



Can the US Dollar Withstand the Trump Onslaught?

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By Duvvuri Subbarao

SYNOPSIS

The dominance of the US dollar rests on an implicit bargain: America provides stability and liquidity to the global system, and the world, in return, will use the dollar as its principal international currency. That bargain is now under strain. Policies associated with Donald Trump – particularly tariffs and the weaponisation of finance – risk undermining the very foundations of dollar dominance. While no immediate alternative to the dollar exists, internal contradictions in US policy, especially those highlighted by the Triffin paradox, could gradually weaken the dollar hegemony and accelerate diversification away from the dollar.

COMMENTARY

The US dollar's dominance rests on an implicit bargain between the United States and the rest of the world: America would maintain the stability of the international monetary system through credible economic management, and the world, in return, would use the dollar as its principal international currency.

That bargain has held for decades. It is now under strain.

President Donald Trump's approach to economic policy – particularly his readiness to weaponise trade and finance for geopolitical ends – risks unsettling that understanding. It raises a fundamental question: Can the dollar withstand the Trump onslaught?

The Foundations of Dollar Dominance

For more than seventy years, the US dollar has been the central pillar of the global monetary system. It dominates trade invoicing, cross-border finance, and central

bank reserves. Around 60 per cent of global foreign exchange reserves are held in dollars, and most commodities, especially oil, are priced in it.

This dominance gives the United States extraordinary advantages. It can borrow more cheaply in international markets because the world needs dollar assets. External demand for US Treasury securities provides Washington with a deep and reliable pool of financing. As former French finance minister (and later president) Valéry Giscard d'Estaing famously said, America enjoys an "exorbitant privilege" by virtue of the dollar being the world's reserve currency.

But that privilege has always come with responsibility.

The United States has been expected not only to manage its own economy prudently, but also to provide global public goods, i.e., liquidity, financial stability, and relatively open markets. The credibility of American institutions and the predictability of its policies have been central to global trust in the dollar.

That trust is now being tested.

The Trump Contradiction

President Trump's economic strategy places tariffs, trade protection and economic coercion at the centre of policy. He has threatened tariffs against countries seeking to reduce reliance on the dollar, while also using tariffs to shrink America's trade deficit.

At first glance, these goals appear aligned. In reality, they are in tension.

The reason lies in the Triffin paradox, first articulated in the 1960s by the Belgian-American economist Robert Triffin. A country issuing the global reserve currency must run persistent external deficits to supply the world with liquidity. Simply put, the world can accumulate dollars only if the United States spends more abroad than it earns.

America's trade deficit, therefore, performs a systemic function. It is not just a domestic imbalance; it is a mechanism through which the global economy is supplied with dollars.

This creates a contradiction at the heart of current US policy. If tariffs succeed in reducing America's trade deficit, the supply of dollars to the global economy would contract. Washington would, in effect, be tightening the availability of the very currency on which the system depends.

The consequences would not be evenly distributed. Emerging markets, in particular, will face tighter global liquidity, more volatile capital flows, and greater exchange rate pressures – all triggered by policy choices in Washington rather than domestic fundamentals.

Trust, Power, and the “Predatory Hegemon”

For now, the dollar remains remarkably resilient. No rival currency offers the scale, liquidity and institutional backing required to replace it.

When the euro came on the anvil at the turn of the century, there was hope and expectation that it might rival the dollar. However, it has failed to live up to that promise because of incomplete integration.

There was much hype around the prospect of the RMB posing a challenge to the dollar after China dramatically expanded its trade footprint, and even more so after it was included in the IMF’s SDR basket in 2016. But structurally, the RMB does not meet essential preconditions for a reserve currency. The RMB exchange rate is not market-determined, China imposes capital controls, and Chinese financial regulation lacks transparency and credibility. Moreover, it would be ironic if, in seeking to escape the dollar hegemony, the world were to anchor itself to a system with weaker institutional safeguards.

In Dollar, We Trust?

What ultimately sustains the dollar is not just economic weight but trust – trust in American institutions, the country’s rule of law, and its policy stability.

That trust is eroding because of America’s aggressive economic nationalism and unpredictable policies.

One source of strain is the weaponisation of the dollar as an instrument of geopolitical power. Through financial sanctions and control over dollar clearing systems, the United States has imposed sanctions on a host of countries – Cuba, Iraq, Iran, Venezuela, Russia. While sanctions on some particularly rogue countries might be justified, the world worries that America might continue to weaponise the dollar for geopolitical ends unilaterally and capriciously.

Over time, these risks reinforce a perception of the United States as a predatory hegemon – a power that uses its monetary dominance not just to sustain the system but to advance narrower strategic interests.

A second source of strain is the broader fragmentation of the global economy. Strategic rivalry, supply-chain shifts, and national security concerns are reshaping trade and investment flows. As economic integration weakens, financial integration may follow.

As Canadian Prime Minister Mark Carney said in a [notable speech](#) at the World Economic Forum in Davos: “If you’re not at the table, you’re on the menu.”

For many countries, especially emerging markets, that is no longer just a metaphor. It’s turning out to be a lived experience.

Gradual Change, Not Sudden Collapse

None of this suggests an imminent collapse of the dollar system. Monetary orders evolve slowly. The transition from the pound sterling to the dollar as the global reserve currency unfolded over decades.

The more likely outcome is a gradual shift – a system in which the dollar remains dominant but operates alongside a more diversified set of currencies. Also, countries might start trading in local currencies and form small currency blocs around trade integration.

Yet the most immediate risk lies not in external challengers, but in internal contradictions.

If the United States seeks to reduce trade deficits through tariffs while preserving the dollar's global role, it will collide with the logic of the Triffin paradox. Fewer deficits mean fewer dollars circulating globally – and stronger incentives for others to seek alternatives.

In that sense, attempts to defend the dollar through coercion – or through policies associated with a predatory hegemon – could end up weakening the system itself.

A Warning from History

The global monetary order has always depended on a balance between national interest and international responsibility. The issuer of the reserve currency enjoys exceptional privilege but must also exercise restraint.

More than half a century ago, US Treasury Secretary John Connally told his European counterparts: “The dollar is our currency, but it’s your problem.”

If the United States continues to breach the trust on which dollar dominance rests, the world may turn back and say:

“The dollar is your currency, and it’s your problem.”

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