

How is Russia disrupting the NATO alliance and challenging the United States of America's hegemony through the Ukrainian invasion?

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The Multipolar Order:

Economics, Geo-politics, Physics & society, and International Relations

Abstract

The Russia-Ukraine war has sparked a series of controversies and debates as to what Vladimir Putin's goals are. This paper aims to outline Putin's short-term goal: to disrupt the NATO alliance by weaponizing inflation. Putin is choking the European fuel supply as a response to various economic sanctions; however, the European Union is working towards finding alternatives. The commission is establishing a network of scientists working to find energy alternatives and increase the efficiency of their nuclear reactors. Putin is also working toward his long-term goal of disrupting US hegemony by skirting the SWIFT system. The US government has abolished the Russian financial institutions from its enhanced financial messaging system, with companies like Google Pay, PayPal, etc., exiting the Russian market. Russia is developing alternate methods by employing a vast network of programmers to develop an alternative to the SWIFT System and various currency swap agreements. Putin is employing a short-term and long-term strategy to establish a multipolar order and reinvigorate Russia's global standing.

Keywords : Technology ,Weapon system, SWIFT system, Multipolar order, Economy

Introduction

The Russian invasion of Ukraine on the 24th of September 2022, sparked a wave of debate on what exactly President Vladimir Putin's goals were and how he planned on implementing them. With the war progressing, the world was focused on the battles; however, the most important aspect to understand is that the invasion was rather a ploy for Putin to achieve his most important goal: watching NATO and the United States fall at his mercy. The war acted as a trigger, sanctions arose, and these sanctions backfired; but these are merely short-term consequences and strategies. Putin has also been collectively devising a long-term strategy to achieve what he aims is a multi-polar order.

This research paper aims to provide an understanding of how exactly Putin is attempting to achieve his goal and divides the argument into two sections. The first section will address the short run, wherein it will provide an overview of the impact of inflation with a historical example and then proceed to argue that Putin has weaponized inflation against Europe. The second section will address the long run, wherein it will provide an understanding of how the US had established its dominance in the trade and currency markets and then proceed to argue that Putin is using similar strategies to dethrone the Dollar and US hegemony.

Part 1: Challenging NATO

The first part of the research paper serves to provide an argument that focuses on the measures that Russia is taking to challenge NATO hegemony, specifically: Britain, France, Germany, etc., throughout Europe. It will begin by presenting an overview of the impact that inflation can have on a nation and its people through a case study of Soviet Russia during the '80s-'90s which will help understand the argument that Putin is weaponizing inflation. The argument will focus on how Putin has created a supply shock throughout Europe by choking much-needed fuel supplies and enacting its leverage. This supply shock will cause inflation, bringing Europe to Putin's mercy. The argument will also consist of a counter-argument about how exiting the European fuel market is a shot in the foot for Russia, with economic turmoil to follow. However, the counter-argument will be refuted by arguments that Russia is tapping into larger, more flexible energy markets throughout Asia. The purpose of this argument is to present the thesis that Putin is weaponizing inflation to disrupt NATO hegemony.

Perestroika

A low and steady inflation rate is a macroeconomic objective for all nations. But why do governments attempt to keep their inflation rates low? Simple. Runaway inflation and stagflation are an economy's worst nightmare. The hydra that is inflation has the ability to tear apart a nation from the ground up, bringing its people to the streets and governments to their knees. Such was the case in the Soviet Union, a communist regime whose utopian model soon turned dystopian after inflation took its government and people's prey.¹ Price changes, or the lack thereof, were an essential determinant of the living standards and politics of Soviet Russia; in fact, Soviet Russia was founded and dissolved amidst high inflation rates. Mikhail Gorbachev's economic reforms of the late '80s and early '90s were known as Perestroika. Most citizens were convinced that the economy was unstable; despite propaganda attempts by the government to present growth. Labour often went waste, the aggregate supply had seen little to no growth, and there were marginal improvements in living standards. Ultimately, Gorbachev, admitting to the failures of the central government, was poised to save the Soviets from crippling shortages and stagnation.²

Hopes were high, and Perestroika was rolled in with promises of economic growth, except the reforms were timid and deleterious. In a frantic attempt to increase productivity, restrictions were placed upon the consumption and production of alcohol, but it seemingly backfired. Significant tax revenue was lost, and fiscal budget deficits expanded. In addition, the Uskorenie (acceleration) policy increased investment spending on technology³; however, much of these investments were directed toward the defense sector, even though agriculture and industry were the primary targets. In order to achieve growth in potential output, privatization was introduced through the Law on Cooperatives, a reform that aimed to legalize privatization under certain parameters. Banks and state enterprises were given the leeway to act beyond most economic restrictions; however, in practice, privatization was used to move funds from less regulated banks for personal profit, which came at the expense of state budgets. Gorbachev attempted to control prices through the implementation of price control schemes. This worsened the budget deficit as subsidies were rolled out to help producers meet costs in an attempt to create supply; the portion of the budget spent on subsidies increased from 4 to 20% in the late '80s.⁴

¹ Efremov, Steven M., "The Role of Inflation in Soviet History: Prices, Living Standards, and Political Change" (2012). *Electronic Theses and Dissertations*. Paper 1474. <https://dc.etsu.edu/etd/1474>

² Kort, Michael. "Gorbachev From Restructuring to Deconstruction." *The Soviet Colossus: History and Aftermath*, Routledge, New York, NY, 2019, pp. 368–413.

³ Ibid

⁴ Kort, Michael. "Gorbachev From Restructuring to Deconstruction." *The Soviet Colossus: History and Aftermath*, Routledge, New York, NY, 2019, pp. 368–413.

Evidently, these policies failed to increase growth and didn't serve any benefit to consumers but rather contributed to growing budget deficits, a primary cause of inflation. During Gorbachev's tenure, state budgets spiraled out of control and were largely financed by monetary emissions. Simple economics dictates that an increase in the money supply would result in a currency's devaluation, which is precisely what started taking place. Since 1968, Soviet state banks started covering their deficits with credits, which weren't paid off; instead, banks attempted to cover the credit by printing more Rubles, creating inflationary pressure. However, budget deficits only became an issue through Gorbachev's reforms. While in the early '80s, the deficit was only 2% of the GDP, by '89, it had grown to 11%, and by '91, an astonishing 20%. Likewise, debt monetizing, and money printing rose sharply after '85.⁵

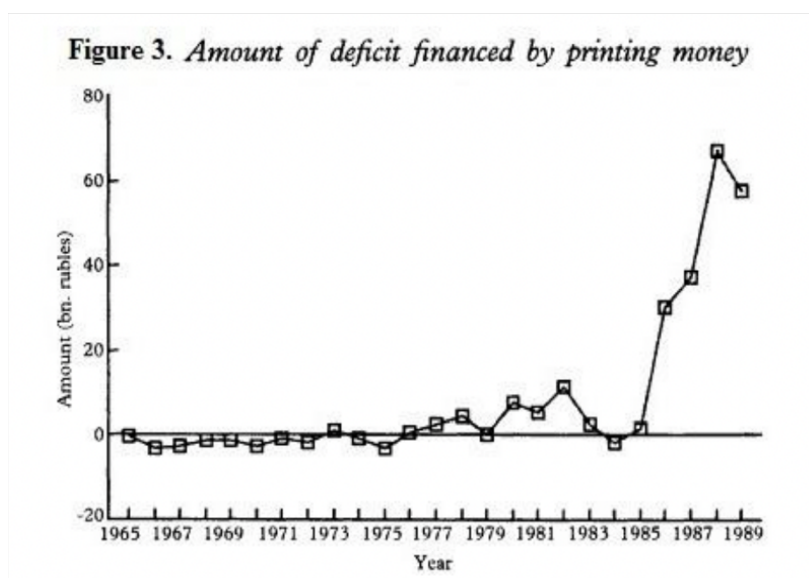


Figure 1 Source: Efremov, Steven M.

Inflation

The steep increase in money supply meant that the economy was on the verge of collapse. The Soviet economy was sitting on a powder keg, and the fires of inflation approached. Inflation began spiraling out of control in the early '90s when the government attempted to increase prices and wages. The primary reason for the shortages, to begin with, was that consumer purchasing power was higher than the supply of goods available. In a classical market economy, one would expect that an increase in demand would lead to a proportional increase in supply; however, in the Soviet economic model, prices remained fixed even though the population and wages grew. As a result, natural inflation was repressed,

⁵ Efremov, Steven M., "The Role of Inflation in Soviet History: Prices, Living Standards, and Political Change" (2012). *Electronic Theses and Dissertations*. Paper 1474. <https://dc.etsu.edu/etd/1474>

store shelves remained empty, and leakages grew as workers saved more, resulting in an overall decline in economic activity.⁶

The Soviets understood that prices were kept too low and believed that simply letting market forces determine prices would be detrimental, so instead, they raised prices by fiat. As a result, they also increased wages proportionally to compensate for rising commodity prices. All this served as good politics, popular with both producers and consumers, but good politics is often bad economics.⁷ The results were disastrous since wages rose, and producers weren't incentivized to increase production; therefore, shortages persisted. The consumer supply of goods in '89 grew slower than worker incomes lower than in previous years. Price increases came into effect, and wages were delayed; thus, citizens were left facing shortages, inflation, and lowered real incomes simultaneously.⁸ While inflation and shortages were rampaging consumer goods prices like soap, laundry powder, and toothpaste, food supply was the final nail in the coffin. The collectivization model of farming had always been an ineffective method of agriculture, and the product often went waste due to collection, storage, and transportation issues. However, Perestroika seemingly exacerbated these issues; due to a loosened grip on central control, enterprises refused to send workers onto fields, and harvest started suffering. Shortages worsened, the hierarchy started falling apart, and political instability was brewing. Selfish behavior was seen in effect when confidence that the food supply would be maintained was shattered. Perestroika convinced people that shelves would remain empty and that if products were available, they would be at heavily inflated and unaffordable rates.⁹ Although individual hoarding occurred, public hoarding of consumer goods was now more extensive. Oblasts, cities, and enterprises attempted to control their interests by resorting to protectionist policies. Enterprises started refusing delivery contracts to producers, harming producer output. Moscow implemented strict measures to allow only its citizens to purchase food rations. And oblasts like Ukraine refused to export agricultural output to Russia. A wave of independence in Russia's sphere of influence was forming.¹⁰ In the early '90s, the collapse was imminent. Government revenue was only able to cover 36% of its planned expenses, which left a gap of 27 billion Rubles to be financed by an increase in the money supply. Bloated inflation and a tremendous gap between demand and supply led to open inflation and shortages. Officially (Soviet Government), the inflation in '90 was measured at 5.3%,

⁶ Kort, Michael. "Gorbachev From Restructuring to Deconstruction." *The Soviet Colossus: History and Aftermath*, Routledge, New York, NY, 2019, pp. 368–413.

⁷ Ibid

⁸ Ibid

⁹ Kort, Michael. "Gorbachev From Restructuring to Deconstruction." *The Soviet Colossus: History and Aftermath*, Routledge, New York, NY, 2019, pp. 368–413.

¹⁰ Ibid

but freely set prices indicated market inflation of 29%. The currency rapidly depreciated as black market Ruble-Dollar exchange rates were 3-4times higher than official rates.¹¹

Repressed inflation was now opened, shortages heightened, and the economy ceased functioning. Real income decreased due to currency depreciation, and finding necessities was more of a struggle than affording them. Consumers spent more time searching for commodities than working, so aggregate labor started tanking. Confidence in the Ruble was at an all-time low, so people began hoarding durable goods and dollars, and firms hoarded inputs instead of producing. Inflation tore the Soviet economy apart to such an extent that the government's authority was called into question and its vulnerability exposed. The USSR's central bank was dissolved, and individual republics were now responsible for printing Rubles. By late 1990, the Soviet Union effectively crumbled as member states like Ukraine, Hungary, Poland, and many more refused to contribute towards the central budget.¹²

Table 12. Inflation in the Soviet Union or Russian Federation, 1985-1995

<i>Year</i>	<i>Official Figure (percent)</i>	<i>Highest Estimate (percent)</i>
1985	1.0	4.6
1986	2.0	-
1987	1.3	-
1988	0.6	6
1989	2.0	8
1990	5.3	20
1991	96.3	200
1992	-	2318
1993	-	841
1994	-	205
1995	-	131

Figure 2 Source: Efremov, Steven M.

Although there were several other contributing factors to the collapse of the Soviet Union, perhaps the most prominent reason was inflation. Both Western and Soviet economists understood that the Soviet Union was not immune to the effects of inflation. And that's the ugly truth; no nation is free from the grips of inflation. Much like an autoimmune disease wherein your body attacks its own cells, inflation causes people to revolt. This is what took place after the economic turmoil; years of pent-up aggression due to the oppressive nature of the Soviet Union came bursting out as people took to the streets for a more

¹¹ Efremov, Steven M., "The Role of Inflation in Soviet History: Prices, Living Standards, and Political Change" (2012). *Electronic Theses and Dissertations*. Paper 1474. <https://dc.etsu.edu/etd/1474>

¹² Efremov, Steven M., "The Role of Inflation in Soviet History: Prices, Living Standards, and Political Change" (2012). *Electronic Theses and Dissertations*. Paper 1474. <https://dc.etsu.edu/etd/1474>

liberal and democratic government. Had inflation been kept in check and policies given more thought rather than implemented through haste, the Soviet star would still be shining on its people. Ultimately, the winds of change arrived, a butterfly flapped its wings, and the once foundation of communism and a global superpower collapsed with all its might. The Soviet's member states soon split apart into 15 different sovereign and independent nations, and what was left of Russia turned to a democratic, liberalized economic system led by Boris Yeltsin under the flag of the Russian Federation.¹³ The Hydra of inflation had consumed one regime and spat out another.

Reimagining a Multipolar Order

The collapse of the Soviet Union was viewed as the single greatest geo-political catastrophe of the 20th century. A global superpower, the 'ideal' worker's utopia, the bastion of communism, the Soviet Union, and its influence defined the political landscape of the 20th century setting a precedent for what a bipolar order would look like. However, its untimely demise in 1991 marked the end of the Cold War, propelling the United States of America's and NATO hegemony and setting forth a unipolar order. Since then, no nation has been able to challenge the extensive influence that NATO exerts upon other nations, including Russia. Yet Vladimir Putin did not view the collapse of the USSR as Russia's superpower status forever diminished. Rather, he believed Russia's status was simply facing a minor hindrance. After all, the Russian Federation, which covered 6.6 million square miles of northern Eurasia, was almost double the size of any other nation on earth and was still approximately three-quarters the size of the former Russian Empire and the Soviet Union.¹⁴

Putin hinted, after the annexation of Georgian territories and the Crimean Peninsula, that it was his intention to re-establish Russia's status as a superpower, as well as a multipolar order. However, what defined his intentions was when, against NATO threats, he proceeded to launch a "special military operation," an invasion of Ukraine. To many, it seemed that he would simply use his operation as a scare tactic to deter Russia's neighboring nations from joining NATO. However, Putin had a bigger plan in mind. It seemed almost calculated that NATO, G7, and its allies would impose economic sanctions; however, these sanctions were placed without a backup or an alternate for their energy supplies. Russia single-handedly became the most sanctioned nation in the world, and the initial economic impact for Russia was immense. The Dollar to Ruble exchange rate rose from 1 USD - 75 Rubles in late February '22 to a

¹³ Kort, Michael. "Gorbachev From Restructuring to Deconstruction." *The Soviet Colossus: History and Aftermath*, Routledge, New York, NY, 2019, pp. 368–413.

¹⁴ Kort, Michael. "Gorbachev From Restructuring to Deconstruction." *The Soviet Colossus: History and Aftermath*, Routledge, New York, NY, 2019, pp. 368–413.

staggering 1 USD - 140 Rubles in early March. However, within a month, the exchange rate was back to normal, with early April seeing the rate at 1 USD - 85 Rubles.¹⁵ The Russian economy started doing better than expected, but the question was, what was even expected? A collapse of the Russian system, at least that's what the west had expected.

Putin's Counter

On the 24th of February, Vladimir Putin unleashed Russia's armed forces in a "special military operation" to "demilitarize and de-Nazify" Ukraine.¹⁶ The initial aim was to overrun Ukraine, deposing its anti-Russian government and President Volodymyr Zelensky. This was to ensure Ukraine's neutral status as NATO advanced towards incorporating Ukraine as a member. In an attempt to prove its fealty towards Ukraine and condemnation of Russia's actions, NATO, Europe, and the USA swiftly moved to impose sanctions. Little did they realize that such sanctions invited the inflation Hydra to their doorstep.

Although sanctions were already imposed on Russia due to the 2014 annexation of the Crimean Peninsula and disregard of the Minsk agreements (agreements to end the war in the Donbas region of Ukraine)¹⁷; more were to follow post the bloodshed this year, ones that would have a cascading effect on the European and the American economy. Putin hinted, after the annexation of Georgian territories and the Crimean Peninsula, that it was his intention to re-establish Russia's influence, a superpower to be feared, a multipolar order. It started with the United States of America and various other NATO membered central banks freezing Russia's foreign reserves. Russia held roughly \$630 Billion in dollars, gold, and other currencies across various central banks. Furthermore, major Russian banks were removed from the SWIFT international financial messaging system and barred from borrowing from foreign banks. The attempt was to ensure that Russia would fall into a debt trap as it would be unable to make \$100 billion worth of payments due to frozen assets.¹⁸ The message was clear, make Russia pay for its actions, not by NATO counter-offensives, but rather by squeezing Russia's financial system to cause economic turmoil. The belief was that the Russian economy had become so interdependent on western economies since the collapse of the Soviet Union that sanctions would be enough to bring the nation to its knees and be used as a measure of deterrence. What the west did not expect was that Russia would strike at the heart of all economies, constricting fuel and natural gas supplies and crumbling their own economies.

¹⁵ "US Dollar (USD) to Russian Rouble (RUB) Exchange Rate History." Exchange Rates, <https://www.exchangerates.org.uk/USD-RUB-exchange-rate-history.html>.

¹⁶ Troianovski, Anton. "Putin Announces a 'Military Operation' in Ukraine as the U.N. Security Council Pleads with Him to Pull Back." The New York Times, The New York Times, 24 Feb. 2022

¹⁷ Wood, Elizabeth A, et al. Roots of Russia's War in Ukraine. Woodrow Wilson Center Press, 2016.

¹⁸ Greene, Robert. "How Sanctions on Russia Will Alter Global Payments Flows." Carnegie Endowment for International Peace, <https://carnegieendowment.org/2022/03/04/how-sanctions-on-russia-will-alter-global-payments-flows-pub-86575>.

NATO dug itself into a hole by sanctioning Russia without a backup for its energy supplies. Russia, over the years, has prepared itself against western economic sanctions as Putin seemingly war-gamed the entire scenario. Despite knowing that sanctions would harm Russia's economy and put pressure on its government, it still proceeded with the invasion; clearly, Putin had a plan to fight back and a larger goal in mind. Energy is viewed as the remote control of inflation. He, who controls the energy supply, controls all economies; therefore, energy was Putin's leverage. A mere statement by Joe Biden on the 11th of February, warning of a Russian offensive, caused Brent Crude oil prices to rise by \$6 in a matter of 4 days.¹⁹ The volatility of energy prices became evident. The inflation Hydra has been lurking in the shadows, hiding behind energy prices, and it was Putin's plan to unleash this Hydra upon European economies. Putin was ready with a counter-offensive; choking energy supplies would essentially cause runaway inflation and with that, social chaos.

Choking the Supply

Prior to the war, a majority of European nations imported their natural gas from Russia, Lithuania imported 83%, Finland 80%, Europe's economic engine, Germany 30%, etc.²⁰ Russia, over the years, has developed an intricate system of pipelines throughout Europe (Nord Stream) to export its natural gas. Nord Stream 1 and 2 are located on the Baltic Sea's Russian coast, stretching through the Baltic Sea and to the coast of Germany, completed in 2011 and 2021, respectively. These twin pipelines are essential as they provide energy to the entirety of Europe through Germany.²¹ Together, these pipelines can transport a sum total of 110 billion cubic meters of natural gas for an estimated time period of 50 years; Europe procured 40% of its natural gas from these Nord Stream pipelines. However, on the 15th of June, Russia announced that it would reduce gas supplies to 5 European Union countries, including Germany. Supply was decreased by a rough estimate of 60%, with many nations facing a majority of their natural gas supply being cut off. Germany is the biggest economy in the European bloc and relies heavily on Moscow's gas to generate electricity and power its industries; the economic engine was slowing down.²²

¹⁹ Sheppard, David, and Derek Brower. "US Warns of Surge in Fuel Costs as It Renews Push for Russian Oil Price Cap." *Subscribe to Read | Financial Times*, Financial Times, 27 July 2022, <https://www.ft.com/content/2cc9e478-2594-4254-9fe0-d7a5efd686fe>.

²⁰ "Nord Stream 1: How Russia Is Cutting Gas Supplies to Europe." *BBC News*, BBC, 29 Sept. 2022, <https://www.bbc.co.uk/news/world-europe-60131520>.

²¹ Ibid

²² Ibid

Sanctioning the Nord Stream pipelines initially seemed like a viable option as threats of pulling out of purchasing Russian gas seemed feasible; a producer is nothing without the consumer. What Europe didn't realize is that the reverse is also true; a consumer is nothing without the producer. Such methods of politics and coercion did not have their intended effects, as Russia showed no signs of backing out of the Ukraine offensive. Germany accused Russia of purposefully driving up energy prices as a political decision, and rightly so;²³ it was, after all, war-gamed by Putin. But the hypocrisy lies in the fact that after imposing economic sanctions, Germany was critical of economic warfare and retaliation by Russia. Europe expects a continuous and un-faltered supply of natural gas from Russia as they rain embargos and sanctions. Although Europe soon attempted to phase out dependency on Russian gas by approaching other sellers like the United States, China, Qatar, etc. The cost of importing natural gas from the other side of the Atlantic Ocean served as a cost too high.²⁴ And due to relations with the Middle East and Asia, countries like Qatar, Iran, and China would sense the desperation and attempt to profit off Europe's desperation. Winter is coming, and Europe needs gas. But what exactly does Putin restricting natural gas do to the European and American economies? Simple. Cost-Push Inflation.

Cost-Push Inflation

Why is energy important for an economy? Since its discovery, energy has single-handedly been humankind's most important commodity, and nations have been at war over oil. From households to firms to governments to countries, even a baby depends on energy for survival. Therefore, he, who controls energy, rules the world. If natural gas were to cease to exist, we would have to resort to archaic cooking methods and finding warmth. If natural gas were to cease, we'd have to light a candle to study under. If oil ceased to exist, we'd have to walk to work. Energy is as important as food and water.

Simple economics: prices skyrocket if the demand stays constant and the supply decreases. While Russia is constricting the supply of fuel, various natural gas and oil corporations worldwide are choosing to capitalize on the situation. Brent Crude oil, the global benchmark for energy markets, surpassed \$100 per barrel after the Russian offensive.²⁵ As aforementioned, the rising oil prices would increase transportation costs like freight shipping rates and trucking delays. Climbing oil prices translate directly to

²³ "Gazprom: Germany Accuses Russian Gas Giant of Pushing Energy Prices Up." *BBC News*, BBC, 15 June 2022, <https://www.bbc.co.uk/news/business-61818997>.

²⁴ Person, and Nina Chestney. "Factbox: What Are Europe's Options in Case of Russian Gas Disruption?" *Reuters*, Thomson Reuters, 10 Mar. 2022, <https://www.reuters.com/business/energy/what-are-europes-options-case-russian-gas-disruption-2022-03-10/>.

²⁵ Fanzeres, Julia. "Crude Oil Price Updates, OPEC+ Decision on August 3." *Bloomberg.com*, Bloomberg, 3 Aug. 2022, <https://www.bloomberg.com/news/articles/2022-08-03/oil-edges-lower-as-traders-await-opec-decision-on-production>.

increased diesel and petroleum costs. This will lead to an increase in input costs for firms and producers, and simple microeconomics dictates that a rise in the cost of production leads to a surge in the prices of goods and services; eventually, the burden will fall on consumers.

In June, inflation in Europe touched 10%, and in the 19 Eurozone countries, 9%. Estonia is projecting an inflation rate of 23%, and Latvia is 21%.²⁶ From energy to food, everything is becoming increasingly expensive by the day. Energy bills have shot up by 40%, food, alcohol, and tobacco by 10%, Industrial goods by 4.5%, and the services sector by 3.4%.²⁷ There is runaway inflation, and more often than not, it leads to a political shake-up. The Soviet Union crumbled under the Hydra of inflation, and



Figure 3 Source: Julia Fanzeres (Bloomberg)

sooner than later, a recession will arise, and Europe's economies will crumble. The first casualty of this Hydra is Italy; the government of Mario Draghi has crumbled, with the trigger being an economic relief package aimed at addressing the rising costs of living. In the month of May, inflation touched 7% in Italy, a 36-year high²⁸; Draghi's attempt to address the issue was insufficient, and his party crumbled. As the 3rd largest economy in the European Union, political stability is a must to address inflationary pressures and revive the European economy, and if Italy flounders, then the rest of Europe will continue to struggle. Investors are losing faith; in July, banks lost \$40 billion worth of government bonds as they were sold and dumped in haste due to recessionary fears.²⁹

²⁶ Euro Area Annual Inflation, September 2022, - Ec.europa.eu. <https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf?t=1664464564725>.

²⁷ Smith, Elliot. "‘You’ve Got to Eat’: Energy Bills Are Squeezing Businesses and People as UK Costs Soar." *CNBC*, CNBC, 24 Aug. 2022, <https://www.cnbc.com/2022/08/19/energy-bills-are-squeezing-businesses-and-people-as-uk-costs-soar.html>.

²⁸ Person, and Gavin Jones Giuseppe Fonte. "Analysis: Call It Karma? as Italy's PM, Draghi to Face Problems He Helped Create." *Reuters*, Thomson Reuters, 11 Feb. 2021, <https://www.reuters.com/world/call-it-karma-italys-pm-draghi-face-problems-he-helped-create-2021-02-11/>.

²⁹ Ibid

The United Kingdom, although not part of the European Union, is still a major European economy. In a struggle to find a new Prime Minister, the inflation Hydra is consuming the people. Citibank projected that UK inflation could hit 18% by next year; this would be the UK's worst inflation in the last 50 years.³⁰ The Bank of England blamed the energy crisis for the rise in inflation rates, officially predicting a recession. The rise in energy prices in the UK has exacerbated the fall in real income and significantly deteriorated economic activity. Thousands of workers went on strike in June, protesting after nearly 30 years; the workers cannot make ends meet and demand a wage rate hike.³¹ As Ukraine completed 6 months of war, the devastation can be felt beyond the borders, Europe's economy is bleeding, and they are soon bracing for impact.

Europe's Alternative

Nevertheless, now more than ever, the European Union has ample rationale to accelerate efforts to find alternatives to Russian LNG. It lies in the hands of the European Union to power through the inflation Hydra, escape recessionary fears, and devise a long-term solution to its dependency. The European Commission (EC) has proposed the REPowerEU package to reduce Russian energy import dependency and facilitate progress towards achieving full energy independence from Russia by 2030.³² The EC has outlined four important measures to create self-sufficiency. i) reducing energy consumption (including via efficiency campaigns); (ii) diversifying supplies; (iii) accelerating the green transition iv) improved connectivity within Europe.³³

Although Russia may be the largest exporter of natural gas in Eurasia, the second largest in Eurasia is Norway. Fortunate for Europe, Norway is part of NATO and the European Union. Norway has been raising production to help the European Union toward its target of ending reliance on Russian fossil fuels by 2027.³⁴ Britain's Centrica has signed a deal with Norway's Equinor for extra supply for the next three winters. Britain does not rely on Russian gas and can also export to Europe via pipelines. Poland, which relies on Russia for about 50% of its gas consumption, is looking toward a new pipeline to flow between Poland and Norway that will be opened in October.³⁵

³⁰ Race, Jennifer Meierhans & Michael. "UK Inflation Could Hit 18% next Year on Rising Energy Bills, Experts Warn." *BBC News*, BBC, 22 Aug. 2022, <https://www.bbc.co.uk/news/business-62634795>.

³¹ Ibid

³² Commission, European. "Questions and Answers on the REPowerEU Communication." *European Commission - European Commission*, https://ec.europa.eu/commission/presscorner/detail/en/qanda_22_3132.

³³ Ibid

³⁴ Ibid

³⁵ Ibid

Several individual countries have already made large strides towards the outlines set forth by the EC. Italy has developed a campaign to reduce indoor temperatures in order to conserve electricity, and Germany intends to develop a mechanism to compensate firms for their reduced gas consumption. Germany, France, Italy, and Spain have made significant progress in achieving the 80% storage capacity target, while Poland and Portugal have increased their storage facility capacities to 90%.³⁶ The solidarity amongst European nations is evident; as a collective, they are all working together to ensure self-sufficiency and sustainability. Germany is extending a \$15 Billion credit line to nations with storage facilities that are currently less than 30% capacity.³⁷

Nations are individually implementing demand and supply management policies in order to control the inflation hydra. Although the United Kingdom is staring at a near recession, the Bank of England is working towards hiking interest rates in order to do damage control. In the short run, it may worsen their economies, and we may see political unrest; however, in the long run, Europe may emerge out of the ashes of economic warfare, having achieved self-sufficiency. This research paper has well established that Russia is a largely export-based economy, so what does it mean for the seller if the consumer exits the market? After all, a seller is nothing without a consumer.

Mutually Assured Destruction

"In war, whichever side may call itself the victor, there are no winners, but all are losers." - Neville Chamberlain.³⁸ The same can be said about economic warfare; in this battle for economic dominance, there will emerge a nation that is crippled and a nation that is less crippled. Russia undoubtedly qualifies as a heavily resource-based economy, and in a modern globalized world, a resource-based economy looks towards exports for its national income. Fuel and metals together accounted for an estimated 65% of value added in Russian industries.³⁹ Hydrocarbons, metals, and other raw materials accounted for 76% of total exports, equivalent to 31.5% of GDP. Oil and gas alone constitute over half the country's export bill. Russia's sales of oil and natural gas in 2021 exceeded its plans by 51%, a total of \$119 Billion. The Russian Central Bank stated that Russia's total exports added up to \$489.8 billion in 2021. Crude oil was worth

³⁶ Commission, European. "Questions and Answers on the REPowerEU Communication." *European Commission - European Commission*, https://ec.europa.eu/commission/presscorner/detail/en/qanda_22_3132.

³⁷ Ibid

³⁸ "Neville Chamberlain." *Oxford Reference*, <https://www.oxfordreference.com>

³⁹ Tompson, William. "The Political Implications of Russia's Resource-Based Economy." *Post-Soviet Affairs*, vol. 21, no. 4, 2005, pp. 335-359., <https://doi.org/10.2747/1060-586x.21.4.335>.

\$110.2 billion, oil products were worth \$68.7 billion, natural gas from pipelines was worth \$54.2 billion, and liquefied natural gas was worth \$7.6 billion.⁴⁰

As previously mentioned, many expected and still expect Russia's economy to crumble due to a loss of revenue in oil exports to the European market. While many European nations did not immediately look to sanction natural gas imports and place embargoes on Russian oil exports, the closing off of Nord Stream pipelines served as a total cut-off; no sanctions were required. Russia wouldn't have allowed Europe to continue importing oil while finding alternatives; it had to force Europe into an immediate crunch, believing that their inability to adjust to the supply crunch would unleash the inflation Hydra, and with that, they would be able to gain political and economic leverage and exert influence.

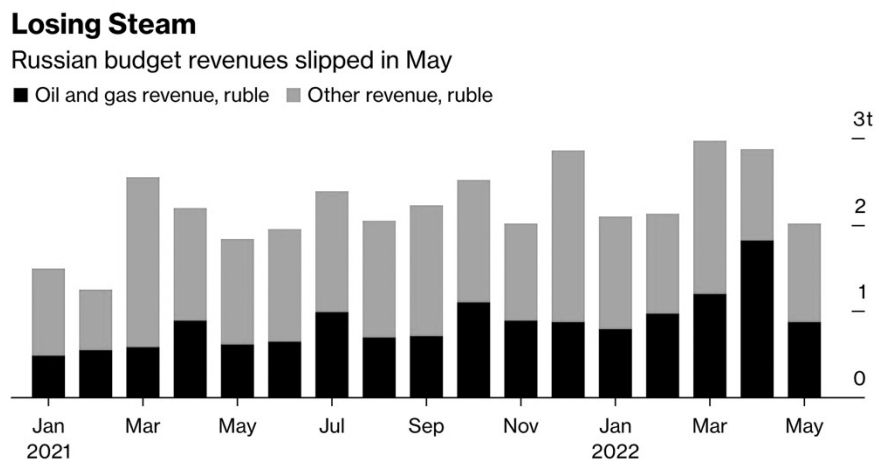


Figure 4 Source: Bloomberg (Russia Hides Budget Spending But Shows How Ruble Hit Oil Revenue)

However, the Russian economy was subjected to a drop in more than half of its gas revenues from the months of April to May. Income from oil and gas fell last month to \$14.9 Billion from \$29.5 Billion in April, which was the highest in at least a decade.⁴¹ In order for Russia to stray away from political strife domestically and maintain a facade globally. The government suspended any and every publication of financial and economic data. The maneuver was unclear; was it a strategy to attempt to seem weak so they could catch the west off guard? Or was the Russian economy struggling so much that it had to resort to censorship to prevent dissent? Nothing was and is clear except for one thing. Russia had been preparing for economic turmoil.

⁴⁰ Tompson, William. "The Political Implications of Russia's Resource-Based Economy." *Post-Soviet Affairs*, vol. 21, no. 4, 2005, pp. 335–359., <https://doi.org/10.2747/1060-586x.21.4.335>.

⁴¹ "Russia Hides Budget Spending but Shows How Ruble Hit Oil Revenue." *Bloomberg.com*, Bloomberg, 14 June 2022, <https://www.bloomberg.com/news/articles/2022-06-14/russia-hides-budget-spending-but-shows-how-ruble-hit-oil-revenue>.

A New Market

Russia has been benefitting from increased energy prices, but how so. Russia's average export prices were about 60 percent higher than last year, helping Russia's export revenues to reach record highs. If they've decided to no longer sell to their biggest market, the only way to benefit from increasing energy prices is to find new consumers. And that's exactly what Russia has been doing. Vladimir Putin has been creating strategic as well as economic alliances behind the scenes, looking towards Asia for its natural gas exports.

While the west has cut off its imports, and Russia, vice versa, cut off its exports. Indian refiners have done the exact opposite, snapping up as much crude oil and natural gas as they could from Russian firms. In May, India imported 819,000 barrels per day (BPD), from 277,000 BPD in April and 33,000 BPD a year ago, effectively propelling Russia as India's second biggest supplier, replacing Saudi Arabia and still short of Iraq.⁴² While calling for a ceasefire, India didn't exactly condemn Russia's actions in Ukraine, bidding to maintain its relationship with Moscow. Government officials have claimed that the only reason India is purchasing its crude oil from Russia is due to commercial reasons, and rightly so. If India has no hand to play in the European conflict, it should rightly seize the opportunity to pick up the world's most important commodity at discounted rates. In order to avoid inflation, India has been purchasing oil at a discounted 30% rate compared to market prices. In July, its imports had risen to \$3.2 Billion, a sharp uptick from \$210 Million in February and zero in March.⁴³ Vladimir Putin decided that in order to maintain its export revenue and ensure the safety of its government budget, it would have to undercut international prices and create new economic alliances. From February to August, Russia has managed to maintain a price that is \$30 cheaper than Brent Crude (previously defined as the global benchmark).⁴⁴

Another strategic and economic partnership that Vladimir Putin was able to develop was with China. Sharing a mutual hatred toward the west as the United States of America continues to intervene in China's ambitions to spread its influence around Asia, the South China Sea, and Taiwan, China has looked to strike new deals with Russia. Two major superpowers are teaming up to take down NATO for their own mutual benefit; surely, a new world order is brewing. China created a new record level of imports of Russian oil in June, with Russia remaining China's top supplier since the war. Imports of Russian

⁴² Person, and Nidhi Verma. "Why India Ramped up Russian Oil Imports, Easing Pressure on Moscow." *Reuters*, Thomson Reuters, 8 July 2022, <https://www.reuters.com/world/india/why-india-ramped-up-russian-oil-imports-easing-pressure-moscow-2022-07-08/>.

⁴³ Ibid

⁴⁴ Ibid

oil, including seaborne shipments and pipeline supplies, are set to total about 2 million BPD.⁴⁵ Just like India, China saw benefit in developing an economic relationship with Russia in order to capitalize on the ongoing global crisis, and although China may be facing its own economic crisis, it's certainly not due to rising oil prices. Russian oil is going 10% cheaper in Chinese markets.⁴⁶

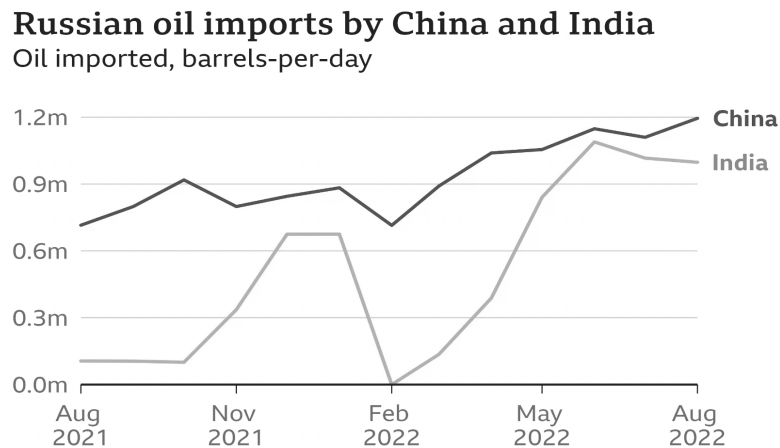


Figure 5 Source: Kpler BBC

Putin Gets What He Wants

One can truly believe that, in a way, Putin has war-gamed every possible scenario and has prepared for what's to come. The break up of the Soviet Union saw Russia's hard-earned territory and influence collapse; however, as aforementioned, it's not forever diminished. The era of globalization in the 21st century has seen Europe become more and more dependent on Russian imports as tensions have been brewing in the middle east. This build-up of dependency has provided Putin with the necessary political and economic leverage to bring Europe to his mercy. Although it's tough to say how exactly the situation in Ukraine will pan out, at the moment, there is emerging a clear victor to this political, economic, and military warfare. NATO constantly pushed Russia's near abroad and its former Warsaw pact members to join them in order to encircle the Russian Federation and accumulate influence and leverage. NATO allowed for the accession of seven Central and Eastern European countries shortly before the 2004 Istanbul summit: Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. Two countries on the Adriatic Sea—Albania and Croatia—joined on 1 April 2009 before the 2009 Strasbourg–Kehl summit.

⁴⁵ Person, and Muyu Xu Chen Aizhu. "China Extends Record Imports of Russian Oil into June, Cuts Saudi Supply - Trade." *Reuters*, Thomson Reuters, 6 July 2022, <https://www.reuters.com/business/energy/china-extends-record-imports-russian-oil-into-june-cuts-saudi-supply-trade-2022-07-06/>.

⁴⁶ Person, and Muyu Xu Chen Aizhu. "China Extends Record Imports of Russian Oil into June, Cuts Saudi Supply - Trade." *Reuters*, Thomson Reuters, 6 July 2022, <https://www.reuters.com/business/energy/china-extends-record-imports-russian-oil-into-june-cuts-saudi-supply-trade-2022-07-06/>.

The most recent member states to join NATO were Montenegro on 5 June 2017 and North Macedonia on 27 March 2020.⁴⁷

To Putin, it was becoming increasingly clear that NATO's influence had now spread dangerously close to home; however, he still deferred from military conflict as Russia was still restructuring and rebuilding from its collapse, attempting to regain its once superpower glory. However, in 2014, Ukraine itself decided to incorporate itself into the European Union (albeit through western influence), the first significant step to joining NATO. Russia invaded the Crimean Peninsula as a response and was struck with economic sanctions; however, western economies at the time were simply performing too well to be impacted by Russia's supply crunch. Therefore, Russia ate up the sanctions and braced for impact.⁴⁸ However, the last straw was when NATO formally approached Ukraine for membership talks in January 2022. This was when Putin realized that he had to act fast and strike hard. With the world crippled from the Covid-19 pandemic, just being able to free up their economies for economic activity and facing growth, it was the perfect time to strike; Europe was vulnerable. The entire world was of the belief that conventional warfare was a thing of the past, that no nation in the 21st century could be foolish enough to literally invade another sovereign nation, regardless of cause. Simply due to globalization and an economy's dependency on others, after all, if Russia's economy were to collapse, Putin's plans would've effectively failed, and the Russian Federation would've fallen prey to the inflation Hydra, receiving the same fate as the Soviet Union.

However, the contrary has occurred. With Putin's special military operation in Ukraine, combined with an effective supply crunch against European economies. NATO's influence and hegemony are now being challenged. They're only merely able to provide basic aid to Ukraine as a direct intervention would risk further escalation. Ukraine looked towards the west to defend them, and the west started looking away; after all, their economies were more important than their reputation. As a result, the conflict is slowly becoming a standstill as Russia looks to effectively place Ukraine under siege until they tap out and submit to Moscow's demands. No one knows what lies in store for the conflict between Ukraine and Russia; no one knows what lies in store for the tensions between NATO and Russia; however, everyone knows that this time, Russia has come out as the underdog, a nation not afraid of NATO's influence and its hegemony.

This, however, is simply a short-term solution for Russia to undermine NATO's opposition to its influence and goals. As aforementioned, Europe is working towards resolving its economic dependency

⁴⁷ Nato. "Enlargement and Article 10." *NATO*, 30 Sept. 2022, https://www.nato.int/cps/en/natohq/topics_49212.htm.

⁴⁸ Wood, Elizabeth A, et al. *Roots of Russia's War in Ukraine*. Woodrow Wilson Center Press, 2016.

and quashing recessionary fears over the next couple of months. Russia has Ukraine, but what's next? If and when Europe bounces back, they will strike harder than before and work together to crumble the Russian economy and cause political dissent and strife. So how does Russia devise a long-term solution to continue challenging NATO and US hegemony? The answer is simple, destroying the dollar dominance and creating an alternative to the SWIFT trading system. Currency and trade warfare will ultimately define whether or not Russia can emerge having established a multipolar order.

Part 2: Challenging the United States of America

The following argument will center around currency and trade domination as effective tools for establishing national superiority and global superpower status. Russia's long-term strategy is to disrupt dollar dependence; however, it is imperative first to understand how the US achieved its hegemony and enthrone the Dollar as the king of all currencies. The following paragraphs will serve as historical context for how dollar imperialism came about. After which, the paper will transition to present-day measures that Russia is taking to challenge the USA. The basis of the argument is that Russia is working in tandem with China, the world's second most powerful nation (by economic standards), as it would be incapable of challenging US hegemony alone. The alliance will implement various measures to gain leverage, make the Ruble/Yuan more desirable, and bypass or skirt the SWIFT system; this system will be discussed in detail. It should be noted that this argument is largely predictive as there isn't enough data to prove the efficacy of the measures. Nevertheless, it presents an outlook of Russia's measures to disrupt dollar dominance and the US hegemony.

War Dogs

President Richard Nixon once famously said, "The strength of a nation's currency is based on the strength of that nation's economy, and the American economy is by far the strongest in the world."⁴⁹ The US Dollar came to dominate trade after World War II as Europe struggled to revive its economies post devastation, but the Dollar remained stable. Currency domination is by far the most effective tool of soft power that a nation can possess. Being the most stable and valuable currency is like having the ripest harvests in a closed-off society; there's no limit to your power. The United States of America effectively

⁴⁹ "Address to the Nation Outlining a New Economic Policy: 'The Challenge of Peace.'" *Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace."* | *The American Presidency Project*, 15 Aug. 1971, <https://www.presidency.ucsb.edu/documents/address-the-nation-outlining-new-economic-policy-the-challenge-peace>.

catapulted itself into global stardom and controlled practically every nation by usurping the pound, establishing the Dollar, and with that, controlling trade. While other nations may have still had control over the Suez Canal, the Malacca Strait, and other critical trade chokepoints, the US had the official currency of trade; the Dollar. So herein, the question lies, how did the Dollar become the currency of choice, and more importantly, what did that mean for the US?

Dating back to the 1940s, the world was reeling from the effect of World War I and at the peak of World War II. At this time, it was de facto that the British were the global superpower with its vast array of colonies globally. However, by the time they fought both wars, a majority of their wealth had deteriorated. In fact, the condition of the British economy was so bad that it'd gone from £0.62 Billion of debt in 1913 to £7.8 Billion of debt in 1930, a stellar increase from 25% of their GDP to 130%, and by the peak of WWII, their debt reached 250% of their GDP.⁵⁰ This was the case with all major countries, including but not limited to France, the Soviet Union, and Germany. However, the US played it safe and smart with the doctrine of isolationism; during WWI, they initially decided to partake as war merchants, having joined the global conflict at a much later stage. While all the empires were dedicating their manpower to conflict, the United States devoted its manpower and resources to becoming a major exporter of cotton, wheat, brass, rubber, automobile machinery, and thousands of other goods. As a result, the United States experienced one of the greatest economic booms recorded: the total value of exports grew from \$2.4 Billion in 1913 to \$6.2 Billion in 1917.⁵¹ The same pattern was also established during WWII wherein the United States acted as war merchants until forced to enter the conflict after the events of Pearl Harbor. By conducting business out of two of the most expensive wars fought in history, the United States was able to amass wealth unlike any other nation had ever seen. While European and various other nations' economies were crippled, the United States had effectively amassed 75% of the world's monetary gold by the end of WWII. Their gold reserves increased from approximately 2000 tonnes in 1910 to 22,000 tonnes in 1945; a superpower in the making.⁵²

⁵⁰ Crafts, Nicholas. "Walking Wounded: The British Economy in the Aftermath of World War I." *CEPR*, 27 Aug. 2014, <https://cepr.org/voxeu/columns/walking-wounded-british-economy-aftermath-world-war-i>.

⁵¹ "The U.S. Economy in World War I." *The U.S. Economy in World War I - World War I Centennial*, <https://www.worldwar1centennial.org/index.php/communicate/press-media/wwi-centennial-news/3930-the-u-s-economy-in-world-war-i.html>.

⁵² "Money Matters, an IMF Exhibit -- the Importance of Global Cooperation, Destruction and Reconstruction (1945-1958), Part 1 of 6." *International Monetary Fund*, https://www.imf.org/external/np/exr/center/mm/eng/mm_dr_01.htm.

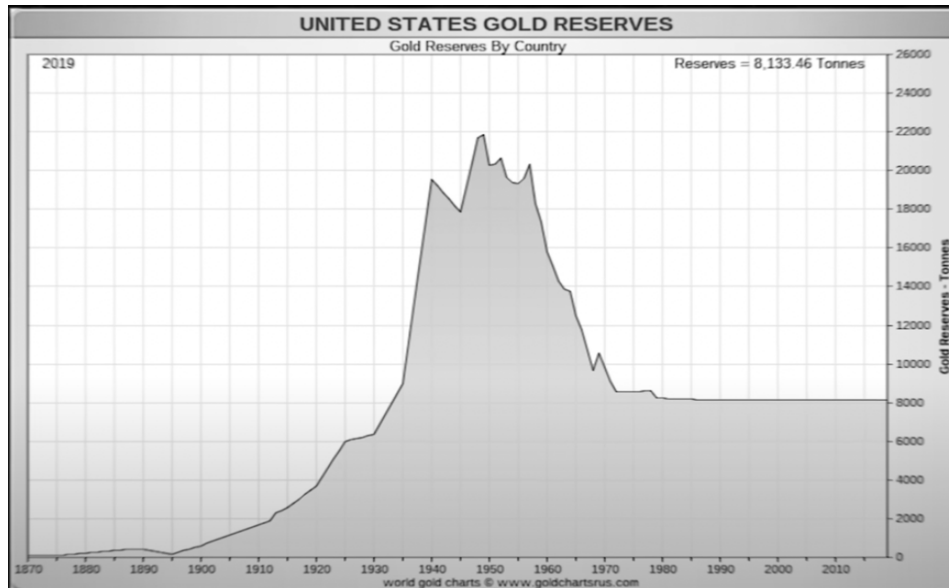


Figure 6 Source: World Gold Charts (goldchartsrus.com)

The Saviours

With the US having the largest gold reserves worldwide, it took the opportunity to seize economic power. It brought to the table several nations, from the UK, the USSR, France, Canada, China, etc., and got them to sign the Bretton Woods Agreement (1944). Whereby 44 countries agreed to peg their currencies against the Dollar, and the US dollar was ultimately pegged to the value of gold.⁵³ The Bretton Woods Agreement marked a historical moment that presented the United States with official power to become a superpower and dominate the centuries to come. So why did these nations agree to such, and what was their benefit?

Firstly, the agreement stated that one ounce of gold (28.35 grams) would be ascribed to a value of \$35, and every Dollar was redeemable for gold.⁵⁴ This allowed for the rise of convenience and trust in trade, factors that can make or break trade deals; a nation that did not trust another could still partake in trade. A nation's currency volatility and its economy would not matter when exchanging goods as they would be purchased in Dollars, not the local currency; thereby, the Dollar could be exchanged for gold and present real wealth. A seamless and effective system of trade, solely dependent on the value of the US Dollar.

⁵³ Kirshner, Orin. "The Bretton Woods-GATT System: Retrospect and Prospect after Fifty Years." 2015, <https://doi.org/10.4324/9781315700212>.

⁵⁴ Kirshner, Orin. "The Bretton Woods-GATT System: Retrospect and Prospect after Fifty Years." 2015, <https://doi.org/10.4324/9781315700212>.

Secondly, the Bretton Woods Agreement gave rise to two major organizations, The World Bank and the International Monetary Fund (IMF). As most countries were devastated by war and desperately needed funds and loans to rebuild their economy, the Marshall Plan (US international loan distribution campaign) came into effect and distributed billions of dollars worth of loans through the World Bank.⁵⁵ Thirdly, nations now had access to IMF facilities. While the World Bank provides long-term loans for development, the IMF would keep track of the global economy, assist policy makers, and, most importantly, lend loans to nations with balance of payment difficulties. Even to this date, nations like Pakistan and Sri Lanka, reeling through economic catastrophe, look towards the IMF and the World Bank for a financial bailout. The Bretton Woods effectively sealed the importance of the US Dollar and provided them with incredible leverage over practically every nation worldwide, marking the first phase of US Dollar Dominance.

The second major step that the US took was to capitalize on the most valuable commodity known to man. As a recurring theme throughout this research paper, it is well established that oil is to nations what water is to humans. Again, dating back to WWII, while the Allies were battling the Axis forces, the Arabians in the Middle East discovered the largest black goldmine in the world. American and British companies were serving worldwide requirements of oil; therefore, only these companies had the necessary technology to extract and refine oil and the acumen to use it for world trade and development.⁵⁶ During the war, Italy attacked various oil fields throughout the Arabian Peninsula, and as a result, the Saudis struggled to produce oil at full capacity, desperate for protection. At this moment, President Franklin Delano Roosevelt (FDR) realized the importance of Saudi oil fields and pounced on the opportunity for success. FDR met with the King of Saudi Arabia, Abdul Aziz ibn Saud, in 1945 and struck a deal that would change the fortunes of the US Dollar. The US offered full military protection to Saudi Arabia from future attacks, providing them with necessary military equipment and in return, they asked that Saudi Arabia would only sell oil in US Dollars.⁵⁷ As Saudi Arabia and the Middle East amassed fortunes from their black gold mines, by the 1960s, following the inception of the Organization of the Petroleum Exporting Countries (OPEC), all oil-exporting nations began selling oil for dollars. America had set the stage for its hegemony, its dominance was to arrive and its geo-economic and political strategies would cement their place as the most dominating power in global politics.⁵⁸

⁵⁵ Ibid

⁵⁶ "Petrodollar Recycling and Global Imbalances -- Presentation by Saleh M. Nsouli, Director, Offices in Europe, International Monetary Fund." *IMF*, 23 Mar. 2006, <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp032306a#:~:text=What%20is%20%22Recycling%22%3F,in%20foreign%20assets%20held%20abroad.>

⁵⁷ Ibid

⁵⁸ Ibid

The Dollar: A Weapon of Mass Destruction

However, while the Bretton Woods agreement allowed for a US dollar to gold exchange and vice-versa, by the 1970s, their economy started slipping, and its reserves too: approximately 22,000 tonnes in 1945 to 10,000 tonnes in 1970.⁵⁹ This was due to a plethora of reasons like the Korean and Vietnam war, gold price hikes, US liabilities, etc. The US realized that its reserves were deteriorating and concluded that it wouldn't be feasible to continue the exchange of Dollars and gold. At this moment, President Richard Nixon declared a temporary suspension of the Dollar's convertibility to gold, and the Bretton Woods system had seemingly collapsed in 1973; "We must protect the position of the American Dollar as a pillar of monetary stability around the world."⁶⁰ Every nation was now free to choose any exchange arrangement for their currency, except pegging its value to the price of gold. One of the most important factors for the value of a currency was no longer gold but its application; what could your currency buy you in the global market and from whom? And what could the US Dollar buy you?; the most valuable commodity of the century, oil. By default, most nations held onto their forex reserves in US Dollars so that they could purchase oil. A simple stroke of genius by the United States to make its currency the most value through a factor of trust and applicability. The value of money was now effectively an illusion, its value no longer ascribed to any tangible asset. The value lay in trust, and that trust bought the United States strength.

In a move to further consolidate and maintain the Dollar's position as king, the US and its allies established the Societies for Worldwide Interbank Financial Telecommunication (SWIFT) to make trade payments. Now that nations are de facto trading with the Dollar and using the SWIFT system to make their payments, how does this establish Dollar hegemony? The answer lies in the working of the SWIFT system. Although simplified, for the purpose of explanation, if India were to purchase coal from Sri Lanka, Indian banks would contact their respective American banks, wherein their deposits are stored in dollars. It would ask for a payment transfer to an American Bank associated with Sri Lanka, which would then transfer the funds to Sri Lanka in their respective currency. A system wherein nations entirely depend on their forex reserves parked in American banks. Today more than 200 countries trade with US dollars and have their forex reserves in American banks. The catch is that these forex reserves are susceptible to American policy. Suppose a nation were to misalign its interests with the United States and pursue an

⁵⁹ Kirshner, Orin. "The Bretton Woods-GATT System: Retrospect and Prospect after Fifty Years." 2015, <https://doi.org/10.4324/9781315700212>.

⁶⁰ "Address to the Nation Outlining a New Economic Policy: 'The Challenge of Peace.'" *Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace."* | *The American Presidency Project*, 15 Aug. 1971, <https://www.presidency.ucsb.edu/documents/address-the-nation-outlining-new-economic-policy-the-challenge-peace>.

aggressive foreign policy. In that case, its forex reserves could be frozen, and the nation would've effectively lost all purchasing power in the global market and could not trade, a catastrophe.⁶¹

The SWIFT system has created unprecedented power for the United States; it holds massive economic leverage over every nation in the world, and its capable of crippling a nation's economy overnight. A nation's ability to progress on the global standing entirely lies upon its relationship with the United States, a powerful friend, if not the most powerful friend to have. The US has been able to weaponize its currency, and this godlike power allowed them to freeze Russia's \$300 Billion worth of reserves following the Russian invasion of Ukraine.⁶² The SWIFT system and dollar hegemony pose the biggest challenge in Putin's attempts at recreating a multipolar order, for the Dollar weapon will continue crushing Russia until and unless Putin can come up with a viable strategy to counterattack the Dollar and US hegemony. This is where Russia can take a page out of the US's diary. While they may have been able to undermine NATO in the short term through unleashing the inflation Hydra, in order to land their final blows and rise atop the podium, they must dominate world trade and rid themselves of US leverage by re-establishing the trust and value of the Ruble, as well as create an alternative to the SWIFT system.

The Game of Leverage

Now that we've understood how the US was able to establish its currency and trade dominance, the paper will begin focusing on measures that Putin is taking to disrupt this dominance. Over the past few months, at the time of writing this paper, Vladimir Putin has been making strides in effectively "dumping" the Dollar.⁶³ Russia realized that they were at the mercy of America in terms of global and free trade, with harsh restrictions, sanctions, embargoes, and all measures of economic fallout being rained upon the federation. US's unprecedented currency power has allowed them to dominate the largest of players like Russia and China; however, "the enemy of my enemy, is my friend," a saying as old as time still rings true to this date. With the US in a parallel trade and ideological war with China, it seemed fitting that Putin and President Xi Jinping would shake hands to watch the Dollar crumble together. Russia realized that in this battle, they would not survive alone. Although Europe is now at the mercy of the inflation hydra, taking the US down would require a far stronger weapon and an even stronger ally.

⁶¹ "Money in the Commercial Revolution." *A History of Money*, 1997, <https://doi.org/10.4324/9780203347065.ch4>.

⁶² Mohsin, Saleha, et al. "Russia Sanctions: Latest News on Bank Rossii (Russia's Central Bank)." *Bloomberg.com*, Bloomberg, 26 Feb. 2022, <https://www.bloomberg.com/news/articles/2022-02-26/u-s-weighs-sanctions-on-russia-s-central-bank-over-ukraine>.

⁶³ "Russia's Plan to Evade Western Sanctions Revealed." *The Express Tribune*, 18 Mar. 2022, <https://tribune.com.pk/story/2348586/russias-plan-to-evade-us-backed-western-sanctions-revealed>.

Russia's path to a multipolar order would certainly see China's emergence parallelly. Already an established superpower, the developing nation is hardline in ensuring that its foreign policy aims are established and its influence is widespread. Nevertheless, the immediate threat is the US, and it seems Xi and Putin have joined hands and devised a master plan. What is this master plan, how has Russia joined forces to dethrone the Dollar and the US of its superpower status, and what are some challenges that Russia and China might face in this currency war?

Trust for trade, power to buy oil, and forex reserves; the goals are clear to establish currency and trade dominance. Leverage is one of the most powerful tools in geopolitics; with Russia unable to utilize its Dollar accounts in the US after sanctions and restrictions and its companies being removed from the SWIFT system, its clear that the US has leverage over Russia. However, Russia, too, holds leverage boasting the 2nd largest oil reserves globally. Although Saudi Arabia and the other OPEC nations continue to sell oil in Dollars, Russia decided to sell their reserves in Rubles.⁶⁴ By default, those who continued to purchase Russian gas had to accumulate Rubles and keep some forex in the Russian central bank in order to continue trade. Just like Dollar reserves held the US economy, the Ruble reserves are expected to compromise for the damage to the Russian economy. Russia has simply taken a page out of US's book and moved on to achieve its aim of establishing the Ruble as a currency that's valuable. At the same time, Russia has also been aiming to rid itself of the leverage that the US held over its forex reserves. According to the graph below, Russian holdings of US Dollars have seen a steep decline over the past decade, from \$150 Billion in 2013 to \$3.98 Billion in 2021.

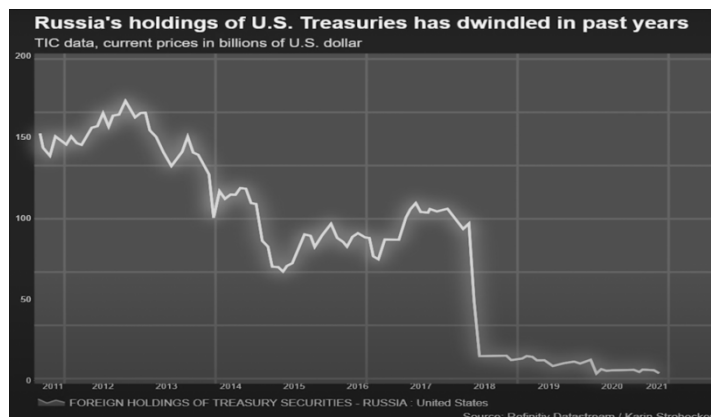


Figure 7 Source: Karin Strohecker (Reinfinity Datastream)

⁶⁴ "Russia's Plan to Evade Western Sanctions Revealed." *The Express Tribune*, 18 Mar. 2022, <https://tribune.com.pk/story/2348586/russias-plan-to-evade-us-backed-western-sanctions-revealed>.

Although this research paper will not delve in-depth into China and its geopolitical strategy, for the sake of this argument and understanding China's role in this currency war and its benefits to Russia, it's imperative to understand a little about China's foreign policy. China has been simultaneously amassing diplomatic favor and leverage over various nations worldwide, underdeveloped/developing nations in particular. China has accumulated this influence through its Belt and Road Initiative (BRI) program. In short, China has handed out large loans, predatory in nature, to nations like Pakistan, Sri Lanka, Nigeria, Bangladesh, etc. Over 165 countries in the world owe a collective debt of over \$385 Billion; however, a majority of these countries cannot pay back their loans.⁶⁵ China's leverage is that the payment of these loans can be according to their standards, which Xi has determined to be a payment done in Yuan with incentives of discounts and, to some extent, loan forgiveness.⁶⁶ Considering the situation worldwide in terms of debt, it seems highly likely that the incentive of receiving a discount on their loan repayments would be far more desirable than simply purchasing and trading with Dollars as it's the status quo. At the same time, China is also offering its loans in Yuan; since the inception of the BRI, China has offered 14% of its loans in its own currency, without depending on the Dollar.⁶⁷ The strategy is clear, make the Ruble and Yuan more desirable than the Dollar. The combination is deadly, Russia has oil which is a desirable good, and China has inflicted debt. Both forms of leverage, and over time, both nations can use this leverage to increase the circulation of their respective currencies. Both nations are working in tandem to day by day serve their currency as to be the desired currency of exchange, whether it be by hook or by crook.

A Currency to Desire

However, the nations that Russia and China have leverage over are primarily underdeveloped or uninfluential on the global stage. So the question lies, how do Putin and Xi convince nations like India, England, Germany, and other influential powers to skip the Dollar and purchase the Ruble/Yuan? For starters, Russia has been strengthening its ties with China and has turned the Yuan into its official forex reserve currency, becoming the third largest market for Yuan payments amid sanctions. As far as other nations are concerned, Xi and Putin have embarked on new currency dealings known as Bilateral Currency Swap Agreements. This is an agreement that even India is pursuing as they look to swap the Dollars for

⁶⁵ Lau, Yvonne. "China Gave Tens of Billions in Secretive 'Emergency Loans' to Vulnerable Nations, Emerging as World's Major Creditor and IMF Competitor." *Fortune*, Fortune, 12 Sept. 2022, <https://fortune.com/2022/09/12/china-gave-tens-of-billions-in-secretive-emergency-loans-to-vulnerable-nations-emerging-as-worlds-major-creditor-and-imf-competitor/>.

⁶⁶ Ibid

⁶⁷ Lau, Yvonne. "China Gave Tens of Billions in Secretive 'Emergency Loans' to Vulnerable Nations, Emerging as World's Major Creditor and IMF Competitor." *Fortune*, Fortune, 12 Sept. 2022, <https://fortune.com/2022/09/12/china-gave-tens-of-billions-in-secretive-emergency-loans-to-vulnerable-nations-emerging-as-worlds-major-creditor-and-imf-competitor/>.

Rubles in order to purchase Russian gas.⁶⁸ What is the Bilateral Currency Swap Agreement? If, for example, China and the United Kingdom were to sign the aforementioned agreement for five years, for a value of \$1 million. It would essentially mean that China would sell \$1 million worth of Yuan to the UK, and in return, the UK would sell \$1 million worth of Pounds to China, with an agreed exchange rate of their respective currencies. For the next five years, the Chinese government will lend these Pounds to its corporations to settle trade, which the UK would similarly do. This would create the convenience of trade; if an English corporation were to buy \$1 million worth of goods from China instead of using the SWIFT system and exchanging Pounds for Dollars, then Dollars to Yuan, instead it would simply accumulate Yuan from English banks and proceed to purchase the goods. China has signed more than three trillion Yuan worth of Bilateral Currency Swap Agreements with more than 40 countries, including 150 billion Yuan worth with Russia and 350 Billion Yuan worth with the UK.⁶⁹

The result of these currency swap agreements is that two big international players can now conduct trade without having to depend on the US Dollar or the SWIFT system. This makes the Dollar less desirable, and for those willing to purchase Russian and or Chinese goods, their respective currencies far more desirable. A rather swift response by China and Russia to tackle Dollar hegemony. Although the efficacy of these agreements is yet to be determined, it would likely cause a major disruption to the Dollar market and a result, cause harm to the US economy. A significant indicator of this is that for the first time since the 70s, Saudi Arabia has considered accepting the Yuan instead of Dollars for its oil sales.⁷⁰ If Saudi starts selling oil in Yuan, nations will rush to purchase Yuan. Since Russia is already selling oil in Rubles, likewise, nations are rushing to purchase Rubles to land cheap Russian gas. Russia is steadily developing its relationship with China, which it views as a significant economic partner, to work against the Dollar. Without China's help, Russia would certainly not be able to dominate the currency and trade markets and would find it surely impossible to dethrone the Dollar. It is vital for Russia to establish its alliance and friendship with China, as well as align interests if it is to see US hegemony fall.

In Putin We Trust

China and Russia are slowly but surely building their currency strategies to overthrow the reserve currency throne from the US Dollar. But does this mean that they are entirely capable of dethroning the

⁶⁸ Mbhusari. "Russia and China: Partners in Dedollarization." *Atlantic Council*, 7 Apr. 2022, <https://www.atlanticcouncil.org/blogs/econographics/russia-and-china-partners-in-dedollarization/>.

⁶⁹ Mbhusari. "Russia and China: Partners in Dedollarization." *Atlantic Council*, 7 Apr. 2022, <https://www.atlanticcouncil.org/blogs/econographics/russia-and-china-partners-in-dedollarization/>.

⁷⁰ Ibid

Dollar? One cannot say for sure, as there are drawbacks to these risky currency dealings and leverage games. The first challenge that both nations will face is that their notorious reputation precedes them, which is certainly the case with Russia. The biggest factor in making your currency desirable and establishing trade dominance is the trust factor. If your nation cannot be trusted to be politically stable and, incidentally, economically stable, it would be foolish to believe that your currency will be desired. As the economic cost of war is high, if Russia is to not see a resolution to the Ukraine conflict soon, and if the war stretches it, it may cause greater economic fluctuations within Russia, which could depreciate or appreciate the Ruble, and volatility destroys trust in stability. Likewise, China's expansionist tendencies in the South China Sea have led to issues with trade partners and various nations.⁷¹

Secondly, China has been aggressively devaluing its currency in order to make its exports cheaper and more desirable in the international market. The consequence is that it could be in violation of the currency swap agreements, and resultantly, the agreement may look undesirable and untrustworthy to nations, which could kill their plan for nations to bypass the SWIFT system in free trade.⁷² Thirdly, the transparency in terms of the economic progress of both nations is relatively unclear. Russia has been known to falsify economic data on several occasions so as to not be perceived as weak on the global standing; the consequence is that nations would not have a reliable indicator of the strength of Russia's economy. After all, remembering Nixon's words, "the strength of a nation's currency depends on the strength of a nation's economy," how is a nation to judge the strength of the Russian Ruble? The one factor that the United States has going, which neither Russia nor China has been able to capitalize on, is that of trust. This has been achieved through years of relative transparency amongst its allies and trade partners.

Therefore, for Russia to succeed, it must establish a strong foundation of trust, which may require taking another page out of the US's global dominance playbook, and that is transparency. Putin would have to revitalize Russia's image as a warmongering, isolationist, volatile nation to a rather positive outlook of a stable, independent, and reliable trade partner. Then, and only then, would Russia truly be able to achieve its long-term goal of destroying US hegemony; until then, it can only take the mantle of 2nd or 3rd place and establish a borderline multi-polar order.

⁷¹ Renaud Foucart Senior Lecturer in Economics. "The Cost of War: How Russia's Economy Will Struggle to Pay the Price of Invading Ukraine." *The Conversation*, 6 Oct. 2022, <https://theconversation.com/the-cost-of-war-how-russias-economy-will-struggle-to-pay-the-price-of-invading-ukraine-178826>.

⁷² Mbhusari. "Russia and China: Partners in Dedollarization." *Atlantic Council*, 7 Apr. 2022, <https://www.atlanticcouncil.org/blogs/econographics/russia-and-china-partners-in-dedollarization/>.

Conclusion

Considering both the short and the long run, we can effectively see that Putin is implementing a variety of hard-power and coercive strategies, aside from the use of force, to achieve his aims. Putin's response to western sanctions was to crunch the supply of oil, and although some would view it as self-harm to the Russian economy, the consequences for Europe and the economic leverage that Putin was able to gain were immense. The oil supply crunch inflicted a series of inflationary pressures upon a variety of European nations, causing run-away inflation and an overall supply chain shock that would see economic turmoil. And although Europe did seek alternate sources of fuel, it would be to no avail as the alternative was far too costly. At the same time, Putin was able to alleviate Russia's economic damages by exporting oil to China and India at a discounted rate, giving Russia a competitive edge in the market and bagging two of the world's largest energy consumers. However, the strategy of crunching fuel supplies is a mere short-term solution for challenging NATO hegemony; the bigger target lies in disrupting the main NATO player, the United States. For that, Putin realized that it would be a feat, impossible, to dethrone the Dollar and SWIFT system. Therefore, Putin joined hands with the world's second strongest power, China, in efforts to tackle Dollar dominance. Russia began exporting its oil in Rubles, not Dollars which was for decades the default currency for oil. China began handing out loans in Yuan; although these loans were predatory in nature, they ended up providing China with more leverage. Both nations were able to accumulate leverage amongst various countries in the world and soon enough force them into ultimatums between choosing Rubles/Yuan or Dollars for their reserves and exchanges. This strategy was aided by both China and Russia's commitment to Bilateral Currency Swap Agreements, which served to make their respective currencies stable, reliable, and desirable as forex reserves.

At the moment, European economies are crumbling, and its increasingly evident that sooner or later, nations like Britain, Germany, France, etc., will be forced to revise their foreign policy towards Moscow and take a more lenient approach. Else they will succumb to the inflation hydra, and their economies will entirely collapse. While Putin may have Europe at his feet, the US is a larger target to tackle. The US will not bend to Russia's will so easily; it may require decades more of currency and trade warfare and leverage games for there to be some fruition and success to Russia's long-term goals. As it stands, the world is in the belief that Russia's economic status and strength are slowly deteriorating, and that the Ukrainian invasion was a catalyst for Russia's own demise. However, this research paper argues the contrary, it is now that Russia has taken a stand, and although it may face increasing inflationary pressures and negative growth over the years, it cannot be disregarded that Europe is simultaneously suffering. Both sides will

suffer in this geopolitical game of thrones, but it ultimately boils down to who will suffer less. The inflation hydra has begun consuming Europe, and the usurper Putin is looking to dethrone the Dollar; it's only a matter of time before one or the other prevails.

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