

3

The Hegemony of Currency War

Biraj Dey* Pinak Pratim Das** &
Sandip Rudra Paul***

Abstract

The dominance of a global reserve currency significantly influences economic dynamics, job creation, and geopolitical power. The US dollar has long served as the primary reserve currency, reinforcing American economic stability and global influence. However, the emergence of the BRICS nations (Brazil, Russia, India, China, and South Africa) and their initiative to establish an alternative system presents a potential challenge to this dominance. This paper examines the role of reserve currencies in shaping economic outcomes, with a focus on Asia, and analyzes the implications of a proposed BRICS-led multi-polar barter framework. It further explores how such developments may disrupt the prevailing supremacy of the US dollar and Euro, offering insights into emerging shifts in global economic power and the associated challenges and opportunities.

Keywords: Dollar, BRICS Currency, Supremacy, Bharat, & West.

* PH.D Research Scholar, Assam University, Silchar

** PH.D Research Scholar, Assam University, Silchar

*** PH.D Research Scholar, Assam University, Silchar

Introduction

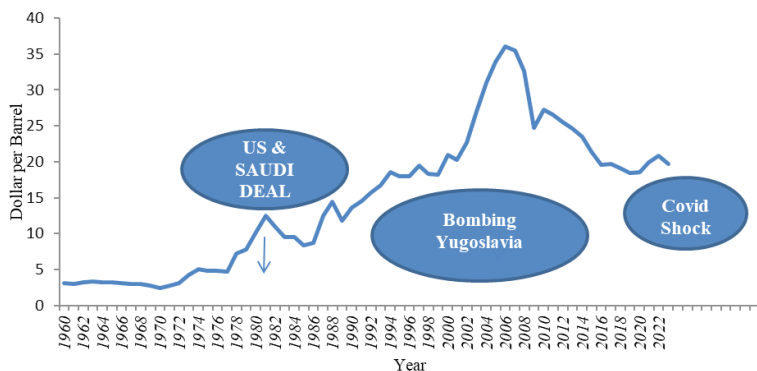
After World War II, the U.S. emerged as the dominant global power, with its economy largely intact, while much of Europe and Asia had to rebuild. The Bretton Woods Agreement in 1944 established the U.S. dollar as the world's primary reserve currency, backed by gold, and set up institutions like the IMF and World Bank to support global economic stability. This created a dollar centric global financial system where the U.S. had a central role in international trade and investment. In the year 1980s marked the beginning of a significant shift toward globalization. The adoption of neoliberal economic policies under leaders like Ronald Reagan (U.S.) and Margaret Thatcher (U.K.) pushed for deregulation, privatization, and a more globalized financial system. At the same time, there were major changes in the global manufacturing landscape. Financialization became a core characteristic of the global economy. Financial markets, including stock exchanges and derivatives, expanded rapidly, becoming increasingly detached from physical production. Western economies, especially the U.S., began relying more on financial services (banking, insurance, asset management, etc.) and less on manufacturing. Meanwhile, China and India began to open up to foreign investment and trade. China, in particular, saw an influx of Western companies seeking cheap labor for manufacturing. This was a result of China's "open-door policy" and its move towards market socialism under Deng Xiaoping in the late 1970s and early 1980s.



Source: world Bank, 2025

Moreover, The WTO accession of China in 2001 was a landmark event, formally integrating China into the global economic system. As China's economy grew rapidly, it became the dominant centre of manufacturing and low-cost production for Western companies. Multinational corporations set up vast supply chains to take advantage of China's low labour costs and its growing infrastructure. Financialization in the West accelerated, with U.S. companies' off shoring production to countries like China, Vietnam, and India. Manufacturing was increasingly decoupled from the financial world, with Western firms generating revenue from intellectual property, branding, and financial engineering and finally, the tech sector also became more prominent, with companies like Apple, Microsoft, and Google benefiting from the ability to produce and assemble products cheaply abroad while controlling design, branding, and distribution from the West. The U.S. financial system provided the capital for these firms to expand globally through the stock market, private equity, and venture capital. In addition, the removal of the gold standard from the US dollar by President Nixon in 1971 was indeed a pivotal moment in modern monetary history. This move effectively transitioned the world's currencies to fiat currencies, which are not backed by a physical commodity like gold. The agreement between the United States and Saudi Arabia in 1973, which ensured that OPEC oil trades would be conducted in US dollars, is often seen as the start of the "petrodollar" system. This agreement, sometimes referred to as the "Nixon-Saudi deal," was beneficial for both parties.

Figure.2: U.S. Crude Oil First Purchase Price (Dollars per Barrel)

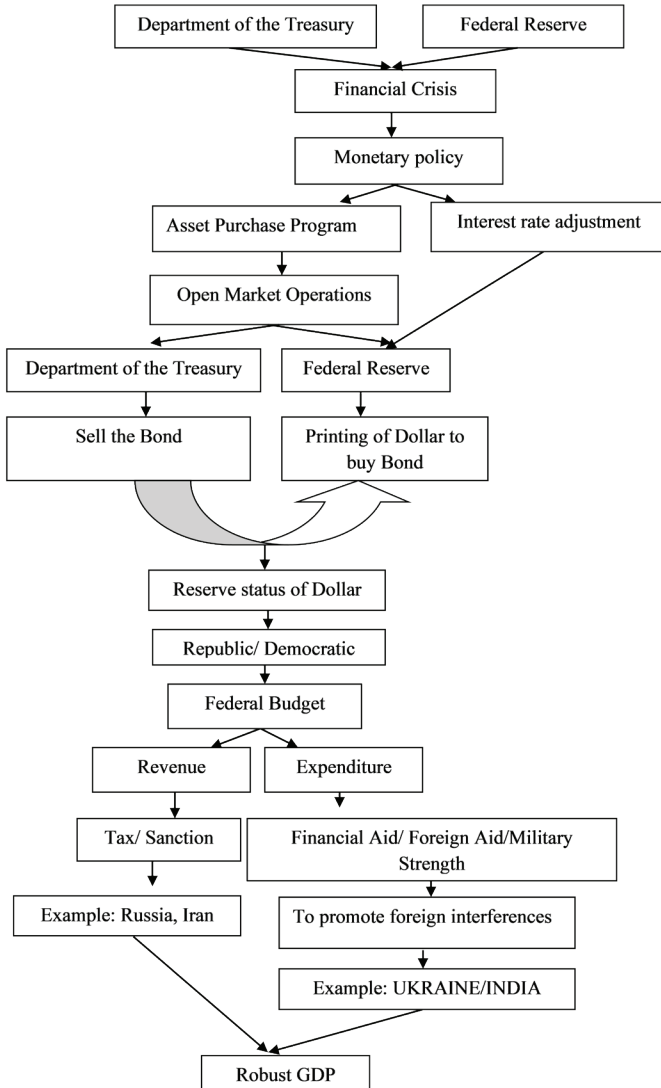


Source: U.S. Energy Information Administration (EIA), 2022

For the United States, it helped maintain the dollar's status as the world's reserve currency, as countries needed to hold US dollars to purchase oil. This increased global demand for the dollar, reinforcing its dominance in international trade and finance. For Saudi Arabia and other oil-producing countries, the agreement provided a stable and secure market for their oil, as well as access to US military protection in the region. This arrangement also helped strengthen the geopolitical influence of the United States in the Middle East. On other side, this dynamic has led to a division of labor where the West, with its financial power, controls much of the capital and investment flows, while the East, with its lower labor costs and manufacturing capabilities, serves as the production hub. This arrangement has contributed to a global economic imbalance, where Western countries have benefited from financial activities and intellectual property rights, while Eastern countries have often faced challenges in achieving equitable growth and technological advancement. The dominance of the U.S. dollar as the global reserve currency has had far-reaching effects on various sectors.

Finally, in the uni-polar dollar world, Western nations have often dominated the Financialization of real production and manufacturing, while many Eastern countries, including India, have been locations for actual production and manufacturing processes. For example, companies like Apple have designed their products in the United States but outsourced manufacturing primarily to China. While Apple's headquarters is in Cupertino, the bulk of its production happens in factories in China which provide the labor, raw materials, and logistics to assemble the products.

Figure: 3. Conceptual Framework



Source: Linkage from different research papers

Meanwhile, Apple retains control over the financial aspects financing, marketing, and global distribution often raising capital

through bonds and stock offerings that are heavily influenced by the US financial system. In information technology, for example, the financial infrastructure that supports global transactions and trade is largely denominated in dollars. This has led to the development of sophisticated IT systems to manage and process these transactions, creating jobs in software development, data analysis, and cyber security. In the banking sector, the use of the dollar as a reserve currency has facilitated the expansion of international banking services and the development of complex financial products. This has led to the creation of jobs in banking operations, risk management, and financial regulation. Similarly, in the investments sector, the dollar's status as the reserve currency has fuelled the growth of financial markets and investment opportunities. This has led to the creation of jobs in investment management, financial analysis, and asset pricing. While the dominance of the dollar has certainly played a role in the growth of these sectors, it's important to note that other factors, such as technological innovation and globalization, have also contributed to their development.

The flow chart highlights how monetary policy is not just a tool for economic stability but also a mechanism for geopolitical influence. By maintaining the U.S. dollar as the world's reserve currency, the U.S. ensures that global transactions, oil trade, and foreign reserves remain dependent on it (Obstfeld & Rogoff, 2022). This status allows the U.S. to borrow at lower interest rates and fund deficits without facing immediate financial crises, a privilege known as "exorbitant privilege" (Eichengreen, 2019). However, countries like China and Russia are actively working to reduce their reliance on the dollar by promoting alternative payment systems and accumulating gold reserves (World Bank, 2023). While sanctions can cripple economies like Russia's, excessive use of this tool risks pushing nations toward alternative financial systems, weakening U.S. influence (Stiglitz, 2021). Similarly, continuous dollar printing may lead to debt accumulation, currency devaluation, and inflationary pressures, as seen in the post-pandemic era (Federal Reserve, 2023). Despite these risks, the U.S. maintains economic dominance through strategic financial policies, trade agreements, and military alliances.

On the contrary, one of the sectors most impacted by this shift was agriculture. Traditionally, agriculture in many Asian societies was often organized around joint family systems, where land and resources were shared among family members. This system had its advantages, such as pooling resources and sharing risks, but it also limited individual ownership and decision-making. As the wave of individualism took hold, people began to assert their individual rights to land and resources, leading to the fragmentation of landholdings and the breakup of joint family systems. This had several consequences for the agricultural sector. Firstly, the breakup of joint families meant that smaller and fragmented landholdings were less efficient to cultivate, leading to lower agricultural productivity. Secondly, as people began to demand their share of the family corpus, resources that were previously invested in agricultural development were diverted elsewhere. This, coupled with the migration of people from rural to urban areas in search of better opportunities, further weakened the agricultural sector. The shift towards individualism also had broader societal implications. As people migrated to cities, traditional social structures and support systems were disrupted, leading to the breakdown of community ties and the erosion of traditional values. Overall, while the wave of individualism brought with it the promise of personal freedom and economic prosperity, its impact on the agricultural sector and traditional social structures in post-colonial Asia was profound and far-reaching.

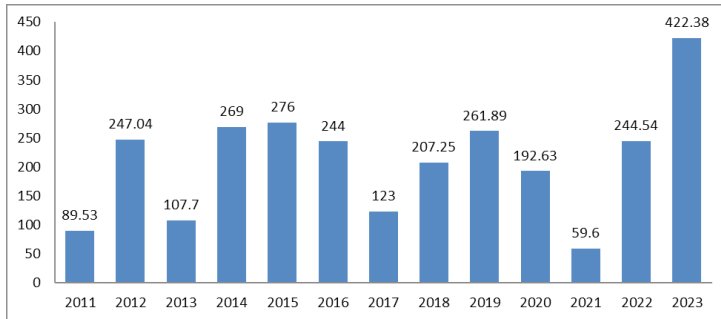
The dollar's status has led to a situation where the value of Asian exports and the wages of Asian workers are often indirectly linked to the policies of the U.S. Federal Reserve and the broader economic conditions in the West. One consequence of this arrangement is that Asian economies have become, to some extent, "price-takers" in the global economy. The prices of their exports, denominated in dollars, are influenced by factors such as exchange rates and demand in Western markets, rather than solely by domestic supply and demand dynamics. This can lead to a situation where Asian economies are more vulnerable to fluctuations in the global economy and less able to control their own economic destinies. Furthermore, the reliance on the dollar as a reference currency can also create distortions in the valuation of goods and services

produced in Asia. Because the dollar is the global standard, the value of Asian exports is often determined by how much they are worth in dollars, rather than in local currency terms. This can create situations where the true value of Asian goods and services is not fully reflected in their dollar-denominated prices. Largely, while the dollar's status as the global reserve currency has brought benefits to Asia in terms of facilitating trade and investment, it has also created challenges and vulnerabilities that Asian economies must navigate. The current global economic order, dominated by the US dollar and institutions like the UN, World Bank, IMF, and WTO, has long been criticized for perpetuating inequalities and favoring the interests of developed Western nations. On the other side, for Asia, which has a rich history and a significant share of the world's population, there is a growing call for reform to break free from the perceived suppression of the past and to fully realize its economic potential.

In this regard, De-dollarization is crucial for addressing the importance of maintaining global stability, as well as mitigating its severe consequences. It is increasingly viewed as a critical step toward restoring balance in the global sphere. By reducing reliance on the US dollar, countries in Asia can mitigate the impact of external economic shocks and have more autonomy in monetary policy. This shift could also lead to a more balanced global currency system, with multiple currencies playing a significant role in international trade and finance. Reforming multilateral institutions is another key aspect of this transformation. These institutions have often been seen as promoting Western interests and imposing conditions on developing countries that hinder their development. To truly empower Asia and other developing regions, these institutions need to be reformed to be more inclusive, representative, and responsive to the needs of all member countries. Furthermore, for Asia to re-emerge as a global economic powerhouse there is a need to rebalance the economy away from the overemphasis on services and towards a more robust manufacturing and agricultural sector. This shift would not only create more jobs but also ensure a more sustainable and equitable growth path. Overall, the push for de-dollarization and reform of multilateral institutions is part of a broader movement towards a more multi polar world order, where power and

influence are more evenly distributed among nations. For Asia, this represents an opportunity to break free from historical constraints and shape its own destiny in the global economy. Finally, the upcoming BRICS digital currency indeed represents a significant step towards challenging the dominance of the US dollar and the Euro as reserve currencies. The plan of the BRICS (Brazil, Russia, India, China, South Africa) countries to create a currency pegged to commodities like gold, silver, oil, gas, wheat, rice, cotton, and others could indeed lead to the establishment of a very stable digital financial system. By backing their currency with tangible commodities, the BRICS nations would be creating a system less vulnerable to inflationary pressures and economic shocks. Commodities such as gold and silver have historically been seen as stores of value and hedges against inflation.

By pegging their currency to these commodities, the BRICS countries would ensure that the value of their currency remains relatively stable, even in the face of economic uncertainties. Additionally, pegging their currency to a basket of commodities diversifies the backing of the currency, reducing the risk associated with relying on a single commodity. In regards during the early 1990s India reserves remained relatively low and stable gold reserve, reflecting cautious reserve management post the 1991 economic crisis. A noticeable increase began around 2015, followed by a sharp rise between 2018 and 2019, likely influenced by rising global gold prices and strategic reserve accumulation. After some fluctuations, a steady upward trend resumed for gold reserve around 2020, with a particularly sharp surge post-2020. This growth signifies India's increasing focus on diversifying foreign exchange reserves and strengthening economic stability amid global uncertainties. This could make the BRICS multi currency more attractive to investors and traders, further enhancing its stability and credibility in the global financial system.

Figure.2: Value of silver imported into India (in billion Indian rupees)

Source: Directorate general of Commercial Intelligence and Statistics

Moreover, by creating a multi currency that can facilitate transactions within the BRICS nations (Brazil, Russia, India, China, and South Africa), these countries are aiming to reduce their dependence on the dollar and Euro, which could have far-reaching implications for global currency dynamics.

One key aspect you mentioned is the realization that conflicts in various regions might have been influenced by the desire to maintain the dominance of the dollar. Historically, the US dollar's status as the global reserve currency has given the United States significant economic and geopolitical advantages, including the ability to impose sanctions and influence global financial systems. The practice of invoicing transactions in dollars, even when the parties involved are not in the US, has also contributed to the dollar's dominance and allowed the US to effectively export its inflation. This has sometimes resulted in currency devaluation and economic challenges for other countries. The introduction of a BRICS multi currency could potentially disrupt this system by offering an alternative means of conducting international transactions. It could also lead to a shift in the balance of power, as the BRICS nations, along with other countries that might join them in adopting this currency, could gain more control over their financial systems and reduce their vulnerability to external economic pressures. Moreover, a multi- digital currency could facilitate trade and economic cooperation among BRICS countries, as it would reduce currency conversion costs and exchange rate risks. However, it's important to note that the success of the BRICS

multi digital currency will depend on various factors, including its adoption by other countries, its stability, and its ability to effectively compete with established currencies.

Conclusion:

In conclusion, the global currency dynamics are undergoing a significant transformation, with the rise of digital currencies and the potential challenge to the dominance of the US dollar and Euro as reserve currencies. The upcoming BRICS multi currency could potentially alter the landscape of international finance, offering an alternative to the traditional reserve currencies and potentially reducing the influence of the US and Euro-zone in global economic affairs. However, the impact of the BRICS digital currency will depend on several factors, including its adoption by other countries, its stability and reliability as a medium of exchange, and its ability to compete with existing digital currencies such as Central Bank Digital Currency. Additionally, geopolitical tensions and conflicts could also play a role in shaping the future of global currency dynamics, as countries seek to assert their economic power through currency manipulation and other means. Overall, while the BRICS multi currency represents a potential challenge to the dominance of the US dollar and Euro. The evolution of the global financial system is likely to be influenced by a complex interplay of economic, political, and technological factors, making it difficult to predict the future with certainty. However, it is clear that the hegemony of currency is a key aspect of international relations and will continue to be a topic of debate and discussion in the months to come.

References

- Agénor, P.-R., & Miller, M. (2004). *The Asian Financial Crisis: Causes, Contagion and Consequences*. Cambridge University Press.
- Bordo, M. D., & Meissner, C. M. (2016). *Fiscal and financial crises*. Cambridge University Press.
- Brookings Institution. (2021). *The state of the economy in 2021: Challenges and opportunities*. Brookings Institution.
- Code of Federal Regulations. (2022). Title 29: Labor (Vol. 1). U.S. Government Printing Office. <https://www.ecfr.gov/current/title-29>

- Chakravorty, S., & Basu, D. (Eds.). (2016). *The BRICS and beyond: The international political economy of the emergence of a new world order*. Routledge.
- Dutta, S., & Roy, S. (Eds.). (2019). *BRICS: A New World Order*. Pentagon Press.
- Eichengreen, B. (2023). *The future of the international monetary system: Risks and reforms*. Oxford University Press.
- Elst, Koenraad. "Decolonizing the Hindu Mind." *Voice of India*, vol. 1, 2001, pp. 1-13.
- Federal Reserve. (2023). *Monetary policy report to Congress*. Retrieved from <https://www.federalreserve.gov>
- International Monetary Fund. (1998). *The Asian Financial Crisis: Origins, Implications, and Solutions*. IMF Publications.
- Ocampo, J. A., & Prasad, E. S. (2013). The dispersion of public debt burdens: Implications for the euro area. *Economic Policy*, 28(75), 639-687.
- Obstfeld, M. (2018). Globalization, macroeconomic performance, and exchange rate regimes. *Journal of International Money and Finance*, 86, 184-202.
- Prasad, E. (2014). *The dollar trap: How the US dollar tightened its grip on global finance*. Princeton University Press.
- Radelet, S., & Sachs, J. (1998). *The Asian Financial Crisis: Causes, Cures, and Systemic Implications*. Brookings Papers on Economic Activity, 29(1), 1-90.
- Rey, H. (2013). Dilemma not trilemma: The global financial cycle and monetary policy independence. NBER Working Paper, (21162).
- Roach, S. S. (2009). *The next Asia: Opportunities and challenges for a new globalization*. John Wiley & Sons.
- Sanyal, S. (2011). *Are we entering a post-dollar world?* Deutsche Bank AG/ Hong Kong
- Subramanian, A., & Kessler, M. (2013). *The hyper globalization of trade and its future*. Peterson Institute for International Economics Working Paper, (13-6).
- Stiglitz, J. (2000). *The Asian Financial Crisis and the Architecture of Global Finance*. Cambridge University Press.
- Stiglitz, J. E. (2021). *People, power, and profits: Progressive capitalism for an age of discontent*. W.W. Norton & Company.
- World Bank. (2023). *Global economic prospects report*. Retrieved from [https:// ~www.worldbank.org](https://~www.worldbank.org).