Monetary Hypocrisy – Case Against the USD Hegemony

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Abstract
Following the 2008 financial crisis, China and the BRICS efforts to contest the supremacy of the U.S. dollar by advocating for an alternative monetary framework, particularly trade with national currencies. This paper explores the fundamental contradictions inherent in these initiatives, positing that it is both disingenuous and conceptually flawed for authoritarian regimes—characterized by the absence of democratic governance and rule-based legal systems—to champion a rule-based international financial architecture. Such governments, which stifle transparency and accountability within their borders, are ill-suited to cultivate a stable and just global monetary system. Moreover, the emphasis on national currency trade, particularly involving China, is likely to result in the dominance of the Yuan, as no nation in the Global South possesses nearly the same level of export capacity and economic clout as China. Consequently, rather than establishing a more equitable system, these initiatives reinforce China's monetary authority and underscore the contradictions of authoritarian states advocating for a rule-based order that they do not uphold.

Keywords: International monetary order, Bretton Woods Conference, USD hegemony, Rise of China, alternative monetary order.

JEL Classification: E3, E4, E5

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Introduction

The global financial crisis of 2008 represented a significant turning point in the international monetary landscape, as the perceived fragility of the U.S. dollar (USD) prompted emerging economies to contest its supremacy. Notably, China and the BRICS nations began to advocate for a multipolar monetary framework, encouraging trade in national currencies and the establishment of alternative financial systems aimed at reducing dependence on the USD. However, these initiatives present deep-seated contradictions, as the very nations championing a so-called "democratic" and "rule-based" monetary system are, in fact, authoritarian regimes that lack the democratic institutions and principles of justice essential for such a system to thrive.

This study investigates the contradictory essence of this movement, emphasizing how China and the BRICS nations, despite their authoritarian governance and absence of legal transparency, endeavor to transform global finance under the pretense of equity and fairness. It posits that these initiatives exemplify a form of monetary hypocrisy, as regimes that stifle rule-based justice domestically are fundamentally ill-equipped to cultivate a stable, rule-based international financial order. Moreover, the advocacy for trade in national currencies, particularly in transactions involving China, is likely to result in the dominance of the Yuan rather than genuine monetary diversity. China's formidable export capacity and economic strength create an environment where other nations, especially those in the Global South, struggle to compete, thereby rendering such a system inherently biased in favor of China. This paper delves into the reasons why these initiatives, although framed as progressive reforms, are ultimately self-serving and at odds with the democratic ideals they claim to uphold.

Foundations factors of current monetary order

The Bretton Woods Conference, convened in July 1944, marked a pivotal juncture in the evolution of international economic relations, establishing the groundwork for a novel global financial architecture. This conference assembled delegates from 44 Allied nations to craft a system aimed at fostering economic stability and mitigating the economic upheavals that had played a role in precipitating World War II. Central to the agreements reached at Bretton Woods was creating a structure that reinforced the preeminence of the United States within the global economy. This dominance was undergirded by several key elements, including the economic strength of the United States, its substantial gold reserves, its formidable military capabilities, and its significant political clout. These elements influenced the proceedings of the Bretton Woods Conference and established the basis for American leadership in the post-war international landscape.

What are the potential resources that states can use in the execution of FS (financial statecraft), and what effects might they have? To answer we need to think briefly about power. In international relations there have been two dominant approaches to explaining the roots of power: the 'power as resources' (or 'elements of national power') approach, and the 'relational power' (or 'social power') approach. According to the 'power as resources' approach, power arises from specific possessions or properties of a state such as its population, territory, national resources, or military forces. (Armijo L. E, 2019)

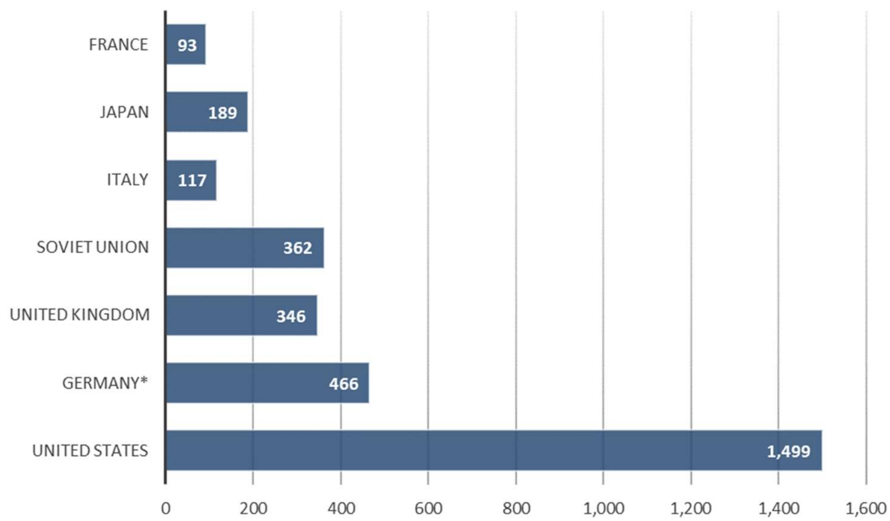

Fig 1. annual GDP of the largest economies in 1944 (billions of USD)
Source: Statista.com

Economic Supremacy. A pivotal element contributing to the United States' preeminence at the Bretton Woods Conference was its significant economic dominance. By the conclusion of World War II, the U.S. had positioned itself as the foremost economic power globally. In stark contrast to the devastation experienced in Europe and Asia, the American economy was flourishing, with its industrial output representing over fifty percent of the worldwide total. This economic prowess afforded the United States exceptional influence during the Bretton Woods negotiations. (See Fig 1)

Gold reserve supremacy. The extensive gold reserves of the United States were fundamentally linked to its economic dominance. At the time of the Bretton Woods Conference, the U.S. possessed approximately two-thirds of the global gold reserves. This substantial accumulation of gold served as a critical foundation for the U.S. dollar, fostering trust in the newly established monetary framework. Other countries were inclined to align their currencies with the dollar, confident in the U.S. government's ability to convert its currency into gold when required. This gold-backed dollar framework not only contributed to the stabilization of international currencies but also solidified the United States' pivotal position within the global financial architecture. (See Fig 2)

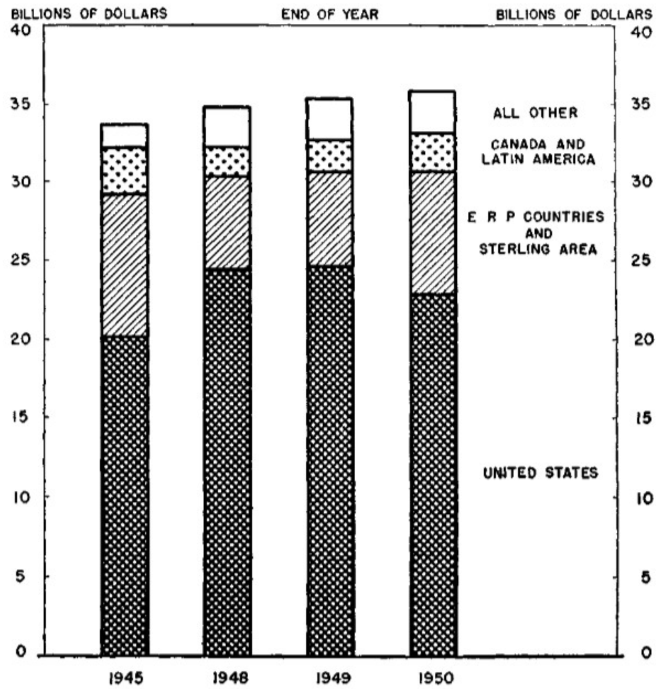

Fig. 2. World Gold Reserve in 1945-1950 (Excluding USSR)
Source: Federal Reserve Bulletin. 1951

Military supremacy. The military strength of the United States, alongside its economic and financial capabilities, played a pivotal role in establishing its dominance during the Bretton Woods Conference. Emerging from World War II, the U.S. not only attained the status of an economic superpower but also solidified its position as a formidable military force. Its significant contribution to the Allied victory and its unique possession of nuclear weapons at that time conferred upon the United States considerable influence in international negotiations, particularly at Bretton Woods. The influence of U.S. military power was ever-present throughout the deliberations at Bretton Woods. (See Fig 3)

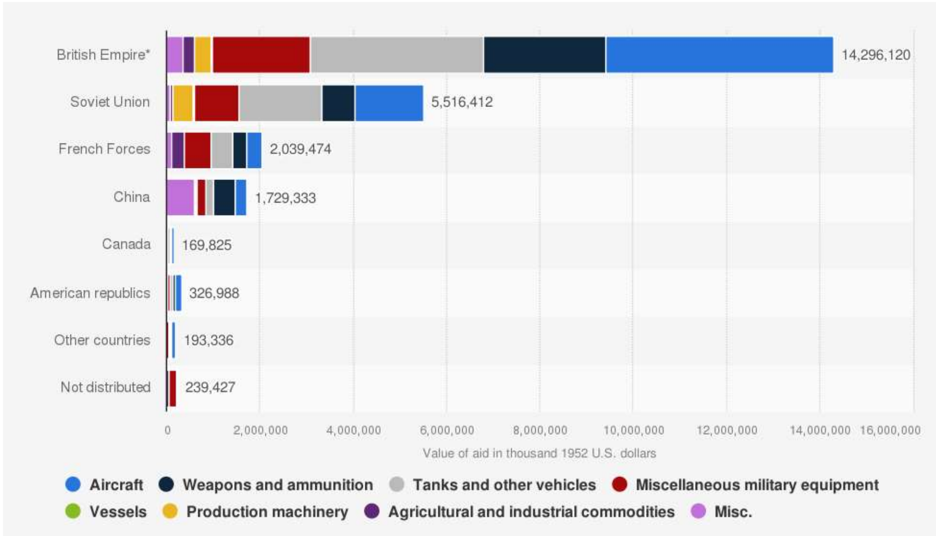

Fig 3. Value of Lend-Lease from 1941 to 1949 (in 1,000s of 1952 U.S. dollars)
Source: statista.com

The war underscored the necessity of economic stability for the preservation of global peace, prompting the United States to leverage its military and economic resources to construct a new world order aimed at averting future conflicts. The U.S. assurance of security and stability, underpinned by its military capabilities, instilled confidence in other nations regarding the resilience and longevity of the new financial system. This combination of military dominance and economic preeminence ensured that the United States would remain a central figure in the international landscape following the war.

USD dominance after the collapse of Bretton Woods

The Nixon shock of August 15, 1971 was a critical event in the twentieth century history of the international monetary system. It was on a par with the ending of the classical gold standard at the outbreak of World War I in August 1914 and the UK's departure from the gold exchange standard in September 1931. President Richard Nixon's speech to the nation on that Sunday ended the history of gold convertibility that underlay the Bretton Woods System and that was a major underpinning of the global monetary system for two centuries. The rest of the Bretton Woods System (the adjustable peg) collapsed with the advent of generalized (managed)floating exchange rates in March 1973. (Bordo M. D, 2020)

Despite lacking direct support from gold reserves, the U.S. dollar continued to be the preeminent currency globally, underpinned by substantial objective foundations. In the aftermath of the Bretton Woods system, the United States has established itself as a leading global creditor. This position has significantly contributed to the sustained supremacy of the U.S. dollar. As a creditor nation, the U.S. has provided considerable financial assistance to various countries, facilitated through governmental loans and private financial transactions. This creditor status has engendered a widespread demand for U.S. dollars, as nations in debt require this currency to meet their financial commitments. The extensive issuance of dollar-denominated debt worldwide further cements the dollar's pivotal role in international finance, ensuring its necessity within the global economic framework. Additionally, the U.S.'s capacity to offer financial support during periods of economic turmoil, exemplified by the Latin American debt crisis in the 1980s, has reinforced its influence and the dollar's centrality in global finance. (See Fig. 4)

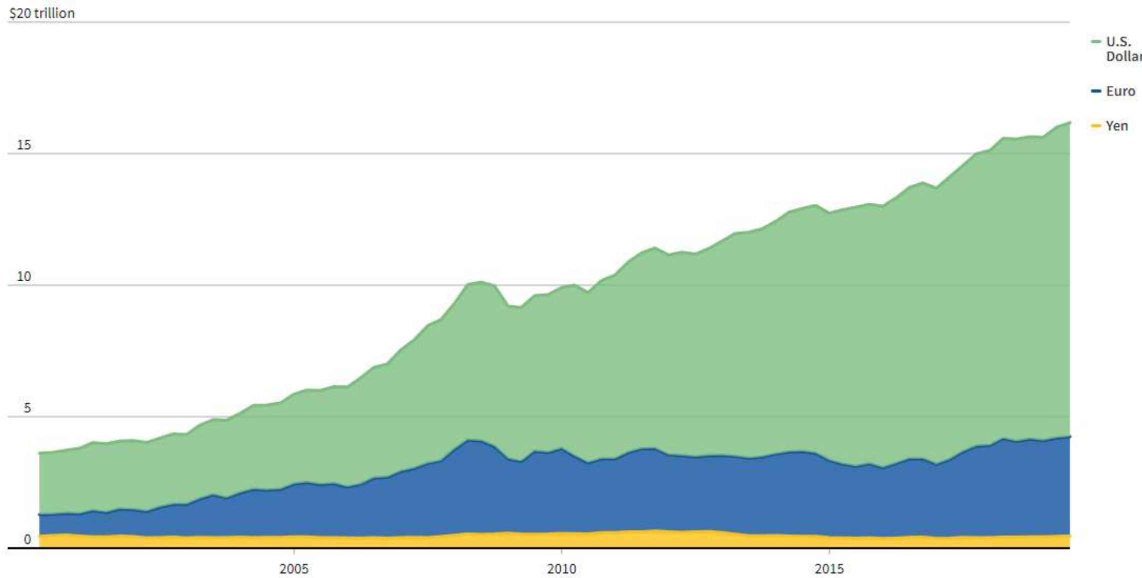

Fig. 4 Lending to non-bank borrowers by currency of denomination
Source: thomsonreuters.com

The Extensive Financial Network. The supremacy of the U.S. dollar is sustained by a vast international financial network that is centered around it. This network encompasses international commerce, cross-border investments, and the functioning of financial markets, all of which are heavily dependent on the dollar. The USD serves as the primary currency for global trade, especially in commodities like oil, which are priced in dollars. This situation generates a persistent demand for the dollar, as nations and enterprises worldwide require it to conduct trade. Additionally, a considerable share of global foreign exchange transactions, estimated to exceed 60%, involves the U.S. dollar, underscoring its pivotal role in international finance. The interconnectedness of global financial markets, with the dollar at the center, establishes a self-reinforcing system that ensures the currency's continued dominance. (See Fig 5)

Incumbency Advantage. The U.S. dollar enjoys a considerable incumbency advantage, having served as the world's primary reserve currency since the Bretton Woods Conference. This longstanding status has resulted in the dollar being intricately woven into the fabric of global financial systems. Central banks across the globe maintain significant dollar reserves, and international financial institutions depend on the dollar for their transactions and operations. Such a dominant position presents formidable obstacles for any potential competitors seeking to challenge the dollar's supremacy. The global financial architecture is heavily reliant on the dollar, and any transition away from it would necessitate a comprehensive and expensive overhaul of existing financial practices. This deeply rooted status, coupled with the historical significance of the dollar, guarantees its continued role as the preferred currency for international trade, finance, and reserves, despite the rise of new economic powers and alternative currencies.

Fig 5. Share of USD in global trade and transactions
Source: Statista.com

<u>Challenges of USD Hegemony</u>

Accounting for nearly 85% of foreign exchange transactions and serving as the main currency for global trade denomination, the US dollar's importance on a global scale is remarkable. Even while undergoing past challenges such as insufficiently liquid financial markets, the Great Depression, and the faulty Gold Standard system, the dollar has managed to hold on to its dominance for decades. Despite this, a number of nations in recent years have begun undergoing attempts to "de-dollarize" their economy. (Barry, E 2023)

The global financial crisis of 2008, the ascendance of China, and the formation of BRICS (Brazil, Russia, India, China, and South Africa) have profoundly transformed the global financial landscape, prompting critical inquiries into the legitimacy and equity of U.S. dollar (USD) dominance. These events have not only highlighted the weaknesses inherent in a global framework reliant on a singular national currency but have also called into question the fairness of a monetary system that disproportionately advantages the United States to the detriment of other nations. The increasing economic clout of China, coupled with the collective power of BRICS, has exacerbated these tensions, as these nations endeavor to reform the international monetary system to better align with their own interests and ambitions.

The 2008 Global Financial Crisis. The global financial crisis of 2008 marked a significant inflection point that revealed the vulnerabilities and risks inherent in the USD's pivotal role within the international financial framework. Originating in the United States due to the collapse of the housing market and the downfall of key financial institutions, the crisis rapidly disseminated worldwide, resulting in a profound economic recession. As the foremost reserve currency, the USD was central to this turmoil, and the subsequent measures taken by the U.S. government and the Federal Reserve had far-reaching consequences for the global economy.

The global financial crisis triggered by the collapse of the sub-prime mortgage market in the United States in 2007–2008, and its rapid spread to the ''real'' economy of production and trade thereafter, has sparked renewed debate among scholars and commentators about the distribution of geo-economic power across the world and the health and durability of American hegemony. While the full impact of the crisis on economic activities and the relative distribution of global economic power will not be known for some time yet, it is clear that the crisis has had a dramatic effect on global economic activity, particularly across the advanced capitalist economies with severe contractions in credit markets and bankruptcies of major financial institutions forcing a massive state-funded bail-out of financial systems. (Saull, R. 2012)

This crisis underscored the fundamental instability of a financial system that is excessively dependent on a singular currency. The dominance of the USD meant that decisions regarding U.S. monetary policy, including interest rate reductions and quantitative easing, had international ramifications, often resulting in capital movements that destabilized emerging economies. Nations with substantial reserves of U.S. dollars or significant dollar-denominated liabilities were especially susceptible, as the crisis triggered dramatic fluctuations in exchange rates and capital outflows. This scenario highlighted the asymmetric characteristics of the global financial system, wherein the U.S. could shield itself from the most severe impacts of the crisis by capitalizing on its currency's advantageous status, while other countries faced the brunt of the repercussions.

Consequently, the 2008 crisis incited widespread discontent regarding the hegemony of the USD, prompting numerous nations to reconsider the fairness and sustainability of a global economy so heavily reliant on the monetary policies of a single country. This skepticism was exacerbated by the belief that the U.S. had exploited its privileged position to transfer its financial instability to other nations, raising significant concerns about the legitimacy of the prevailing international monetary system.

The Rise of China. The swift economic ascent of China over recent decades has significantly undermined the foundational principles supporting the dominance of the U.S. dollar. (See Fig 6) As the second-largest economy globally and the foremost exporter, China has emerged as a pivotal entity in international trade and finance. This newfound economic strength has equipped China with both the means and the motivation to contest the U.S.-centric framework of the international monetary system.

In its pursuit to diminish dependence on the U.S. dollar, China has implemented various strategies aimed at fostering the global acceptance of its currency, the renminbi (RMB). These initiatives encompass the establishment of currency swap agreements with numerous nations, promoting the RMB for use in international trade and investment, and advocating for its inclusion in the Special Drawing Rights (SDR) basket of the International Monetary Fund. China's expanding influence in the realm of global finance, along with its initiatives to develop alternative financial institutions such as the Asian Infrastructure Investment Bank (AIIB), poses a direct challenge to the supremacy of the dollar.

Fig. 6. Shares of Global GDP (PPP, USD)
Source. Statista.com

The emergence of China has prompted critical discussions regarding the fairness of a global financial system that remains predominantly influenced by the U.S. dollar, especially in light of the evolving economic landscape. As China's participation in the global economy continues to grow, the sustained dominance of the dollar increasingly appears outdated and inequitable. This sentiment is particularly pronounced among emerging markets and developing nations, which perceive the dollar-centric system as an anachronism that fails to accurately represent the current dynamics of the global economy**.**

The BRICS Bloc. The rise of BRICS as a formidable entity in the realms of global politics and economics has exacerbated the challenges posed by the hegemony of the U.S. dollar. Comprising five prominent emerging economies—Brazil, Russia, India, China, and South Africa—BRICS accounts for a significant share of the global population, GDP, and trade activities. The member nations have been outspoken critics of the prevailing international monetary framework and have advocated for reforms in global financial institutions to better align with their collective interests.

A central issue for the BRICS nations is the perceived inequity inherent in a system that permits the United States to exert dominance over global finance via the dollar. The BRICS coalition contends that the existing framework bestows upon the U.S. an "exorbitant privilege," allowing it to sustain substantial deficits and accrue debt without experiencing the repercussions faced by other countries. This privilege is viewed as a contributor to global financial volatility, as decisions made in U.S. monetary policy can have destabilizing repercussions for the economies of BRICS and other emerging markets.

In light of these apprehensions, BRICS has initiated various strategies to diminish their dependence on the U.S. dollar and foster a more multipolar international monetary landscape. These strategies encompass the creation of the New Development Bank (NDB), which serves as an alternative avenue for development financing compared to the World Bank and the International Monetary Fund (IMF), as well as the Contingent Reserve Arrangement (CRA), which provides a financial safety net for BRICS nations during periods of crisis. Through the establishment of these alternative institutions, BRICS aims to contest the supremacy of the U.S. dollar and advocate for a more just and stable global financial architecture.

Though this proposed BRICS currency does act as a departure from past ways of thinking through where international power struggles take place, the counter-hegemonic movement that BRICS seeks to advance is highly conversant with previous hegemonic models. It is perhaps generative to consider the proposed BRICS currency as less a strictly “counter-hegemonic” action and more an action that seeks to (somewhat contradictorily) create a more “democratized” vision of hegemony through building an internationalized, decentralized great-power economy that abides by the logics of neoliberal capitalism. (Tomaihi S, 2024)

Obstacles and controversies:

An absence of absolute advantage. In 1944, the United States exhibited a near-total dominance across economic, financial, and military spheres. The U.S. contributed to almost fifty percent of the global economic output, possessed the largest gold reserves, and emerged as the foremost creditor nation in the aftermath of World War II. The Bretton Woods Agreement further solidified its financial authority by designating the U.S. dollar as the primary global reserve currency. On the military front, the United States maintained unparalleled conventional forces and, with the introduction of nuclear weapons, established itself as the preeminent military power worldwide.

In contrast, contemporary China, despite its rapid ascent as a global power, has yet to attain the level of supremacy that characterized the United States in 1944. While China ranks as the second-largest economy and plays a crucial role in international trade, its financial clout remains limited when compared to that of the U.S., as the Chinese yuan does not possess the same global influence as the U.S. dollar. Furthermore, although China has made notable strides in enhancing its military capabilities, it

has not yet achieved parity with the U.S. regarding global military presence, alliances, or the ability to project power.
Ultimately, while China's growth is noteworthy, it has not come close to replicating the comprehensive economic, financial, and military dominance that enabled the United States to establish its global hegemony in 1944. For China to attain such a status, it would need to surpass the existing global frameworks that are predominantly influenced by the U.S. and cultivate a more widely accepted financial and military presence on the international stage.

Rule of law. China and the nations of the global South encounter considerable obstacles in their efforts to compete with the hegemony of the U.S. dollar in capital markets. These challenges primarily stem from inherent disparities in the transparency of legal systems and the commitment to the rule of law. The United States has established a robust reputation characterized by strong legal frameworks, transparent financial markets, and an independent judiciary, all of which instill a high level of confidence among investors regarding the safety of their investments. This legal stability is essential for the effective operation of global capital markets, as it guarantees the enforcement of contracts, protection of property rights, and consistent regulatory oversight.

Conversely, numerous countries in the global South, including China, function within legal systems where the rule of law is frequently overshadowed by political authority, and transparency is often lacking. Such conditions generate uncertainties for investors, which can range from political interference to an absence of clear legal remedies. Although China's capital markets are substantial, they are frequently perceived as less transparent and more heavily influenced by state control, which diminishes investor confidence.

Consequently, the absence of legal and regulatory certainty in many of these regions hampers their ability to provide the same degree of security, liquidity, and assurance that U.S. capital markets offer. This gap in legal transparency and adherence to the rule of law is a fundamental factor that prevents China and the global South from effectively challenging the dominance of the U.S. dollar in the realm of global capital markets.

Conclusions:

The notion of establishing a competitive reserve currency system under the leadership of authoritarian regimes presents a philosophical contradiction to the tenets of a rule-based international order. A functional global monetary framework relies on the creation and enforcement of explicit, transparent regulations that oversee financial transactions, currency exchanges, and trade activities. These regulations are intended to foster a stable environment where businesses, governments, and individuals can operate with assurance.

In contrast, authoritarian regimes frequently operate under arbitrary governance rather than established legal frameworks. The centralization of authority within a single party or leader enables the manipulation of legal and economic structures to benefit the ruling elite. This results in a fundamentally precarious environment for currency and trade, as policy shifts can occur unpredictably, driven by political motives rather than economic imperatives.

Consequently, China's push for an alternative reserve currency system stands in philosophical opposition to its own political structure. The Chinese Communist Party's dominance over the nation's legal, economic, and financial systems erodes the foundational principles of a rule-based order that are essential for the effective functioning of a global reserve currency. By advocating for such a system while upholding its authoritarian governance, China exemplifies a form of monetary hypocrisy, promoting the ideals of a stable and transparent global financial system while simultaneously failing to establish the requisite domestic conditions for its success.

China's initiative for a new monetary framework centered on trade conducted in national currencies is likely to culminate in the supremacy of the Yuan. The extensive economic and export capabilities of

China significantly exceed those of any other country in the Global South, rendering them incapable of competing effectively within this proposed system. Although the intention behind the proposal is to diminish reliance on the U.S. dollar, it would inadvertently establish a new dependency on the Renminbi (RMB). Given that no other economy in the Global South possesses the requisite scale or influence to counterbalance China's preeminence, this alternative monetary arrangement would merely substitute one form of dominance for another.
China's initiatives to contest the dominance of the U.S. dollar may result, at most, in the yuan acquiring a greater foothold within the Global South; however, its reach is unlikely to extend significantly beyond this region. Although China has experienced substantial economic expansion and has enhanced its geopolitical standing, it does not possess the requisite absolute authority to supplant the U.S. dollar as the preeminent global currency**.**

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