Changes in the United States Dollar's Hegemony and Macroeconomic Implications

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Abstract. As a global currency, the United States dollar not only relates to the flow of global capital markets and the pricing of funds, but also has an important and far-reaching impact on the global macroeconomy. There has been growing interest on the topic of how the position of the United States dollar would change and how it will be reflected in various circumstances and situations, in the last few years. This paper used data to analyze the changes in the hegemony of the USD and macroeconomic implications. With the growth of other currencies in the market nowadays, the hegemony of the USD is being questioned. A slight decline of the US dollar as a global currency has been shown in statistics. However, the United States dollar is still retaining its power and its key roles around the world, internationally as a dominant currency. The threats from other emerging currencies are not yet strong enough to change the position of the United States dollar globally from speculations.

Keywords: U.S dollar, United States, hegemony.

1. Introduction

The dollar has served as the primary reserve currency for the rest of the world since the Second World War. During July 1944, at the Bretton Woods Conference in New Hampshire, forty-four countries joined forces to establish a new international monetary system [1]. This conference led the way for the establishment of the IMF and WB [1]. The Bretton Woods conference also led to the establishment of a currency convertibility system. The Bretton Woods provided a stable environment for the exchange rate and fostered the recovery of the world's economy and the expansion of international commerce and finance at that time. The dollar was a gold-denominated unit of account under the Bretton woods system. Other currencies were also denominated in dollars. As a result, the US dollar was the primary instrument of intervention and the force reserve currency under this system. It also marked the first instance of a fully-fledged monetary order designed to regulate monetary relationships among independent states.

Followed by the fall of the Bretton Woods system in August 1971, the fluctuation of the floor's exchange rate and a number of other currencies in emerging markets, there has been speculation about the decline of the US dollar as the main reserve currency. However, its legacy is still felt today with the USD bending the most traded currency in the international market. There are still many potential changes, outcomes, and varying effects that are strongly determined by circumstances and situations that will be discussed.

This paper used several sets of data to analyze the changes in the hegemony of the dollar and macroeconomic implications in different perspectives. This paper is organized as follows: section two is literature review, section three is about the changes in the hegemony of the dollar and the macroeconomic implications, and finally the conclusion of this paper.

2. Literature Review

This section reviews the key literature concerned with the changes in the hegemony of the USD and the macroeconomic implications. There has been growing interest on the topic of how the position of the United States dollar would change and how it will be reflected in various circumstances and situations, in the recent few years after the collapse of the Bretton Woods system. Kalim Siddiqui,

for instance, argued in 2020 that the U.S. economy was suffering from a severe trade deficit and that the US dollar's value was in great danger of being depreciated against the renminbi [2]. Matias Vernengo, in contrast, argues that the end of the Bretton Woods system was a political choice that consolidated dollar hegemony [3]. In a series of papers on the global impact of the US dollar, the authors of "The U.S. Dollar and the Rest of the World" discuss the effects on which changes in its value spill over to other parts of the world. They argue that the periods when the US dollar appreciates tend to be associated with lower average output prosthesis elsewhere in the world, and that its value can have effects outside the US [4]. A recent study conducted by a team of researchers, led by Zhengyang Jiang and Robert J. Richmond, and conducted by Tony Zhang, examined the evolution of the US dollar's value from 2011 to 2019 using a portfolio-driven demand system. The authors concluded that the dollar's appreciation can be attributed to a combination of factors, such as an increase in global savings, relatively high monetary policy rates, and changes in investor demand [5]. In conclusion, some researchers suggest that the global state of the dollar may be changing, while others have a different perspective.

3. Changes in the United States' dollar's hegemony and the macroeconomic implications

3.1. Analysis of the current status of the United States dollar

Nowadays, the US dollar is still the most popular currency used in international trade, capital markets and other global transactions. For instance, some countries (Panama and Ecuador, for example) use the United States dollar as an official legal tender, or in other words — the dollarization, due to its international acceptance. Furthermore, other countries around the world accepted the dollar to be the alternative form of the payment, though not an official currency for the country. This importance of the US dollar could also be shown in other ways. For example, according to the BIS, IMF and SWIFT, the United States accounts for 4 percent of the world's population, 11 percent of global trade and around 16 percent of global GDP [6]. Another set of data from the International Monetary Fund (IMF) had pointed out that the United States dollar accounted for nearly 60 percent of total global reserves as of 2020 [7]. By comparison, the euro accounted for 21 percent, the Japanese yen for 6 percent, the British pound for 4.7 percent, adn Chinese's renminbi only for 2.2 percent [7]. However, overall, the share from the United States dollar of the reserves declined from 71 percent in 2000 [4].

Recent research into the monetary structure of global trade has revealed that the United States dollar is highly influential in international commerce and financial transactions. Between 1999 and 2019, the dollar accounted for 98 percent of global trade within the Americas, 78 percent in the Asia-Pacific (APAC) region, and 79 percent in the rest of the World, excluding Europe, where the Euro is the predominant currency [4]. Hence, the dollar holds a dominant position in international banking. The Band for International Settlement (BIS) estimates that approximately 60 percent of foreign and international monetary liabilities — which primarily are deposits — and claims — which primarily are loans — are denominated in the United States dollars, compared to approximately 20 percent for the euro [7]. The volume of US dollar assets and liabilities denominated in foreign currencies circulating outside the United States increased moderately between 1975 to 1995, before expanding rapidly as more countries lifted restrictive capital account regulations and financial institutions of developed countries increased their involvement in international financial transactions [4]. Since the ture of the century, there has been a particularly high rate of cross-border financial capital flows, linked to the rapid growth of financial globalization.

Whether there are changes in the hegemony of the USD in the international monetary system could also be reflected with the Special Drawing Rights (SDTs). The Special Drawing Rights is serving as a reflection of the global economic landscape, anc it has the ability to indirectly indicate the current status and influences of the U.S dollar. Changes in the Special Drawing Right basket composition, allocations, and the role of the SDRs in international transactions can all provide insights into the

evolving dynamics of the international monetary system and the position of the U.S. dollar within it. The monetary value of the SDR is calculated by aggregating the monetary values in USD of a set of major currencies, such as the USD, the Euro, the Japanese yen, the British pound and the Chinese Renminbi, at market exchange rates. According to the IMF, the US dollar had about 43.4percent in the weights determined in the 2022 review. By comparison, The Euro had around 29.3 percent, Chinese renminbi had 12.3 percent, Japanese yen had 7.6 percent and Pound sterling had 7.4 percent [8]. See table below.

Table 1. SDR Valuation

Currency	Weights determined (2022) (rounded to 1 decimal place)	Fixed number of units of currency (in a 5 year period) (rounded to 1 decimal place)
USD	43.4	0.6
Euro	29.3	0.4
Chinese Renminbi	12.3	1.1
Japanese Yen	7.6	13.5
Pound Sterling	7.4	0.1

Source: IMF

3.2. Impact of the change in the status of the United States dollar as an international currency on the U.S. itself

The United States dollar plays a pivotal role in the American economy and has far reaching implications for the country's economic wellbeing; therefore, changes in the status of the United States dollar as an international currency would have significant implications for the United States itself, influencing various aspects of the economy. One of the most significant implications of a change in the value of the US Dollar would be the impact it would have on the cost of US imports and exports relative to foreign substitutes. If the US Dollar appreciates, the cost of US products in other countries will be higher than their local counterparts, thus reducing local demand for them. Additionally, foreign products would be more cost-effective for American consumers, thus increasing imports from other countries. Around the world, depending on how many countries have a high share of imports and exports that are invoiced in U.S. dollar, an increase in the value of the U.S dollar might not necessarily mean an increase in export and health in countries outside the US. In addition, opposite consequences would be observed when the US dollar depreciates. This could have a significant impact on countries that primarily trade with the United States. For instance, the United States imported consumer products worth 602 billion dollars, while exports totalled 198 billion dollars, which is the main major contributor to their deficit in 2017 [2]. This could be attributed to the decrease in the competitiveness of US products, which was largely due to the depreciation of the Chinese Renminbi, resulting in Chinese goods being more cost-effective than the United States products [6]. However, changes in the US dollar's value could have varying impact on countries based on their share of the dollar invoiced for exports and imports.

The United States dollar has a large share of assets and liabilities worldwide [7]. Because both assets and liabilities are dollar - denominated, changes in the value of the US dollar could also affect the net wealth of households and sovereigns [7]. Counties with foreign-exchange assets predominantly denominated in US dollars and foreign-exchange liabilities predominantly denominated in local currency will benefit financially from an increase in the value of the USD, but will suffer a decrease in value when the US dollar depreciates.

3.3. Impact of changes in the status of the dollar as an international currency on other countries

Those countries that "pegged" their currencies to the US dollar would also be affected by any changes in the hegemony of the dollar. However, it's not the case for China as the Chinese RMB has not pegged to the dollar since 2005 — China made its currency a floating exchange currency [9]. The U.S and China are two of the world's largest economies. According to the World Bank, in 2022, China will have the world's third highest GDP by about 10 trillion dollars [10]. Some metrics such as GDP to PPP — current international dollar — are even higher than the United States. Data from multiple sources also suggested that China's rapidly expanding economy with less than adequate representation as the US dollar reserve is 26.8 times that of the Chinese Renminbi [10]. Data from the People's Bank of China showed that cross-border Chinese RMB payments amounted to around 14.9 yuan in 2019, which increased annually by 46.3 percent from the year before [11]. The exchange rate of the RMB against the USD is also a measure of the country's actual active economic strength, as well as having the direct effect on every country's economy by influencing the value of ties imports and exports [9].

3.4. Projections of future trends and related recommendations

Viewed from a global perspective, the U.S. dollar index has maintained a relatively consistent level over the past 20 years. Based on series data from OCR reserves, Fx transaction volume, Fx debt instruments outstanding, cross border deposits and cross border loans, the DXY index has averaged about 75 since the 2008 global financial crisis [7]. This puts the US dollar ahead of almost all other currencies, with the euro having the second highest value of about 25 and the number remaining relatively stable [7]. The Chinese currency, the renminbi, has seen an increase in international usage over the last 20 years, although it has only reached index level 3 [9]. Japan's Yen and the UK's Pound are around 8 and 7 respectively [7]. All of this suggests that the US dollar is more likely to remain relatively stable in the future.

4. Conclusion

The dollar is still an international reserve and trade currency nowadays. From speculations, the dollar does not appear to be much of a threat to international hegemony in both long and short terms. Given with foreign exchange reserves and debt, as well as dependence on the dollar, there is a high degree of complexity and variability in global economic outcomes. Through, some currencies were more likely to be hurt from different circumstances, but others would also benefit.

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