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→ ~~Discuss~~ what is dollar supremacy? How it has affected the world economic scenario?

Dollar supremacy, in other words, monetary hegemony is an economic and political concept in which a single state has decisive influence over the functions of the international monetary system. This term appeared in Michael Hudson's "Super Imperialism", describing not only an assymmetri-cal relationship that the US dollar has to the global economy, but the structures of this hegemonic edifice that Hudson felt supported it, namely the International Monetary Fund (IMF) and the World Bank. The US dollar continues to underpin the world econo-my and is the key currency for medium of international exchange, unit of account, and unit of storage and, despite arguments to the cont-rary, is not in a state of hegemo-nic decline.

The US dollar as we know it today was first printed in 1914. The Federal

Reserve Act of 1913 created the Federal Reserve Bank to respond to the unreliability and instability of a currency system that was previously based on banknotes issued by individual banks. This was the same time that the U.S. economy became the world's largest, surpassing that of the United Kingdom. World commerce still centered around the U.K., though, as the majority of transactions took place in British pounds. The majority of developed countries pegged their currencies to gold as a way to stabilize currency exchanges. However, when World War I broke out in 1914, many countries suspended their use of the gold standard to pay their military expenses with paper money, which devalued their currencies. Britain found itself borrowing money for the first time during the third year of the war. ~~The~~
The United States started to lend money to many countries through Lend-Lease Act. The U.S. became the lender of choice for many countries that wanted to buy dollar-denominated U.S. bonds. Britain finally

abandoned the gold standard in 1931, which decimated the bank accounts of international merchants who traded in pounds. By then, the dollar replaced the pound as the leading international reserve currency.

In World War II, the U.S. served as the Allies' main supplier of weapons and other goods. Most countries paid in gold making the U.S. the owner of the majority of the world's gold. by the end of the war.

The delegates from 44 Allied countries met in Bretton Woods, New Hampshire, in 1944 to come up with a system to manage foreign exchange that would not disadvantage any country. They decided that the world's currencies would no longer be linked to gold but could be pegged to the U.S. dollar, as it was linked to gold itself. The agreement came to be known as The Bretton Woods Agreement. It established the authority of central banks, which would maintain fixed exchange rates between their currencies and the dollar. In turn, the U.S. would redeem U.S. dollars for gold on demand. Hence, countries accumulated reserves of U.S. dollars. Needing a place to store their dollars, countries began buying U.S. Treasury securities, which they considered to be a safe store of money. The demand for Treasury securities, coupled with the deficit spending needed to finance the Vietnam war and the Grat Society domestic programs, caused the U.S. to flood the market with paper money. With growing concerns over the stability of the dollar, the countries began to convert dollar reserves into gold. The demand for gold was such that President Richard Nixon was forced to intervene and de-link the dollar from gold, which led to the floating exchange rates that exist today. It is known as Nixon Shock that occurred in 1971.

U.S. dollar maintained its superiority by a decision it has made regarding oil. In 1945, the president of the U.S.

Franklin Roosevelt met Saudi ruler, King Abdul Aziz and made a historic deal that permanently changed the fate of the dollar. According to this deal, the U.S. will help Saudi Arabia to avoid any possible attack in the future, and in return, Saudi Arabia will sell its oil against U.S. dollars. After the establishment of the Organization of the Petroleum Exporting Countries (OPEC) in 1960, all oil trade in the world started to be done in dollars. As the measure of value of any currency was not the gold attached to it, but the use of that currency or its demand in international market determine its value. It became important to know where your currency could be used and what it could buy. In this context, the U.S. dollar was the currency with which you could buy the most important of the century, which is oil. Therefore, most countries still kept their foreign exchange reserves in dollars to buy oil from the Arab world. Hence, U.S. dollar is also called as "petrodollar".

Furthermore, countries invest their excess foreign exchange reserves in U.S. Treasury bonds. These bonds are issued by U.S. government and various countries invest in them with the aim of getting reasonable returns in the future. According to the Federal Reserve, and the U.S. Department of the Treasury, as of May 2022, foreign countries held approximately 7.4 trillion U.S. dollar in U.S. Treasury securities. With this vast amount of money, the U.S. has the added advantage of funding economic growth, defense spending, industrial production and even large financial institutions such as the World Bank and the IMF. In this way, the U.S. gains unfair control over other countries. The U.S. can also freeze the dollar reserves of countries who go against it. The sanctions imposed on Russia is an example of this.

The economy's performance is at the heart of the decision to buy or sell dollars. A strong economy will attract investment from all over the world due to the perceived safety and the ability to achieve an acceptable rate of return on investment. An increase in investment, particularly from abroad creates a strong capital account and a resulting high demand for dollars. On the other hand, American consumption that results in the importing of goods and services from other countries causes dollars to flow out of the country. If one's imports are greater than one's exports, then one will have a deficit in their current account. With a strong economy, a country can attract foreign capital to offset the trade deficit. That allows the U.S. to continue its role as the consumption engine that fuels all of the world economies, even though it is a debtor nation that borrows this money to consume. This allows other countries to export to ~~the~~ the U.S. and keep their own economies growing.

There are a variety of factors

that cause the U.S. dollar to rise, but primary factor that it boils down to is demand for the dollar. If the demand for the dollar increases ~~then~~ so does its value. Other factors that influence whether or not the dollar rises in value in comparison to another currency include inflation rates, trade deficits, and political stability.
Weak currencies are those of nations that have poor economic fundamentals or an ineffective government. A weak currency can be derived from high levels of inequality, political instability, and high level of corruption, public debt and trade deficits. It is evident in countries like Sri Lanka and Pakistan.
Recently, the value of the U.S. dollar against other major currencies has reached its highest level since the early 2000s. The Dollar Index (DXY) which measures the dollar's value relative to 6 global currencies is at a 20-year high, up 10 percent year-to-date and 15pc over the past 12 months. The key driver for a strengthening dollar is the rise in interest rates

by the US Federal Reserve to control inflation. At the end of September 2022, the Fed raised the rate by 75 basis points to the 2.25 – 2.5 pc range and it is expected to rise further.

Federal Reserve Chairman Jerome Powell made it clear that the Fed will continue to raise the rates until inflation is controlled. The Fed has a policy mandate to keep inflation at around 2pc.. Currently, it is at 9.1 pc. A more optimistic scenario is that the Fed will have to give up on its inflation target as the US economy starts to slow down. The US GDP declined in the second quarter by 0.9pc. This was the second consecutive contraction in the US GDP, usually considered to be a sign of recession. However, Powell kept his focus on inflation.

Eurozone economies will also raise their policy rates. The Euro has reached parity with the dollar. In September 2022, The European Central Bank (ECB)

raised rates by 50 bps. to 0pc. Eurozone inflation is at 8.6 pc while UK inflation is at 9.4 pc.
The biggest impact of the dollar strengthening will be on the political side as there is always a high political cost of inflation. Western countries have not seen such inflation levels since the World War and the political repercussions are now becoming visible. For example, US President Joe Biden's approval ratings have fallen to 37.7pc. In the U.K., there is a spike in strikes. The latest being a nationwide train strike due to high inflation. Italy has called in early elections after the previous prime minister Mario Draghi resigned. Similarly, in Pakistan and Sri Lanka high inflation is leading to political instability. In case of Sri Lanka, high inflation led to the political instability. On the other hand, political instability is leading to high inflation. The political implications of high inflation will force central banks to remain hawkish. They will be willing to sacrifice growth

to control inflation. The primary issue is that, unlike the past few decades, when inflation stayed low due to globalisation, now there is limited policy room due to regionalisation caused by Russia-Ukraine and US-China tensions. Eventually, this might force other countries to get out of the US economic policy regime and sign bilateral treaties. India's economic policy stance is the best example. While the U.S. is strongly aligned to India geopolitically as a counter to China, India's reluctance to follow the U.S economic regime might become a popular example for others countries as well. Russia-China's economic strategy may dethrone US dollar and a new reserve currency will be seen in the next ten years in the form of chinese Yuan. As the U.S. has imposed many sanctions on Russia, it has punished its unfriendly countries by asking them to buy oil and gase in rubles.

Similarly, China has its leverage with the Belt and Road Initiative countries. It is a three trillion dollar project whereby China has given out over generous loans to countries all across the world. The countries owe collective debt of 385 billion dollars to China. Many of these countries are not able to pay back these debts. Experts have an opinion that China will ask these countries to take and pay back loans in Yuan and in exchange China could incentivize the scheme by giving them a one per cent discount on their interest.
Russia is already supporting China and has turned the Chinese Yuan into the reserve currency. As far as other countries are concerned, they have something called bilateral currency swap agreement. India is also pursuing it strategically as Indian companies are swapping dollar for Asian currencies to buy Russian coal. In this way, any country can do international trade without depending on US dollar. Further, Saudi Arabia is also considering selling oil in Yuan instead of dollars.

In this way, Chinese economy can become powerful as compared to US economy. However, there are many challenges for China. The first challenge is the notorious reputation in the world. China has a reputation of being notorious for the dead trap diplomacy and Taiwan invasion. Secondly, China has been devaluing its currency very frequently, in fact, the U.S. has accused China for currency manipulation. On top of that it is clear to the world that China is not as transparent as the U.S. Hence it is going to deter the countries from actually adopting the Yuan over the U.S. dollar. Lastly, the U.S. obviously does not like the rise of yuan. The amount of money and military leverage that the U.S. has, it is not difficult for them to actually push against the Chinese yuan. The key to this is going to be something called digital dollar, and it is a war against digital yuan.
Therefore, the U.S. dollar hegemony

is here to stay for a long time. Even the world is now divided into two blocks, the supremacy of the U.S. can not be challenged easily. Moreover, the strong dollar is not a country specific issue and will not go away with simple change in the country's political regime.