



The Transition from a Dollar-Centric Financial System to a Multipolar Currency System.

Since the inception of the Bretton Woods system in 1944, the U.S. dollar has continued to be the world's dominant currency. Despite multiple upheavals in the last five decades, including the collapse of the Bretton Woods system in 1971 and the subprime mortgage crisis that originated in the U.S. in 2007, the dollar's global dominance did not diminish.

To this day, the U.S. dollar still maintains its preeminent position in foreign reserve holdings, trade invoicing, cross-border investments, commodities trading, and currency transactions. Although the United States' share of global output and exports has fallen in the last two decades, the U.S. dollar still remains the world's most important currency.

The hegemony of the U.S. dollar continues to confer unparalleled economic and geopolitical influence upon the United States. This dominance enables the U.S. to finance substantial trade deficits without incurring adverse currency effects, to borrow internationally at interest rates significantly lower than those available to

other nations, and to print currency with the assurance that the global economy will absorb any surplus liquidity, effectively exporting U.S. inflation to countries holding dollar-denominated assets. Furthermore, the U.S. can leverage the global financial system as a tool of geopolitical influence. Control over dollar-based global clearing systems, such as SWIFT, permits the U.S. to impose stringent geopolitical sanctions, including the freezing of foreign exchange reserves and restricting access to global capital. Given that nearly all international dollar transactions are cleared through banks physically located in the U.S., North American courts and regulators possess considerable extraterritorial influence and legal jurisdiction over global financial activities.

Although a gradual process of de-dollarization has been underway over the past decade, the dominance of the dollar has remained largely unchanged. Nonetheless, the current complex and challenging geopolitical environment may further stimulate global efforts towards de-dollarization.

The Dollar Dominance

Several factors contribute to the global dominance of the U.S. dollar. These factors include its stable value and status as a 'safe haven', the substantial size of the U.S. economy with its deep and liquid financial markets, the nation's openness to trade, the extensive presence of U.S. corporations and investors in global markets, and the United States' geopolitical heft.

The dollar's dominance is also reinforced by its powerful network effects: everyone uses the dollar because everyone else does so. From taxi drivers in Bangkok to street vendors in Nairobi, all are willing to accept U.S. dollars.

Currently, the dollar faces no formidable competitors. Although the euro, which constitutes approximately

20% of global foreign exchange reserves, and the Chinese renminbi, accounting for 2%, are not currently positioned to challenge the U.S. dollar, they possess the potential to gradually erode its supremacy over time. However, this potential could only be realized through the implementation of significant financial and macroeconomic reforms. For the European Union, this would involve addressing fiscal fragmentation and establishing a unified bond market. In the case of China, it would require the removal of capital controls and establish the full convertibility of the renminbi. In the absence of these reforms, both these currencies cannot effectively compete with the dollar to serve as a global currency anchor.



Other alternatives, such as gold and cryptocurrencies, have their own structural limitations that affect their function as a store of value and medium of exchange, stemming from their inherent characteristics. For instance, gold's structural limitations arise from being a physical commodity—it is difficult to transport, store, divide, and use in everyday transactions. On the

other hand, cryptocurrencies encounter limitations due to their digital and decentralized nature, including price volatility, changing regulations, reliance on technology, and differences in network infrastructure. Consequently, neither asset serves as a perfect substitute for traditional currency.

Adverse Consequences of Dollar Dominance for EMDEs

The dollar's dominance in the global monetary system presents the United States with certain benefits and grants it an 'exorbitant privilege'¹ to run deficits, but it also has negative consequences for global financial stability. One of the key drawbacks of a U.S. dollar-centric international monetary system is that it binds the global economy to the United States' monetary policy, which the Federal Reserve conducts solely on the basis of domestic economic considerations. The Federal Reserve consistently prioritizes the interests of the nation over global financial stability when faced with a conflict of interest between the two.

Since the beginning of the 1980s, several instances have emerged where externalities resulting from United States monetary policy have had negative impact on the global economy. Particularly in the case of emerging markets and developing economies (EMDEs), the consequences of Federal Reserve monetary policy are significant, as a considerable portion of their debt is denominated in U.S. dollars. The current situation also demonstrates that an increase in interest rates and a strong dollar

systematically worsen borrowing and financial conditions in EMDEs. Currently, EMDEs must consider the actions of the U.S. Federal Reserve when determining their own interest rates and monetary policies.

A shift away from the U.S. dollar could yield beneficial outcomes for EMDEs by affording them increased flexibility in setting monetary policies that are more tailored to their domestic conditions.

In this respect, recent policy actions by the Trump Administration may erode the trust and other factors supporting the dollar's dominance. These include imposition of across-the-board tariffs on both allies and adversaries, the pursuit of imprudent fiscal policies, and the undermining of the Federal Reserve's independence and the rule of law. Under Trump 2.0, concerns have arisen regarding the Federal Reserve's commitment to extend dollar swap facilities to even its geopolitical allies experiencing dollar shortages in the event of a crisis similar to 2008.

Unintended Consequences of U.S. Economic Sanctions for the International Monetary System

The global dominance of the U.S. dollar has enabled the American administrations to employ it as a weapon to exert pressure on geopolitical adversaries. Due to the central role of the U.S. dollar in the global payments system, all transactions conducted in U.S. dollars, including those between third-party countries, may be subject to sanctions. This is because such transactions are processed by correspondent banks that maintain accounts with the Federal Reserve.

The increasing 'weaponization' of the dollar has sparked concerns in various countries (including its allies from the Global South) that the United States could make use of its currency, banking, and payment system to put them under the same sort of hard-hitting financial sanctions it recently imposed on Russia. In light of Russia's war on Ukraine, unprecedented financial sanctions imposed by the U.S. resulted in the freezing of half of the Russian

¹ The term 'exorbitant privilege' was first coined by French finance minister, Valéry Giscard d'Estaing, in the 1960s to describe the international hegemony of the dollar in the Bretton Woods system, which enabled the United States to reduce its external financing costs. This was due to the fact that U.S. debt offered international official investors an insurance against volatile capital flows and exchange rate fluctuations.

central bank's gold and foreign exchange reserves. Furthermore, large Russian banks were prohibited from accessing the US-dominated Society for Worldwide Interbank Financial Telecommunications (SWIFT) network.

The aggressive use of unilateral sanctions by the successive U.S. administration is driving countries to transact in their local currencies or currencies other than the dollar, thereby bypassing SWIFT and related financial infrastructure for cross-border transactions. In other words, the trend of de-dollarization has been revitalized by the expansive use of U.S. sanctions.

The use of the U.S. dollar as a geopolitical instrument is prompting even non-sanctioned nations, such as Brazil and Malaysia, to consider alternatives to the dollar and the SWIFT network in order to shield their economies from U.S. unilateral actions. Indeed, the United States is inadvertently offering sufficient economic and

geopolitical incentives for other countries to pursue the de-dollarization of their international transactions and foreign exchange reserves.

All these developments beg the question: How long will the dollar's dominance last? It is difficult to predict the dollar losing dominance anytime soon, but historical evidence indicates that global reserve currencies, such as the British pound sterling, have experienced periods of dominance followed by decline. Therefore, the potential decline of the U.S. dollar cannot be ruled out, particularly in the current context of policy shifts where domestic policy actions and external circumstances could progressively erode the dollar's dominance in the global financial system.

No wonder, de-dollarization has increasingly become an important topic of discussion among investors, corporates and policymakers across the world.

De-dollarization: A Fad or the Future?

De-dollarization denotes the process by which countries (other than the United States) diminish their dependence on the U.S. dollar as a reserve currency, medium of exchange, or unit of account. De-dollarization involves a significant reduction in the use of U.S. dollars in global trade and financial transactions, thereby decreasing the structural demand for the dollar among nations, institutions, and corporations.

Examples of de-dollarization include countries opting to hold their foreign exchange reserves in currencies other than the U.S. dollar or in gold, as well as countries engaging in international trade and investments using their own currencies instead of relying on the dollar as an intermediary.

The most notable trends in de-dollarization are observed in the realm of central bank foreign exchange reserves and commodity markets. According to the IMF COFER Database,² the proportion of the U.S. dollar in global official foreign exchange reserves has decreased from 70% in 2000 to 57.3% in 2024.

De-dollarization is also unfolding in commodity markets, as an increasing proportion of oil, along with metals and other commodities, is being priced in non-dollar-denominated contracts. Countries such as

India, China, Turkey, and Brazil are buying Russian oil at a discounted rate while using their own local currencies or currencies preferred by Russia. Additionally, Saudi Arabia is contemplating the inclusion of yuan-denominated futures contracts in the pricing model for Saudi Arabian oil.

Some other important de-dollarization initiatives are as follows:

- Over the past decade, China has been quietly preparing for a post-dollar world order. It has established local currency settlement mechanisms, expanded its currency swap lines to over 30 countries, and launched the Cross-Border Interbank Payment System (CIPS) with its messaging layer. The CIPS facilitates renminbi-denominated payments and encourages cross-border use of the renminbi. Additionally, China's central bank has been diversifying its foreign reserves, shifting away from dollar-denominated assets to gold and other currencies. The renminbi has overtaken the euro to become Brazil's second-largest international reserve currency.
- While a common BRICS currency is a long-term prospect, its members are focusing on creating an

² <https://data.imf.org/en/datasets/IMF.STA:COFER>

alternative financial architecture through strengthening local currency trade and developing a cross-border payment system among members. Trump's threat to impose 100% tariffs on de-dollarizing BRICS members³ may further incentivize them to accelerate the process of de-dollarization.

- A multitude of bilateral and regional initiatives are currently being pursued in Asia and Latin America to explore and test the use of local currencies in cross-border trade and investment transactions among themselves. For instance, India and the United Arab Emirates have signed a Memorandum of Understanding (MoU) in July 2023 to promote the use of local currencies for cross-border trade in crude oil and other goods. The use of local currencies presents several benefits for local businesses, including reduced transaction costs, processing of transactions in real-time, and enhanced predictability.

- In 2022, the ASEAN introduced the Regional Payment Connectivity (RPC) initiative, while the African Union established the Pan-African Payment and Settlement System (PAPSS). Both payment systems provide real-time transactions and operate independently of SWIFT and the dollar as an intermediary.

- New Development Bank, established by BRICS countries, plans to offer 30% of its loans in local currencies by the year 2026, thereby setting a new trend towards de-dollarization of development finance.

Considering that the process of de-dollarization is anticipated to be gradual and arduous, the aforementioned initiatives will not immediately dethrone the supremacy of the U.S. dollar. Nevertheless, if effectively coordinated, these baby steps could facilitate the development of a multi-currency monetary framework.

Towards Multipolarity and Diversification

The global community must transition from the dominance of the U.S. dollar towards a more diversified and multipolar currency system, grounded in inclusive institutional frameworks. Such a systemic transformation could enable nations to mitigate their susceptibility to economic pressures from the United States, thereby affording them the policy space to pursue economic sovereignty and strategic autonomy.

A multipolar currency system represents a better alternative; wherein multiple currencies collectively assume the roles of reserve assets and international trade currencies. Such a system seeks to mitigate the Triffin dilemma⁴ by diversifying the responsibility of providing global liquidity.

Drawing on the historical precedent of the coexistence of the dollar and the pound in the 1920s, economist Barry Eichengreen⁵ predicts the emergence of a multipolar

international monetary system that could incorporate multiple international currencies, possibly including Special Drawing Rights (SDRs) issued by the IMF, with a gradual erosion of the dollar's dominance over time. Kaushik Jayaram⁶, an Indian economist, has recently suggested the creation of multipolar currency hubs of politically neutral, stable, and diverse currencies as an alternative framework for a more balanced international monetary system.

In an increasingly multipolar world, the global financial system ideally requires a new anchor currency that is not tied to a specific country and moves towards a system that involves the currencies of major economies. Such an international currency system could be built around SDRs. An SDR is an international reserve asset that is created by the IMF using a basket of five currencies, namely the United States dollar, the Japanese yen, the Chinese renminbi, the euro, and the British pound.

³ Associated Press: <https://www.ap.org/news-highlights/spotlights/2024/trump-threatens-100-tariff-on-the-bric-bloc-of-nations-if-they-act-to-undermine-us-dollar/>.

⁴ Triffin's dilemma refers to the dilemma faced by reserve currency issuing country in trying to make a balance between national economic interest and its global responsibilities. This dilemma was first articulated by Belgian-American economist Robert Triffin in the 1960s.

⁵ Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, Oxford University Press, 2011.

⁶ Kaushik Jayaram, "Ending Dollar Dominance with Multi-Currency Alternatives", *The Indian Forum*, 11 August, 2025. <https://www.theindiaforum.in/economy/ending-dollar-dominance-multi-currency-alternatives>.

However, SDRs so far failed to become a true global currency because they cannot currently be used as a medium of exchange. This means it remains restricted to central banks and the IMF, therefore lacking private circulation and liquid markets.

Undoubtedly, there is much work to be done to enhance the role of SDRs in the international monetary system, and this necessitates the need for political agreements for necessary adjustments to enable SDRs to fulfil this role effectively. To illustrate, the International Monetary Fund must undergo substantial reforms as an essential prerequisite. Similarly, it is important that SDRs should be increased through periodic allocations, particularly during times of crisis, and that they serve as the primary financing mechanism for IMF programmes. The composition of the SDRs needs to be adjusted periodically, allowing other currencies to be included in the SDR basket. Meeting these prerequisites may prove to be a significant political challenge given that the United States holds de facto veto power within the IMF's voting system.

No denying, speedy political agreements and far-reaching institutional changes would be required if the world wants to move away from U.S. dollar hegemony. Although this is a challenging task, increasing the use of SDRs could play a significant role in promoting global financial stability and backing the spending for global developmental initiatives.

Undoubtedly, the transition from a predominantly dollar-centric global currency regime to a more diversified and balanced currency regime will initially present risks and instability. However, enhanced international cooperation in the domains of monetary policy, foreign exchange market interventions, and financial regulation can effectively mitigate volatility and promote stability over time.

To sum up, the benefits of a more diversified and balanced currency system far outweigh the costs associated with the pre-eminence of the dollar in the global monetary system.



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