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Focus: The Sustainability of Dollar Hegemony and the Future of the International Financial System（Summary）

Essay: The Sustainability of Dollar Hegemony and the Outlook for the International Monetary and Financial System

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The US dollar is the most dominant international currency. The dollar's dominance is supported by the large size of the US economy, its macroeconomic and financial system stability, the breadth and depth of dollar financial markets, the Federal Reserve's policies to stabilize the dollar value, the absence of credible alternative currencies, and the force of inertia.

However, there is a long-term risk that dollar dominance could be undermined by factors both internal and external to the United States. Internal factors include the US' abuse of the "exorbitant privileges" and the "weaponization of the dollar" and disregard for the independence of the Federal Reserve and the rule of law. External factors include fundamental economic, institutional, and political reforms in China and Europe, which could enhance the roles of the renminbi and the euro. A mix of internal and external factors includes a decline in the weight of the US economy in the world and the advancement of digital technology. In particular, the US prioritizes crypto-assets and stablecoins, whereas China and Europe are developing central bank digital currencies.

Japan should restore its growth potential to reverse a historically weak yen on a real effective basis and simultaneously advance the internationalization of the yen and the Tokyo and Osaka financial markets. The country needs to focus on the expansion of yen-denominated stablecoins and the introduction of a central bank digital yen, and collaborate with the Global South including ASEAN nations and India.

1 The Future of the US Dollar's Hegemony

Masaya Sakuragawa（Professor Emeritus, Keio University）

A reserve currency is not merely a reflection of economic power; it is the crystallization of soft power, specifically, a nation's ability to provide predictable and reliable institutions and rules. The enduring strength of the United States lies in having established institutions and rules that respect market principles and underpin the high quality of financial markets. These include central bank independence, a stable legal system, credible contract enforcement, open capital markets, and transparent policymaking. Confidence in the US dollar is built on these institutional foundations. Any decline in US dollar hegemony would likely result from the United States itself engaging in self-destructive actions that erode its soft power; neither the rise of China nor the evolution of digital payment technologies would be sufficient to displace the dallar. The experience of China demonstrates that expanding hard power alone is insufficient to secure international confidence required for a reserve currency. Therefore, the ability to design and operate financial systems — i.e., a "nation's financial power" — is positioned as one of the defining sources of soft power in the modern era.

2 Changing Transatlantic Relations, China's Rising Influence, and the Challenges Facing the Euro

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Even under a second Trump administration, the US dollar remains overwhelmingly dominant in the international financial system, while the euro continues to hold its position as the world's second most important international currency.

However, signs of change are emerging in dollar hegemony and the Western-led international financial system, driven by growing efforts to reduce costs and to mitigate the risks associated with the weaponization of currencies and financial infrastructure.

The euro has a dual nature: it can serve as a destination for capital fleeing the dollar, yet it can also be utilized for de-risking by countries seeking to reduce their exposure to the West. Europe must simultaneously respond to moves aimed at reducing dependence on the dollar and the United States and to China's strategy of promoting the internationalization of the renminbi.

A defining feature of the euro is its role as the key currency within Europe. Enhanced competitiveness through deeper integration of the Single Market and the potential for regional enlargement could become important strengths in an era of great-power competition. It will take time, however, for reforms — including the establishment of the Savings and Investment Union（SIU）, the implementation of a digital payment strategy, and the pursuit of initiatives that provide central banks outside the euro area with greater euro liquidity — to bear fruit, and no fundamental breakthroughs have yet emerged. Nevertheless, the euro's strength as the key currency within Europe may enable it to maintain its standing even in an increasingly multipolar and multilayered international financial system.

3 Can the Chinese Yuan Become a major International Currency? Financial Hegemony and the International Monetary System

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This article examines whether the Chinese yuan can become one of the major international currencies from the perspective of the dollar-dominant international monetary system. While China is an economic powerhouse on par with the United States and holds the world's largest foreign exchange reserves, the renminbi's international status does not match China's economic weight. Its global use remains limited because the US dollar, enjoys unparalleled financial market liquidity, strong network externalities, and credibility as a safe-haven asset within the international monetary system. As the US has used financial sanctions and other measures to pursue diplomatic and geopolitical objectives, a trend toward "de-dollarization" — the effort to reduce dependence on the dollar, particularly in the Global South — has gained momentum in recent years. Nevertheless, China faces numerous challenges in internationalizing the yuan, including underdeveloped financial markets and low confidence in its institutions. The dollar-centric system is thus likely to persist for the time being, although this analysis suggests that a regime shift in the international monetary system cannot be ruled out in the long term.

4 The Yen's True Strength and the Japanese Economy: An Analysis Based on Exchange Rates and the Balance of Payments

Kiyotaka Sato（Professor, Graduate School of International Social Sciences, Yokohama National University）

There have been numerous claims in recent years that the yen's real strength has declined. The basis for such claims is that the value of the yen, measured in real effective terms, has fallen to 1970 levels. However, a weak yen in real effective terms does not necessarily imply a decline in the yen's real strength. Rather, as this paper demonstrates, it is the decline in the Japanese economy's real strength that is the primary cause underlying the yen's depreciation in real effective terms. It has also been argued that recent structural changes in Japan's balance of payments have made the yen's depreciation nearly inescapable, but a critical examination of this argument reveals that foreign exchange supply and demand arising from structural changes in Japan’s balance of payments have not necessarily been a primary cause for the yen’s recent depreciation. The paper concludes by summarizing the debate over the yen’s real strength and discussing the steps needed to enhance it.

5 The Defection of Emerging Economies and the Future of the Dollar-Dominated International Monetary System: From the Perspective of the Intersection of Hegemony and Structural Power

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Emerging economies have traditionally accepted the dollar-centered international monetary and financial system, despite harboring political and economic disagreements with the United States. Amid the recent “weaponization of finance,” however, it has become clear that emerging economies’ dependence on the dollar-centered system significantly increases their vulnerability to US sanctions. As a result, these economies, led by China and Russia, have begun to build alternative systems with the aim of reducing their dependence on the dollar. This paper draws on the concepts of structural power and hegemonic leadership in international political economy as the power factors that have underpinned the dollar’s centrality, presenting two scenarios for the future of the dollar-based monetary system in the face of emerging economies’ defection. The first scenario posits that the impact of the alternative system being developed by emerging economies will be limited, and the status quo will largely be maintained. The second scenario suggests that the United States, while seeking to restore its real productive capacity in industry and trade, may move toward relinquishing its role as the key currency issuer.

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