 2, Russia's crude oil export supply continued to shrink as a result of international sanctions [8]. A 700,000-barrel-per-day cut in Russia's crude oil production in early April expanded to 1.5 million barrels per day by the end of April. Starting in May, Russian oil production was cut by nearly 3 million barrels per day. The widening oil gap has led to a significant increase in international crude oil prices compared to 2021. From about $80 per barrel at the beginning of 2021, it has grown significantly to a maximum of more than $120 per barrel. In addition to this, the price of food has also been hit dramatically. Russia and Ukraine play an important role in the global trade of grain and agricultural products as well as fertilizers. in 2021, Russian and Ukrainian wheat exports accounted for about 30% of the global market. Nearly 50 countries currently rely on imports from Russia and Ukraine to meet 30 percent or more of their own wheat import needs, with 26 countries relying on Russia and Ukraine for more than 50 percent of their wheat supply. In addition, Russia and Ukraine together account for a total of 55 percent of the global sunflower oil export market, while Russia and Ukraine are also important exporters of corn, barley, and canola oil. One scholar has written in a paper that "decoupling" from Russian gas has increased the cost of importing alternative sources of gas to the EU by 50% [9]. The EU has also been able to increase its share of the global market for sunflower oil, and is an important exporter of maize, barley, and rapeseed oil. Rising energy and food prices have led to imported inflation in the European region, increasing uncertainty about the euro. Subsequently, the Eurozone will also be in a prolonged crisis of energy shortages. The resistance of European countries to Russia has led to the inevitable consequence of paying high fees for energy and agricultural imports from the U.S. and the Middle East. The total amount of LNG imported by the EU from the U.S. in the first 10 months of 2022 was about 48 billion cubic meters, which is 26 billion cubic meters more than what was imported from the U.S. in the whole year of 2021 [10]. As shown in Figure 3, gas prices in the United States have risen in the months since the war began. This has led to an expansion of the U.S. market and a further increase in dollar demand [11].

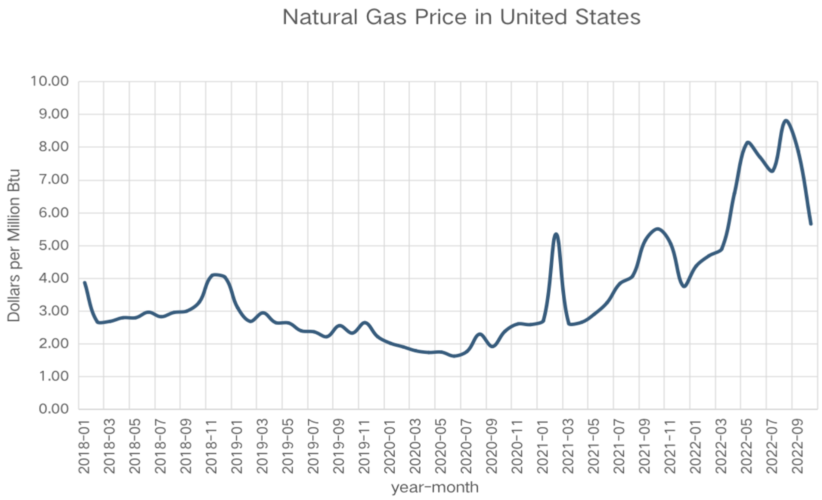

Figure 3. National gas price in the United States

Third, the massive capital inflow from the eurozone to the U.S. had a siphoning effect. Russia-Ukraine war during the European Central Bank to take a negative monetary policy, interest rate hikes are far lower than the Federal Reserve, coupled with the eurozone debt crisis and many other reasons led to investors gradually lost confidence in the European Union, which in turn led to a sharp decline in the euro exchange rate. Instability of the euro is a large number of sales, exchange for more stable dollars, indirectly leading to increased demand for the dollar, the dollar's exchange rate rose, the U.S. in the virtual economy, the status of the currency rose. At the same time, this also makes a large number of Europe rely on financing to maintain cash flow of high-precision R&D enterprises difficult to maintain normal operations, layoffs are endless. The stagnation of high-tech industry development will inevitably lead to the decline of European countries in the real economy industry status, causing more investors to shift their investment objectives from Europe to the U.S.

In addition, we have found another important reason why the hegemony of the US dollar can continue to this day: for the time being, the U.S. dollar is still in a hegemonic position during the Russo-Ukrainian war. For most developing countries, the dollar is still a hard constraint on their international solvency, so they have no choice but to accept it. Guan Tao emphasized that most of them may also continue to increase the dollar foreign exchange reserves, on the one hand, to ease the current dollar liquidity flood brought about by the appreciation pressure of the local currency; on the other hand, to enhance the ability to deal with the future reversal of the dollar cycle may be caused by the centralized outflow of capital self-insurance [12]. Fourth, the long-term perspective of the international monetary system change analysis.

4. Analysis of Changes in the International Monetary System from a Long-term Perspective

Although the Russia-Ukraine war consolidated the hegemony of the US dollar, as Gavin Bingham, former Secretary General of the Central Bank Governance Forum of the Bank for International Settlements (BIS), said in his paper, the hegemony of the US dollar will not be shaken in the short term. However, the global monetary system will undergo major changes in long run [10]. Ending the hegemony of the dollar is not a distant dream, the 2008 financial crisis put the weakening of the US dollar's hegemonic position on the agenda, and the sanctions imposed by the United States, which played a leading role in the Russia-Ukraine war, once again raised concerns among countries. The international demand for the establishment of a new monetary system has become increasingly strong. In a paper, Ning Liufu mentioned that as early as 14 years ago, Russia began to take a series of measures, such as strengthening the regulation of the dollar, banning the circulation of foreign currencies, reducing dollar reserves by lowering the interest rate on the dollar, and supporting Russian families to repay their loans in dollars in rubles [10]. According to the Central Bank, the share of ruble settlement in Russia's export trade has risen from 1.1% to 53.4% from 2013 to 2021. Not only Russia but also the EU, Iran, China, Turkey and other countries are reducing their dependence on the dollar. Wang Xiaoquan mentioned in his paper that SWIFT, which is controlled by the US, monopolizes the global cross-border payment and settlement business. However, SWIFT cross-border settlement technology can be replaced, China's RMB cross-border payment system (CIPS) and Russia's financial information transmission system (SPFS) have cross-border settlement capability, it just needs a period of time to be widely recognized and used by countries around the world [11]. From the factual analysis, the short-term Russia-Ukraine war will indeed stabilize the hegemony of the dollar, but as more and more countries join the team to reduce the dependence on the dollar, the hegemony of the dollar may be disintegrated step by step, Taking the euro as an example, although Europe is an ally of the United States, it has recently shown a strong trend of "de-dollarization". Europe not only supports the reform and adjustment of international financial institutions but also promotes Sino-European monetary cooperation and the internationalization of the renminbi. The "de-dollarization" of Europe is the result of multiple factors working together. It is not only a continuation of historical currency competition between Europe and the United States, but also a reflection of the impact of the US economy on Europe after the financial crisis. It is also a reflection of the changing trend of the international economic and monetary pattern. With the improvement of the Eurozone institutional mechanism and the improvement of integration, the future trend of "de-industrialization" in Europe may become more obvious, and there may be conflict risks in issues such as the Middle East oil currency and the internationalization of the RMB in Europe and America [13].

From the current global monetary trend, the disintegration of the US dollar's hegemonic position is mainly reflected in two aspects which are multilateralism and digitization. Many currencies worldwide, including the euro, renminbi, yen, pound sterling, Russian ruble, and other regional currencies, are gradually becoming active, and the global monetary system is showing a fragmented trend. Digital currencies, as emerging currencies, can be categorized into three types, all of which will promote a new situation in the global monetary system. The first type is digitized legal tender, such as the digital RMB. The second type is non-statutory digital currencies, for example, crypto-digital currencies such as Bitcoin and Ether. The third category is digital currencies that are recognized as legal tender, e.g., in September 2021, El Salvador declared the U.S. dollar and Bitcoin to be the same as the country's legal tender, becoming the first country to make Bitcoin legal tender [14].

However, digital currency has only emerged in recent years, and its existence is still too short, with various potential loopholes, imperfections, and immaturities hidden. For example, under the liberal ideology, the proliferation of slogans such as "decentralization" of digital currencies and "de cashing" of private payment tools, as well as the seemingly simple but complex system behind the engineering of legal tender digitization, which requires a long research and development cycle [15].

In terms of the current global monetary situation, it is obviously unrealistic to adopt another currency to replace the US dollar as the international currency. The world monetary system may shift from a single currency hegemony with convenient liquidity and low transaction costs to a "multipolar" monetary system that can disperse the risk of exchange rate depreciation in the future.

5. Conclusions and Implications

To sum up, in today's society where countries are overly dependent on the U.S. dollar leading to the hegemonic position of the U.S. dollar, the Russia-Ukraine conflict has not caused a great shock to the position of the U.S. dollar as the mainstream viewpoint believes, but on the contrary, it has further stabilized its hegemonic position. This master firstly explains the impact of the dollar's hegemony on the countries of the world, the sanctions imposed on Russia by Europe and the U.S. during the Russian-Ukrainian war and Russia's counterattacks, which leads to the idea of weakening the status of the dollar. Then the financial and energy aspects of the Russian-Ukrainian war solidified the phenomenon of the hegemonic position of the U.S. dollar to attribute, put forward the viewpoints of this paper, the Russian-Ukrainian war in the short term will stabilize the hegemony of the U.S. dollar, but in the long run, the currency digitization and diversification is the trend of global development. With Europe and the U.S. in the Russian-Ukrainian war on Russia's sanctions, "de-dollarization" of the importance of the increasingly significant, as an emerging global currency model, is a complete subversion of the traditional U.S. standard model, to the diversification of the currency development has brought about a turnaround for the development of international trade provides a source of power. However, due to some of its own characteristics, it remains a difficult problem in the short term. This paper lacks the support of relevant practical experience and actual cases of evidence, only in the theoretical basis of research, resulting in research is not deep enough, for the above shortcomings will pay more attention to the practical aspects.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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