Does Currency Matters? The "Strange" Question!

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At least from the eyes of western foreign policy making, the answer is “Yes”. Monetary and financial means are known to be one of the most effective tools to influence friends and foes to change their political decisions accordingly without using costly military power. The effectiveness of these tools varies as per to the structural power of the actors. British scholar Susan Strange had defined the dimensions of structural power as “security”, “knowledge”, “production”, and “finance”.

In fact, structural power is not an independent setting, but an integrated one, that requires all four dimensions actively support the actor’s state capacity. Any discrepancy in any dimension will indeed destabilize structural power from its ideal stance. Shortly, by “security” and “knowledge”, Strange addresses the capacity and effectiveness of military power and ability to innovate and use of technology and knowledge. And by “production” and “finance”, Strange elaborates the very complexities of economic and monetary regime settings that answers the questions of ‘which of the currencies to dominate commodity market pricing that ultimately set the production costs?’ or ‘which of the currencies will dominate the debt and capital markets?’ accordingly.

In different monetary regimes in different episodes of history, currencies capacity to influence varied as per to the degree of their penetration into the existing global economic realm. Thus, the transition of power from one actor to another in the global order in fact mainly bound to the power or dominance of the currencies in commodity, debt, and capital markets. Without such hierarchical position of the currency, none of the actors do have the ability to change or dominate the existing global order or set the rules of the game even if they are competitive in security or knowledge dimensions.

US Dollar dominance in particular give Washington the ability to perform its “long arm” to influence or change the political decisions of their allies or rivalries since WWI. But since 1990s, the exponential financial liberalization of the post-cold war environment supported the U.S. to boost its capacity to dominate and set the rules of the financial and production dimensions of its structural power to the degree of none of the actors in human history had reached so far. Henry Truce’s “American Century” was indeed and literally crowned Dollar as the King, not only for the global markets and political realm but also for the indispensable factor in American foreign policy making.

Yet such exorbitant monetary power as the US Dollar has, brings in its own fallacies. In our contemporary times, financial, or monetary coercive power instruments are not only a one-way ticket for the targeted country. In such deeply connected globalized trade regime, interdependencies among actors transforms monetary or financial coercive means to evolve into a boomerang with unintended economic and political consequences and damage to all.

The globalized markets which were the ultimate playground neatly designed for the US Dollar dominance turned out to be a very delicate and dangerous destabilization zone for all, including Washington itself. With that much of interdependencies in commodity and capital, none of the power rivalries will end up bringing in a sole and clear win for the aggressor, and political, monetary, and economic aggression wouldn't necessarily fade away the prosperity and competitive edge to the targeted one. The unintended consequences will boost the "leaderless diffusion" which in the end "order" will not be sustained where the rules are set only for the interests of only one sole monetary power.

This is what we are witnessing in Russian-Ukrainian War. The US-led sanctions that targeted to isolate Russia from European and American financial system, could not manage to force Russian troops to step back, or bend the Putin's knees, yet. The foreign economic policy makers in Washington undervalued, miscalculated—or completely disregarded the ways in which possible setbacks or counter sanctioning of Russian energy supply may diverge into an energy and food crisis would raise the eyebrows in European democratic streets.

Russia's misconceptions also lead wrong judgments and planning. Russian elites expected the already in-tact US-led Western sanctions to be limited due to heavily dependence on Russian energy in European production houses as Germany. The already blacklisted Russian oligarchs' wealth thought to be not decisive enough to contain the military machine to stop invading Ukrainian soil, until Germany had joined the sanctions. Putin's imperialist dreams that were so determined to start a military offensive act against Ukrainian sovereign territory foreseen a possible US financial coercive regime would not follow up with major market economies like Germany. In fact, Germany's heavily dependence on Russian gas, had misled Moscow in predicting the depth of the financial sanctions regime not to include European markets. It took time and some hundreds of billions of dollar loss for Putin to recall there is sole security and liberal order of both sides of the Atlantic that is dominated by the US interests and priorities only.

On the other hand, the consequences over the last eight months of military and financial aggression are not limited to Russia, nor the Western economies, not anymore. As being major suppliers of food and energy, the military offensive exchange between Ukraine and Russia stalled the trading routes, created a global supply crisis, and eventually triggered a major recession in already degraded global economy over Covid Pandemic for almost two years, now.

The expansionist policies of US-led NATO grew anti-sentiments against the liberal-order, let alone the widespread insecurity in developing economies against the US Dollar hegemony. Today, it is not only the German citizens who criticizes less the Russian aggression as the energy crisis hits their daily life but more of their governments that joined US led sanctions. Hence, the loss of the trust to current monetary regime has yet become by far the greatest shift in global approach to US hegemony, not only in Europe but most importantly the growing and producing East, the Pasific.

Contrary, financial, and monetary markets stand on one thing only: That is "Trust"!

The decade long foreign economic, financial, and monetary policy making of the United States might eventually lead to the erosion of trust to the US Dollar after all, more rapidly than it is ought to be.

But is the Russian isolation can trigger a new monetary regime and dethrone the US Dollar?

In fact, and since 2010, the Obama Doctrine which realign Washington foreign policy making to reach financial sanctions with increasing frequency created an extreme insecurity among most of the developing economies. And since 2010, most of these economies trying to decrease their dependence and reduce their exposure to US Dollar in the means of credit and production means. Russia prior to Ukrainian war made significant decrease of US Dollars in its reserve component. Now regional local currency-based trading routes are discussed between China and Saudi Arabia, or any major production economies which heavily dependent on energy and rare-earth minerals for high-tech production.

Ironically, financial liberalisation that we all witnessed over the course of the last four decades or so, eventually moves legitimate challenge to US Dollar dominance. But the US hegemonic fail will not necessarily foster another one immediately unless the alternatives would fulfil the structural power prerequisite of what Susan Strange had theorised. Today, none of the prospective regional or global hegemons like China and India have the ability to set the rules of the game in the context of finance and production dimension, let alone their security and knowledge base not competitive enough yet.

But it is sure that the American Century is over, but the crown is still on US Dollar’s head.

At least for now.