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# The US Dollar: A Declining Currency?

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## ABSTRACT

*The paper delves into the reason for the emergence of the US Dollar as a global reserve currency. The geo-political events in the last couple of decades seem to challenge the global hegemony of the Dollar. Russia and China continue to be the strongest contenders and opposers to the Dollar's dominance. Iran is a close third.*

*The War in Ukraine, the fallout of the Iran Nuclear Deal all play an important role as America's influence globally diminishes. The Dollar holds value as long as the strength of the US economy remains dominant. A decline in the economy, diminishes the luster of the Dollar. The rise of China is already seen as a threat. China has also made it clear in unequivocal terms that it wishes to replace the US Dollar with the Chinese Yuan as the global reserve currency.*

*We already see the development of alternate payment schemes in various parts of the world. American allies do not seem to be as loyal as US would want, especially the Middle East. The paper enumerates incidents and reasons for such a challenge and the possible outcome of such events.*

## I. INTRODUCTION

A global currency means the currency that is accepted for international commerce all over the globe. Most international transactions accept some of the world's currencies. The most widely used currencies are the US Dollar, the Euro, and the Japanese Yen. The reserve currency is another term for a worldwide currency.

As per the International Monetary Fund, the most widely used currency is the US Dollar. That makes it the de facto global currency, even though it doesn't hold an official title<sup>3</sup>.

The Euro is the next nearest reserve currency which boasts a sizable 20% share of known central bank foreign currency reserves<sup>4</sup>. The eurozone crisis harmed the euro's chances of becoming an international currency. It exemplified the problems of a monetary union

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<sup>3</sup> The Balance, <https://www.thebalance.com/world-currency-3305931#:~:text=As%20of%20the%20fourth%20quarter,central%20bank%20foreign%20currency%20reserves> (last visited April 18, 2022).

<sup>4</sup> Livemint, Is US dollar's reign as world's reserve currency in under threat, <https://www.livemint.com/market/stock-market-news/is-us-dollar-s-reign-as-world-s-reserve-currency-is-under-threat-11596175872376.html> (last visited April 18, 2022).

managed by distinct political authorities.

## **II. STRONGEST WORLD CURRENCY: THE US DOLLAR**

The strength of the US economy supports the Dollar value and therefore with that support the Dollar now is the most powerful and most demanded currency in the whole world. The United States has \$2.04 trillion in circulation as of the end of 2020. It is thought that up to half of that amount is in circulation overseas. They are often used as physical cash in everyday transactions.

In foreign exchange market, dollar is the king as it is well known to the whole world. The US dollar accounts for around 90% of all forex transactions<sup>5</sup>. Dollars account for over 40% of the world's debt. As a consequence, international banks need large sums of money to do business. This was made clear during the 2008 financial crisis. International liabilities denominated in foreign currencies totaled \$27 trillion held by non-American institutions. One-eighth of that total was in US Dollars. As a consequence, the Federal Reserve of the United States had to raise its Dollar swap line to circumvent the possibility of banks exhausting their cash reserves<sup>6</sup>.

The financial crisis increased the Dollar's popularity. Furthermore, bank rules intended to avoid another crisis may make money scarce. This may also occur when the Federal Reserve raises the federal funds rate. This reduces the money supply by making borrowing Dollars more costly.<sup>7</sup>

The strength of the Dollar is the reason nations are ready to keep it in their foreign currency reserves. Currency is acquired by governments via foreign exchanges. They also get them from domestic enterprises and tourists who exchange them for local currency. China and Japan purposefully purchase the currencies of their primary export partners. The United States is China's and Japan's top trading partner<sup>8</sup>.

## **III. RATIONALE BEHIND THE POWER OF THE DOLLAR BEING A GLOBAL CURRENCY**

The Bretton Woods agreement in 1944 propelled the Dollar to its present position. Prior to it,

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<sup>5</sup> John D' Antona Jr, 88% of All 2019 Forex Transactions Are in US Dollars, *Traders Magazine*, (last visited on April 19, 2022) <https://www.tradersmagazine.com/am/88-of-all-2019-forex-transactions-are-in-us-dollars/m>

<sup>6</sup> USA Today, <https://www.usatoday.com/story/news/factcheck/2022/04/14/fact-check-federal-reserve-has-balance-sheet-9-trillion/7198368001/> (last visited April 18, 2022).

<sup>7</sup> New York Fed, *Current Issues*, [https://www.newyorkfed.org/medialibrary/media/research/current\\_issues/ci16-1.pdf](https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci16-1.pdf) (last visited on April 20, 2022)

<sup>8</sup> International Monetary Fund, <https://www.imf.org/en/Publications/GFSR/Issues/2019/10/01/global-financial-stability-report-october-2019> (last visited on April 19, 2022)

the majority of nations were on the gold standard. Their governments vowed to repay their currencies in gold if demanded. The industrialized nations of the world gathered in Bretton Woods, New Hampshire, to fix the exchange rate for all currencies to the US dollar. The United States had the biggest gold reserves at the time. This deal permitted other nations to use Dollars instead of gold to support their currencies.<sup>9</sup>

By the early 1970s, governments started to demand gold in exchange for the Dollars they owned. They had to fight inflation. Rather than allowing Fort Knox's supplies to be exhausted, President Nixon severed the currency from gold.

### **CALLS FOR A ONE WORLD CURRENCY**

China and Russia asked for a new global currency in March 2009. They desired that the world adopt a reserve currency. China was afraid that the billions of Dollars it had would become worthless if Dollar inflation occurred. This might happen as a consequence of greater US deficit spending and Treasury printing to sustain US debt. China has requested that the International Monetary Fund (IMF) create a currency to replace the Dollar.<sup>10</sup>

The Chinese Yuan joined the ranks of the world's reserve currencies in the fourth quarter of 2016. According to the IMF, the world's central banks owned \$221 billion as of the first quarter of 2020. It wants the Yuan to replace the Dollar as the world's reserve currency. China is changing its economy to achieve this goal. The US Dollar, however, remains the strongest global currency. It may continue to be the world's most valuable currency in the years ahead.<sup>11</sup>

Countries such as China and Russia believe that in this more linked global economy, a new one-world currency, unbacked by anyone sovereign, is imperative. In addition, there is a rising need in other nations to move away from the dominance of the US Dollar in financial markets.

## **IV. A SHIFT FROM THE US DOLLAR**

### ***India-Iran Rupee-Rial deal***

Dr. Chegeni was reported in a news release as stating, "India could not proceed with the projected Iran-Pakistan-India gas pipeline project due to security concerns." Dr. Chegeni

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<sup>9</sup> Explore History, Bretton Woods and the Birth of the World Bank, <https://www.worldbank.org/en/archive/history/exhibits/Bretton-Woods-and-the-Birth-of-the-World-Bank> (last visited on April 20, 2022)

<sup>10</sup> *Id.* at 7.

<sup>11</sup> Prof. Jose R. Pires MANSO, Economic Issues in Retrospect and Prospect, 212-223, IJOPEC Publication (2018)

spoke at an interactive meeting hosted by the World Trade Center in Mumbai and the All-India Association of Industries (AIAI)<sup>12</sup>.

Dr. Vijay Kalantri, Chairman, MVIRDC Era Trading Center Mumbai, said in his welcoming comments, " Due to the current position of Covid-19 in the whole world, India must take time to rethink about its relation with Iran since there is a lot of change in the supply-chain to enhance the business communication from both the sides." The Chabahar port has the potential to be a vital link for Indian commerce with Eurasian nations and Europe. Both nations should make it easier for commodities to flow via Chabahar port."<sup>13</sup>

Dr. Ali Chegeni, speaking on bilateral trade, said, "Official records reveal that trade between India and Iran has decreased dramatically from US 17 billion in 2018-19 to less than US 2 billion in the current fiscal year due to sanctions."<sup>14</sup>

This is a reported figure. It is safe to assume that the actual trade figure is at least 6 times greater than the reported trade. The alternate payment scheme can boost bilateral trade to US \$ 30bn according to the Iranian diplomat. India is a significant producer of agro-commodities, medicines, iron and steel, vehicles, clinkers, cement, and other goods that Iran imports which widens the scope for exports to Iran.

### ***India-Russia Rupee-Rouble Payment Scheme***

After the Russia-Ukraine War broke out, the USA and its allies have imposed sanctions on Moscow. A major impact of that is that the Kremlin can't use the US Dollar for transactions which directly impacts its economy. Russia offered discounted oil to India which led to the Indian authorities frantically developing a payment system that will help meet the growing energy demand.

There is an increased bilateral trade. Since in the last month, Russia got sanctioned, the periphery of the systematic payment especially in the local currencies has increased. This also happened to support other currencies. However, the main purpose was to keep the payment and the transaction moving and therefore, to continue bilateral trade.

This system would require the Indian importers to deposit Indian currency in Russian banks situated in India. The banks, in turn, would pay the Russian exporters in Roubles. However, India's imports far exceed its exports to Russia. This leaves Russia with surplus Rupees. The

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<sup>12</sup> Deccan Herald, <https://www.deccanherald.com/international/iran-ready-to-launch-rupee-rial-trade-to-supply-oil-and-gas-to-india-says-envoy-1092463.html> (last visited on April 20, 2022)

<sup>13</sup> *Id.* at 10

<sup>14</sup> *Id.* at 10

excess presents itself as an immense opportunity for Indian exports.

"We need to be mindful of where Russia may want to go for import substitution," said Nandan Unnikrishnan, distinguished fellow at the Observer Research Foundation (ORF). Some of those exports would come from India's medium and small enterprises, which may even consider establishing branches in Russia, he noted.<sup>15</sup>

### ***The Rate of Russian Oil Being Cheap***

India imports 86 percent of its crude oil needs. On one such day, the price of India's crude oil basket was \$109 per barrel, according to Bloomberg. Despite the fact that it was down from \$128.24 per barrel earlier in the month, it was still up from \$95.47 per barrel the day before Russia invaded Ukraine. Due to the quick increase in oil prices since the commencement of the Russian invasion, India's already substantial current account deficit would be exacerbated. Inflation would rise, putting more pressure on India's already weak currency, the Rupee<sup>16</sup>.

"The exporter community is clearly looking at possibilities that will arise [along the road]," As per Ajai Sahai, director general and chief executive officer of the Federation of Indian Export Organizations, an industry organisation.<sup>17</sup>

However, he emphasised that Indian banks remain hesitant to fund commerce with Russia, even for commodities authorised under the restrictions. FIEO has suggested a Rupee-Rouble approach as well as a rupee-based trading mechanism in order to avoid these obstacles. Under this method, a contract is established in the local currency, the rupee, and the other party is responsible for any fluctuations in the exchange rate.

### ***Impact of the Russia-Ukraine war***

Russia's President, Vladimir Putin, has demanded that countries that have been categorized as 'unfriendly' pay for Russian gas in Roubles from April 1st or risk having their supplies cut off, a move that has been denounced by European nations and described as "blackmail" by Germany. This move can lead to a sudden cut of almost a third of Europe's energy which will give birth to another crisis. With Germany being the most reliant country in the European Union on Russia, the country has already implemented an emergency plan that might lead to food rationing in the continent's biggest economy.

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<sup>15</sup> Aljazeera, Economy of Russia and India, <https://www.aljazeera.com/economy/2022/3/31/india-russia-explore-a-rupee-rouble-payment-scheme-to-bypass-war> (last visited on April 20, 2022)

<sup>16</sup> John D' Antona Jr, *supra* note 4

<sup>17</sup> Reuter, Putin says Russian Gas must be Paid Rouble, <https://www.reuters.com/business/energy/putin-says-russian-gas-must-be-paid-roubles-friday-2022-03-31/> (last visited on 21, 2022)

In his attempt to evade Western sanctions, energy exports have proven to be Putin's most successful weapon. Moscow refers to its intervention in Ukraine as a "special military operation." Putin said that Russian gas purchasers "Accounts in Russian banks must be opened. Payments for gas provided beginning tomorrow will be paid from these accounts" on the first of April, 2022.

"If such payments are not paid, we shall consider the purchasers to be in default, with all of the repercussions that entail. Nothing is given to us for free, and we will not engage in charitable activities - that is, present contracts will be dissolved." He said this in his televised remarks. It remained unclear whether or not there would be a system for multinational firms to continue paying without using Roubles, which the European Union and the Group of Seven (G7) have both said they would not accept. According to Italy, it is in contact with its European allies in order to deliver a clear response to Russia. It also said that its own natural gas supply would allow economic activity to continue even if disruptions were to occur.

Meanwhile, Energy-producing businesses in Germany have claimed they are in frequent contact with the German government about how they would respond to any supply outages and how they will establish a strategy in the event that Russia ceases to export gas. Regardless whether Putin wins or loses, numerous significant shifts in geopolitical policy are already obvious and irrevocable. It remained unclear not just whether there would be a system for multinational firms to continue paying without using Roubles, which the European Union and the Group of Seven (Producer in the world) have both said they would not accept.

Because of the instant impact, the National currency and stock markets have plummeted, the Credit rating has been downgraded by tiers to B, and the interest rate has been more than doubled in an attempt to stave off further damage. However, sanctions imposed on Cuba, Libya, Iraq, North Korea (DPRK), Serbia, Venezuela, and Iran for years harmed these economies severely while strengthening the regimes and their anti-American rhetoric, and they were only lifted after direct action was taken against the regimes in question<sup>18</sup>.

Putin, on the other hand, has allies and a number of inflexible business customers for oil and gas. Some oil allies, notably Saudi Arabia, Venezuela, and Iran, supply a significant share of the world's oil and would welcome a larger and more profitable Organization of the Petroleum Exporting Countries (OPEC) Plus cartel to compete with the United States and other major producers. This, combined with Mohammed Bin Salman Al Saud's (MBS) strong ties to a resurgent Trump, may have contributed to the Organization of the Petroleum

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<sup>18</sup> The Wire, End to Dollar Dominance: Permanent Alternative, <https://thewire.in/world/possible-end-to-dollar-dominance-permanent-alterations-to-the-world-order-post-ukraine> (last visited on 21, 2022)

Exporting Countries' (OPEC) refusal to increase production quickly, opting instead for the already planned increase of 0.4 million barrels per day (mb/d) beginning April 1<sup>19</sup>.

Contrary to the worldwide clamour of Putin seeking for an exit ramp, the main stream media is disregarding the fact that Putin may have further anti-sanctions rabbits in his hat that he may need to use. With Ukraine, Putin controls slightly more than half of the world's precious metal, which is important for microelectronic devices. He also controls roughly a 1/3 of the world's wheat. And 15 percent of the EU's natural gas is Russian, and prices are already sky-high — two times higher than they were before the pandemic<sup>20</sup>.

Second, Putin is more reliant on a resurgent and similarly combative – if more guarded – China. Increased collaboration on trade, business, and exchange is expected now that border issues have been resolved and a common foe is in sight.

This type of coercion has the prospect to result in increased Yuan-Rouble trade and a massive power bubble, as well as a technological advantage in armament, cyber-warfare, electronic warfare, bio-warfare, nuclear cooperation, and the abolition of the US Dollar's dominance in international trade. Trump's likely re-election in 2024 might de-globalise the globe once again, paving the path for greater China-Russia economic and military expansionism<sup>21</sup>.

Third, the US Dollar may have committed *harakiri* in terms of its reputation as a safe haven. For years, the Federal Reserve of the United States has taken great pleasure in asserting that every dollar ever created is supported by the monarch and will be maintained by the government. This promise was snuffed out twice by 'Bidenism,' which froze half of Afghanistan's \$7 billion in foreign currency reserves and all of Russia's foreign exchange money in the name of preserving stability. Any central bank will therefore consider thinking while owning US dollars and always look for alternative secure holdings, even if they are a smidge secure than US treasuries in the short term. Putin seems to have effectively hedged his bets when he started selling off assets in the United States in 2016-17, eventually reducing his holdings to almost nothing by 2021, with 23 percent reserves in gold, 13 percent in Yuan, and 10 percent in Germany.

Fourth, China is expected to drain its \$1 trillion in US price foreign currency reserves held in its \$3.4 trillion war fund, which now stands at \$10 billion. Since 2005, China's proportion in dollar securities has dropped from 80% to 30%<sup>22</sup>.

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<sup>19</sup> *Id.* At 16

<sup>20</sup> *Id.* at 16

<sup>21</sup> *Id.* at 16

<sup>22</sup> Prof. Jose R. Pires MANSO, *supra* note 9

Foreign exchange reserves and foreign exchange management in China have already been challenged repeatedly by the United States, which has labeled China a "currency changer," and the United States has recently resorted to trade restrictions, which are not lost on Chinese strategists.<sup>23</sup> Despite the fact that the Yuan accounts for just around 3-5 percent of global commerce, the path to trade growth into the EU, South America, Africa, and Regional Comprehensive Economic Partnership (RCEP) states is apparent<sup>24</sup>. With the production of the highest number of national blockchain-based digital currencies (CBDCs or e-yuans) currently underway, the idea of an undeclared non-dollar bloc of nations based on the yuan is becoming more realistic.

Fifth, Asian and African central banks will reevaluate their reliance on the US dollar, safe havens, trade interdependence, and the reliability (or lack thereof) of the American hand, among other things. Given the US's covert but quiet (but unsettling) backing for Chinese aggression, India's consistent abstentions on anti-Russia resolutions are extremely significant messages of support. This, too, despite persistent pressure from the EU and the US<sup>25</sup>.

## V. CONCLUSION: ALTERNATIVES

Even though it seems hard to see the dollar relinquishing its position as the world's largest economy, a glance back in time reveals that it is not out of the question. In this function, the Dutch guilder served throughout the 17th and 18th centuries, until being replaced by the Spanish dollar in 1830, and then by the pound sterling from 1860 until at least the year 1914. When it came to currency strength in each of these cases, the country's domination of worldwide banking and investment was crucial, but financial institutions and administrative politicking also played a major role<sup>26</sup>.

The dollar's supremacy in national currency and operations persists, although its influence is eroding as time passes. According to IMF statistics, the United States falls behind the eurozone and China in terms of total amount of exports and imports. This appears like an appropriate time to examine the main possibilities to the currency, although none of them is likely to dethrone the dollar anytime soon (at least for the foreseeable future).

The alternatives can be-

- Gold
- Euro

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<sup>23</sup> Prof. Jose R. Pires MANSO, *supra* note 9

<sup>24</sup> Prof. Jose R. Pires MANSO, *supra* note 9

<sup>25</sup> Prof. Jose R. Pires MANSO, *supra* note 9

<sup>26</sup> *Id.* at 20

- Chinese Yuan
- Japanese Yen
- Cryptocurrency (given the development of blockchain technology and its benefits)

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