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Dedollarization:

Causes, Constraints, and Consequences

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Executive Summary

Dedollarization describes the deliberate effort by nations, financial institutions, and regional blocs to lessen their dependence on the United States dollar in trade, reserve management, and cross-border finance. What was once a rhetorical ambition of countries outside the Western alliance has become a strategic priority for a widening coalition that includes major emerging markets and even some US partners. The movement is motivated by geopolitical tension, the increasing use of the dollar as a policy instrument, and structural innovation in payments and settlement technology.

Although the dollar remains the unrivaled core of the international monetary system, its dominance is gradually being eroded. The freezing of Russian foreign-exchange reserves in 2022 and the exclusion of certain banks from the SWIFT payment-processing network convinced many governments that reserve safety is contingent on political alignment with Washington. At the same time, the emergence of central-bank digital currencies, bilateral swap lines, and commodity-linked settlement arrangements has lowered the technical and transactional barriers to non-dollar trade.

This paper traces the historical ascent of the dollar, explains the institutional foundations of its current supremacy, and surveys the growing landscape of dedollarization initiatives. It then evaluates the feasibility of those initiatives and their macro-financial implications. The analysis follows this structure.

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1. Introduction

For nearly eight decades the US dollar has served as the backbone of the global monetary order – an anchor for exchange-rate regimes, the dominant invoicing currency in trade, and the benchmark for reserve portfolios. Yet since the global financial crisis of 2008 – and with new urgency after 2022 – an accumulating series of geopolitical and financial shocks has exposed vulnerabilities in that order. Governments have begun to ask whether dependence on a single national currency remains compatible with their own strategic autonomy.

Several factors are driving renewed interest in alternatives. First, the dollar's centrality gives the United States extraordinary leverage through its control of payment infrastructure and the US financial system. The extension of sanctions, extraterritorial compliance regimes, and the seizure of reserves have transformed that leverage from latent to explicit power. Second, macroeconomic imbalances inside the United States – persistent fiscal deficits, rising public debt, and the Federal Reserve's heavy interventions – have raised concerns that the supply of dollar assets is expanding faster than the credibility that underpins them. Third, advances in financial technology, including blockchain-based settlement and central-bank digital currencies, are eroding the natural monopoly the dollar once enjoyed in global clearing.

Dedollarization does not imply an organized rebellion against the dollar. It represents an adaptive response to structural change: nations hedging exposure to US policy decisions and to potential disruptions in dollar liquidity. The trend should be interpreted not as a sudden or catastrophic dethronement, but as a slow diversification of the monetary ecosystem. As with past transitions – from sterling to the dollar in the early twentieth century – credibility, market depth, and geopolitical influence will determine the pace of realignment.

The sections that follow place this evolution in historical and analytical context. Section 2 explains how the dollar achieved primacy; Section 3 describes its current role in global finance; Section 4 examines the diverse strategies states are using to reduce dollar dependence; Section 5 evaluates feasibility and consequences; and Section 6 offers concluding reflections on the likely trajectory toward a more plural reserve-currency system.

2. The Rise of the US Dollar as the Global Reserve Currency

Postwar Foundations

The modern dollar system was born in 1944 at the Bretton Woods Conference, formally known as the United Nations Monetary and Financial Conference. Forty-four allied nations agreed to anchor postwar exchange rates to the US currency, itself convertible into gold at \$35 per ounce. The arrangement codified America's postwar economic preeminence: in 1945, the United States generated roughly half the world's production and held three-quarters of its official gold reserves. The new institutions – the International Monetary Fund and the World Bank – were built around the dollar standard and operated largely from Washington.

Under this regime, the dollar served as the intermediary between various national currencies and gold. Countries accumulated dollar balances as reserves, while US fiscal and monetary policy effectively supplied the liquidity to fuel global growth. For two decades, this system delivered stability and expansion; the fixed-rate framework reduced exchange-rate uncertainty, encouraged trade, and supported reconstruction in Europe and Japan.

The Nixon Shock and Adaptation

By the late 1960s, however, the US government's fiscal deficits (particularly associated with the Vietnam War and domestic social programs) eroded confidence in gold convertibility. Foreign holders demanded redemption, and in 1971 President Nixon suspended the dollar's link to gold, ending the Bretton Woods system. Many observers predicted that the dollar's dominance would collapse with convertibility, but the opposite occurred. Instead of unraveling, the dollar system adapted: exchange rates floated, but the dollar remained the central reference for pricing and reserves.

The Petrodollar and Eurodollar Pillars

Two mechanisms cemented post-1971 dollar dominance. First, the petrodollar system – a tacit bargain between Richard Nixon in Washington and the ruling Royal House of Saud in Riyadh – ensured that crude-oil exports were priced and settled in dollars, forcing global energy importers to hold dollar balances. Second, the Eurodollar market, consisting of dollar-denominated deposits and loans held outside US jurisdiction, expanded rapidly in London and other financial centers. This offshore market multiplied the dollar's reach while freeing it from domestic regulatory constraints.

Through these channels, the dollar became not merely a national currency but a global funding medium. Its network effects became self-reinforcing: the more participants used dollars, the more efficient and liquid dollar markets became, attracting still more users. By the 1980s, the dollar accounted for the majority of world trade invoicing and reserve holdings, roles it continues to dominate today.

Institutional and Structural Advantages

The endurance of dollar primacy rests on a combination of legal and financial infrastructure, as yet unmatched elsewhere. The US Treasury market offers depth and transparency; American courts provide predictable contract enforcement; and the Federal Reserve supplies a credible lender of last resort. These attributes, together with the network externalities of established usage, create powerful inertia. Even when foreign governments resent US influence, practical considerations – liquidity, safety, and convenience – anchor them to the dollar system.

3. The Current Position of the Dollar in the Global Monetary System

A Dominant, But Eroding, Position

Despite constant forecasts of decline, the US dollar continues to anchor the world's financial system. Roughly 60 percent of reported global foreign-exchange reserves, nearly 90 percent of foreign-exchange transactions, and more than half of international trade invoicing are dollar-denominated. No other currency comes close. The euro's share of reserves hovers near 20 percent, while the Japanese yen, British pound, and Chinese yuan each account for single-digit portions. Dollar funding remains the lifeblood of global capital markets: commodities are priced in dollars, syndicated loans are typically dollar-denominated, and dollar liquidity defines the rhythm of risk-on and risk-off cycles.

Yet beneath this apparent stability, gradual structural shifts continue. The dollar's share of official reserves has declined from nearly 72 percent in 1999 to roughly 58 percent today. Portions of cross-border trade – especially among emerging economies – are increasingly settled in local or regional currencies. China and Russia now conduct most bilateral trade without reference to the dollar. The Gulf Cooperation Council has discussed parallel invoicing mechanisms for oil. Even in Europe, political pressure to reduce dependence on US clearing channels has grown after successive rounds of American sanctions.

Safe-Asset Shortages and Financial Dependence

The dollar's dominance also reflects an imbalance: the rest of the world demands safe, liquid assets, and only the United States supplies them at scale. Treasury securities serve as collateral throughout the global financial system, a role no other sovereign bond market can replicate. In times of crisis, demand for Treasuries surges, reinforcing the dollar's "exorbitant privilege." But this dependence ties the stability of global finance to the fiscal and monetary policies of one country. US government shutdowns, debt-ceiling brinkmanship, or abrupt policy pivots by the Federal Reserve ripple instantly across continents.

The 2008 financial crisis revealed both the fragility and the resilience of this arrangement. When interbank markets effectively froze, the Federal Reserve extended massive swap lines to foreign central banks, effectively acting as a global lender of last resort. That response cemented confidence in the dollar system – but also underscored that it is, in essence, a public good provided by the United States. The expectation that the Fed will always supply liquidity in global crises further entrenches dollar use, even as it heightens systemic moral hazard.

Network Effects and Path Dependence

The economic literature on currency hierarchy emphasizes network effects: once a medium becomes dominant, switching costs keep users locked in. Dollar-based payment rails, legal conventions, and accounting standards are deeply embedded. Multinationals issue debt in dollars because investors prefer dollar assets; investors prefer them because global corporations issue in dollars. The circularity sustains itself. Breaking it requires not only new instruments but also the credibility of enforcement, regulation, and deep financial markets – attributes that few alternatives possess.

The dollar's reach is further reinforced by path dependence in institutional behavior. Central banks train staff, build risk systems, and structure reserve portfolios around dollar instruments. Corporate treasurers hedge in dollar markets; commodity exporters quote in dollars; and data providers benchmark in dollars. The inertia of habit magnifies technical efficiency into structural dominance.

Challenges from Monetary Policy and Fiscal Trajectories

Still, the very success of the dollar system generates political tension. US macroeconomic policy now has global spillovers of unprecedented magnitude. When the Federal Reserve tightens to fight domestic inflation, emerging-market currencies weaken, debt-service costs rise, and capital inflows reverse. Conversely, loose US monetary policy can indirectly fuel asset bubbles abroad. Many policymakers outside the United States see this as a vulnerability and a motivation to diversify.

Equally worrisome are long-term fiscal trends. US federal debt exceeds 120 percent of GDP and continues to climb. Large deficits sustain global liquidity but raise doubts about the long-term real value of dollar-denominated assets. Foreign central banks — especially in Asia — hold trillions in Treasuries, effectively financing US consumption. This symbiosis persists because there is no scalable alternative, but it is politically fragile. Any sudden change in confidence could destabilize both the US and global financial systems.

Sanctions and the Weaponization of Finance

Perhaps the most significant change in perception has come from the geopolitical realm. The use of the dollar system as an instrument of coercive policy against nations — through sanctions, asset freezes, and exclusion from payment networks — has redefined the risk calculus of sovereign reserve management. The United States and its allies immobilized roughly \$300 billion of Russian central-bank reserves, demonstrating that the “risk-free” dollar asset is risk-free only for friends. The precedent drew concern from countries that might one day find themselves at odds with Washington.

Even US allies have quietly acknowledged the implications. European officials protested the extraterritorial reach of secondary sanctions; Gulf states began exploring non-dollar invoicing with Asian partners; and many developing economies accelerated efforts to build local-currency swap lines. These are incremental steps, but together they amount to a strategic campaign hedging against financial vulnerability to US action.

Technological Shifts in Payments and Settlement

Parallel to these geopolitical dynamics, digital technologies are reshaping the mechanics of cross-border finance. Blockchain-based payment systems, instant-settlement platforms, and central-bank digital currencies (CBDCs) promise to reduce the cost and complexity of non-dollar settlement. China’s e-CNY, the Bank of International Settlement’s mBridge project, and regional initiatives in Southeast Asia have demonstrated that

real-time settlement can occur across borders – without routing through New York or London.

While these technologies are in early stages, their political symbolism is powerful. They show that the infrastructure underpinning the dollar's dominance is not immutable. If regional payment corridors proliferate – say, yuan-based settlement for commodities in Asia or rupee-denominated trade within South Asia – the cumulative effect could be to erode the network centrality that sustains the dollar.

A System Under Negotiation

In sum, the dollar remains the gravitational center of global finance, but is increasingly encircled by alternative arrangements. The result is not imminent collapse but a slow evolution toward monetary multipolarity: a world in which several currencies share roles that once belonged almost exclusively to the dollar. The next section examines how this process is unfolding in practice – through explicit dedollarization strategies and policy initiatives.

4. Recent Trends and Initiatives in Dedollarization

Reframing by Strategy Rather Than Country

Efforts to reduce dependence on the dollar can be grouped into four broad strategies. Each aims to alter a distinct mechanism through which dollar hegemony operates. While many governments pursue several simultaneously, organizing the discussion this way clarifies the economic logic and the institutional challenges behind each. The strategies are:

- 1. Trade Invoicing: settlement in local or alternative currencies**
- 2. Payment Infrastructure: development of alternative channels for payment and messaging**
- 3. Reserve Composition: diversifying holdings into gold and non-dollar assets**
- 4. Financial Innovation: experimentation with digital and programmable settlement systems**

4.1 Trade Settlement in Local or Alternative Currencies

Replacing the dollar as the invoice and settlement medium in bilateral trade reduces the need for dollar balances and correspondent banking through US channels. Countries facing sanctions or chronic dollar shortages originated this momentum: Russia's shift to ruble and yuan invoicing, India's creation of rupee settlement mechanisms, and the BRICS bloc's proposals for local-currency payment frameworks all fall under this category.

The motivations are straightforward: in bypassing the dollar, trading partners insulate themselves from US monetary cycles and legal jurisdiction. For importers of energy or raw materials, paying in local currency reduces foreign-exchange exposure and transaction costs. For exporters, using local currency broadens the customer base and builds political goodwill.

Local-currency settlement faces significant constraints, however. Thin liquidity in smaller currencies means volatile exchange rates and limited hedging options. Without deep bond markets or reserve assets in those currencies, counterparties typically still hold dollars as a backstop. Even within the BRICS grouping, attempts to balance trade purely in local currencies have encountered mismatch problems. India's trade deficit with Russia led to the accumulation of illiquid rupees, illustrating that invoicing diversification does not automatically equal financial independence.

Nonetheless, progress is visible. China now conducts the majority of its trade with Russia in yuan. ASEAN members have expanded their Local Currency Settlement framework. The Gulf states have explored partial yuan pricing for oil and gas. These developments are incremental, but collectively they erode the near-universal habit of dollar pricing.

4.2 Alternative Payment and Messaging Infrastructures

A second strategy focuses on replacing or replicating the infrastructure through which cross-border payments flow. The global financial nervous system – SWIFT messaging, CHIPS clearing, and US correspondent banking – grants Washington unparalleled visibility and control. When a nation's central banks are excluded from SWIFT or when dollar-clearing rights are revoked, that economy is effectively exiled from the global system.

China's Cross-Border Interbank Payment System (CIPS), launched in 2015, aims to provide an independent clearing channel for yuan-denominated transactions. Russia's SPFS network and its domestic card system MIR serve similar purposes at a national level. The European Union's INSTEX mechanism, conceived to facilitate humanitarian trade with Iran, demonstrated

political intent even if it saw little operational use (and has since shut down).

While none of these alternatives yet rival SWIFT's reach, their existence signals a slow migration toward a multipolar infrastructure. Interoperability between CIPS and regional systems in Southeast Asia, the Middle East, and Africa is expanding. Each connection marginally reduces reliance on US networks. The key constraint is scale: payment networks derive power from network effects, and displacing an incumbent of SWIFT's size will require years of cumulative adoption.

For now, the likely outcome is coexistence rather than replacement — a patchwork of interoperable systems connected through gateways. Over time, this patchwork could amount to de facto diversification of financial plumbing, limiting the United States' ability to monitor or block transactions unilaterally.

4.3 Reserve Diversification: Gold and Non-Dollar Assets

Central banks and sovereign funds have begun reallocating portions of their reserves away from US Treasuries and toward gold, euros, yuan, and other assets. This trend, though modest in percentage terms, represents a major shift in attitude. The logic is defensive: the seizure of reserves from Afghanistan in 2021 and Russia in 2022 proved that even central-bank assets held in Western jurisdictions can be frozen. Holding gold domestically or diversifying into multiple currencies reduces that vulnerability.

The data tell the story. Global central-bank gold purchases in 2022 and 2023 reached their highest levels since records began in the 1950s, led by China, Turkey, India, and several Middle Eastern states. The People's Bank of China has reported steady monthly additions to its gold holdings since late 2022, even as it trims exposure to US debt. Russia now holds roughly two-thirds of its reserves in gold and non-dollar assets. Meanwhile, several Asian and Gulf sovereign wealth funds have diversified into euro- and yen-denominated bonds, infrastructure projects, and equity stakes abroad.

Diversification is not costless, however. Gold yields nothing and can be illiquid in crisis; non-dollar bonds offer less depth and weaker legal protection. For reserve managers, the challenge is balancing political security with financial performance. The long-run effect, though, is to chip away at the dollar's near-monopoly in official reserves and to nurture embryonic alternative safe-asset markets.

4.4 Digital and Programmable Settlement Systems

The most innovative strand of dedollarization leverages financial technology. Central-bank digital currencies (CBDCs), tokenized assets, and distributed-ledger settlement platforms enable instant payment and delivery without traditional correspondent banks. The BIS “mBridge” project, linking the central banks of China, Hong Kong, Thailand, and the UAE, has completed live cross-border transactions using digital currencies. Russia and several members of the Eurasian Economic Union are piloting similar systems.

These initiatives are not about cryptocurrency speculation but about rebuilding the architecture of global payments. In theory, CBDCs can clear directly between central banks, eliminating intermediaries and minimizing the jurisdictional exposure that comes with reliance on dollar-based infrastructure. Commodity exchanges in Shanghai and Hong Kong are experimenting with on-chain settlement in yuan for metals and energy products, hinting at a future where key commodities might circulate within closed digital ecosystems.

The obstacles are formidable: interoperability, cybersecurity, legal recognition of digital settlement, and anti-money-laundering compliance remain unresolved. But the direction of travel is unmistakable. The next generation of payment infrastructure is being built with multipolar design in mind.

4.5 Synthesis: The Emerging Pattern

Across these four strategies, a pattern emerges. The aim is not to overthrow the dollar overnight, but to construct redundancy in global finance – to ensure that access to credit, liquidity, and trade can persist even if dollar channels are disrupted. Each innovation, however small in isolation, contributes to a broader diversification of risk. The combined result is a slow diffusion of US monetary power.

Measured by outcomes, dedollarization has already achieved more than many realize. The share of global reserves held in dollars has declined to its lowest level in decades. Non-dollar invoicing is rising in key trade corridors. Gold accumulation by central banks has accelerated. And alternative payment systems, though limited, are functional. What remains uncertain is whether these trends will plateau, or compound into a structural transformation.

The following section evaluates that question in depth, weighing the economic feasibility of large-scale dedollarization and the implications for global stability.

5. Feasibility of Dedollarization

Economic Feasibility

The decisive question is not whether countries want to dedollarize, but whether they can. The dollar's dominance reflects an ecosystem of liquidity, credibility, and legal infrastructure that no competitor yet replicates. Three economic criteria determine feasibility: the depth of alternative markets, the credibility of monetary governance, and the ability to absorb shocks without policy reversals.

Market depth remains the most formidable barrier. The US Treasury market exceeds \$25 trillion in outstanding securities, offering unmatched liquidity and a risk-free benchmark for pricing across maturities. The euro area bond market is fragmented; Japan's is large but inward-looking; China's remains partially closed to foreign investors. Until another jurisdiction can issue safe assets on a comparable scale – and maintain investor confidence during crises – the dollar's funding role will endure.

Credibility and rule of law are equally important. Reserve currencies require not only economic heft but institutional predictability. Investors and central banks must trust that contracts will be honored and that monetary authorities will not impose capital controls or arbitrary revaluations. The Federal Reserve's transparency, while imperfect, still far exceeds that of most central banks. The European Central Bank and the Bank of Japan enjoy similar credibility, but their currencies lack the global liquidity that amplifies the dollar's role.

Shock absorption is the third pillar. The United States can run large external deficits because the rest of the world demands its assets. This “exorbitant privilege” allows Washington to issue debt in its own currency and at lower cost. Alternatives must demonstrate a comparable capacity to provide safe assets during global downturns. So far, none has done so: in every major crisis since 1987 – from the Asian financial crash to the pandemic panic – investors have fled to the dollar.

Political and Institutional Barriers

Economic mechanics alone do not explain monetary hegemony. The political and institutional context is equally decisive. Reserve currencies rest on alliances, trade networks, and shared norms. The postwar dollar order was as much a geopolitical arrangement as a financial one: the Marshall Plan, NATO, and the global reach of US corporations bound economic and strategic interests together.

For dedollarization to succeed, alternative systems must replicate some version of this political cohesion. The euro's early ambitions faltered in part because of governance fragmentation within the European Union. The renminbi's rise is limited by China's capital controls and concerns over state intervention. The BRICS group, for all its diversity, lacks a unified legal or institutional foundation for collective monetary governance.

A key lesson from monetary history is that trust and liquidity reinforce each other. Britain's pound retained global reserve status long after the UK lost economic preeminence, because the Bank of England's institutions remained credible. The dollar will likely follow a similar pattern: its network effects and institutional inertia will persist long after the US share of world GDP declines. Dedollarization can reduce exposure at the margin, but supplanting the dollar entirely requires a new consensus on global financial governance that does not yet exist.

Geopolitical Dimensions

Dedollarization is not only an economic phenomenon but a diplomatic one. It is both a symptom and a driver of the shifting geopolitical landscape. For nations like China, Russia, and Iran, reducing dollar exposure is part of a broader strategy to insulate their economies from Western sanctions. For others — India, Brazil, Saudi Arabia — it is a hedging mechanism rather than outright opposition. The unifying theme is a desire for optionality: to ensure that financial sovereignty cannot be revoked by decree from Washington.

This geopolitical diversification mirrors changes in trade geography. South-South trade now accounts for a majority of global commerce by volume, and much of it occurs outside the Western alliance system. The growth of regional development banks, new credit-rating agencies, and alternative messaging networks reflect a gradual diffusion of financial authority. In this sense, continued dedollarization is both cause and consequence of multipolarity.

The political implications for the United States are profound. The dollar's dominance has long enabled the country to finance deficits cheaply and to project power through sanctions without deploying force. As alternative systems mature, that leverage will diminish. The process will be gradual — decades rather than years — but irreversible once confidence in alternative infrastructure solidifies.

Financial and Macroeconomic Consequences

If dedollarization continues, global finance will undergo several predictable adjustments.

For the United States, a smaller foreign appetite for Treasuries would raise borrowing costs and reduce seigniorage. The Fed would have to consider external balance in its policy calculus more seriously, constraining purely domestic monetary objectives. The dollar's exchange rate could become more volatile, reflecting a narrower investor base. Over time, a reduced global role might actually strengthen domestic industry by curbing the overvaluation associated with reserve-currency demand – echoing arguments made by economists from Robert Triffin to Barry Eichengreen.

For the rest of the world, diversification could yield both benefits and risks. On the positive side, it would reduce exposure to US policy spillovers and sanctions. On the negative, it could fragment global liquidity, complicating crisis management. The dollar system, for all its inequities, provides a unified mechanism for emergency support via the Federal Reserve's swap lines. A multipolar system would require new institutions – or coordination among rival blocs – to provide comparable backstops. Without them, financial crises would become more localized but also more frequent.

Implications for Global Governance

A credible dedollarized order would necessitate new multilateral institutions. Existing frameworks – the IMF, World Bank, and Bank for International Settlements – are deeply integrated with dollar finance. If alternative settlement systems proliferate, coordination of exchange rates, capital flows, and liquidity provision will require a parallel architecture. Regional financing arrangements like the Chiang Mai Initiative or the BRICS Contingent Reserve Arrangement offer early prototypes, but their reach remains limited.

Another governance challenge concerns data and transparency. The dollar's central role allows global regulators to monitor cross-border flows through the US financial system. In a fragmented environment, information asymmetries could increase, making it harder to detect systemic risks or enforce anti-money-laundering standards. Counterintuitively, dedollarization could empower noncompliant jurisdictions and complicate collective oversight.

Technological and Market Innovation

The digitalization of finance may accelerate dedollarization, but it could also re-anchor the dollar if US-based institutions lead the innovation curve.

Stablecoins and tokenized deposits, many of which are dollar-pegged, have already become significant channels for cross-border settlement. If regulated effectively, these instruments could extend the dollar's reach rather than reduce it. Conversely, if non-dollar stablecoins or multi-CBDC networks gain traction, they could formalize alternative liquidity corridors beyond Washington's control.

Technological competition therefore intersects with monetary competition. The jurisdictions that establish credible regulatory regimes for digital settlement will shape the next phase of monetary hierarchy. In this sense, dedollarization is not only a question of geopolitics but of technological governance and standard setting.

Plausible Scenarios for the Coming Decade

To illustrate potential trajectories, three stylized scenarios can be considered:

1. Gradual Multipolarity (Baseline)

The dollar remains dominant but loses share incrementally as regional currencies expand their roles. SWIFT remains central, yet interoperable alternatives operate in parallel. US Treasuries stay the main safe asset, though gold and high-grade Asian bonds gain marginal ground. Global trade settlement becomes 70 percent dollar, 20 percent euro, 10 percent other currencies.

2. Regional Fragmentation (Accelerated Dedollarization)

Geopolitical blocs consolidate around regional currencies. Energy and commodity trade increasingly shift to yuan and rupee invoicing. Digital payment networks proliferate. The United States retains privileged access to capital but cannot easily enforce sanctions outside its alliance system. Reserve holdings become more diversified, with the dollar share falling near 50 percent.

3. Crisis-Induced Realignment (Low-Probability Shock)

A major US fiscal or political crisis — such as a technical default or prolonged government shutdown — triggers a sudden loss of confidence in Treasuries. Central banks diversify aggressively, accelerating the transition to multipolar reserves. Such an outcome would be highly disruptive, possibly causing a global recession before a new equilibrium emerged.

Each scenario underscores that dedollarization is path dependent. The pace will be determined by cumulative choices and conditions, rather than any singular event.

6. Implications

Dedollarization is a Process, Not an Event

Dedollarization is not a singular geopolitical rupture, but an incremental process unfolding across several layers of the international system. The world is not heading toward the abrupt collapse of the dollar, but toward a distributed monetary order in which multiple currencies perform specialized functions. In that sense, dedollarization resembles the slow diffusion of technology: adoption proceeds unevenly, shaped by institutional readiness and political will.

Historical precedent supports this view. When the British pound ceded primacy to the US dollar between 1914 and 1945, the transition was slow, contested, and incomplete. Sterling remained a reserve currency well into the 1960s because financial infrastructure and trust networks persisted long after Britain's economic base eroded. The dollar's position today is more entrenched than sterling's was then, benefitting from integrated capital markets, global military alliances, and a deep reservoir of institutional trust. Any change will occur at the margin and over decades, not years.

Structural Persistence and Functional Reallocation

The most likely outcome is functional reallocation rather than outright displacement. Different currencies may assume distinct roles: the dollar as the global liquidity and crisis currency; the euro as a regional funding currency; the yuan as a trade-settlement and commodity currency; and gold or digital tokens as supplementary stores of value. Specialization would reflect comparative advantages – market depth, governance quality, and geopolitical alignment – rather than an ideological rejection of the dollar.

Such a system could prove more resilient in the long run. Diversified reserve holdings reduce concentration risk, and competing payment networks encourage innovation. But they also complicate crisis management. The presence of multiple liquidity providers could produce coordination failures unless clear swap arrangements and policy frameworks are established among major central banks. In this regard, the experience of the pandemic – when the Federal Reserve's swap lines stabilized global markets – highlights both the indispensability of the dollar and the absence of ready substitutes.

Implications for the United States

For Washington, the challenge will be to manage decline in dominance without triggering a collapse in confidence. The dollar's role confers three

overlapping advantages: seigniorage, policy flexibility, and geopolitical leverage. All are vulnerable to gradual erosion.

First, reduced foreign demand for Treasuries will limit the government's ability to finance deficits at low cost. Over time, the premium on US debt could rise by 50-100 basis points, increasing already significant debt-service burdens. This adjustment would not be catastrophic but would constrain fiscal policy, especially if interest payments already consume a growing share of federal spending.

Second, the Federal Reserve may have to account for external balance more explicitly. At present, it sets policy almost entirely on domestic conditions, knowing that dollar demand abroad soaks up excess liquidity. A smaller global role would feed back into tighter links between US monetary policy and the domestic yield curve, reducing room for unilateral experimentation.

Third, and most significant, financial sanctions will lose some of their deterrent power. If rivals can settle energy or strategic commodities outside dollar rails, Washington's capacity to enforce compliance will diminish. Sanctions will still matter within the Western alliance, but their global reach will narrow.

These changes need not spell disaster. A less-dominant dollar could correct distortions that have hurt US manufacturing and exports by keeping the currency persistently overvalued. It could also encourage more prudent fiscal governance once cheap external financing wanes. The United States will remain a central actor in global finance so long as it preserves open markets, strong institutions, and credible monetary policy.

Implications for Emerging and Developing Economies

For emerging markets, dedollarization is both an opportunity and a challenge. On one hand, it offers freedom from imported monetary shocks and from dependence on US liquidity cycles. On the other, it exposes countries to the volatility of less liquid currencies and to governance risks in alternative systems. Successful diversification therefore requires institution-building: credible central banks, sound macro policy, and transparent legal regimes.

Some regional blocs are making progress. The ASEAN Local Currency Settlement initiative has reduced cross-border transaction costs within Southeast Asia. The African Continental Free Trade Area envisions payment integration across the continent. Latin America's proposed "Sur" unit of account remains embryonic but reflects growing appetite for monetary cooperation. Each step reduces friction in intra-regional trade and cumulatively advances the broader trend toward monetary pluralism.

Technology and the Architecture of the Next System

The digital transformation of money could be the decisive variable in shaping the post-dollar landscape. Central-bank digital currencies, tokenized deposits, and programmable cross-border settlement will determine who controls the plumbing of global finance. If the United States and its allies pioneer open, interoperable systems, the dollar could retain primacy in digital form. If, instead, China and regional coalitions set the standards, the new architecture could bypass US oversight entirely.

Either way, the emergence of distributed-ledger settlement marks a turning point. Monetary power will increasingly reside not in paper notes or reserve balances but in protocol design – the rules and governance embedded in code. The competition over standards for digital identification, privacy, and transaction finality is therefore inseparable from the competition over reserve currencies.

7. Strategic Recommendations

Several policy recommendations follow from this analysis:

- 1. For the United States:** Focus on macro-stability and fiscal discipline as the ultimate guarantors of dollar credibility. Preserve the rule of law in financial governance; resist politicization of payment systems; and invest in digital infrastructure that extends dollar functionality globally.
- 2. For Emerging Markets:** Pursue dedollarization pragmatically, balancing autonomy with liquidity access. Strengthen domestic capital markets and regulatory transparency before expanding local-currency settlement.
- 3. For International Institutions:** Modernize surveillance and crisis-management frameworks to accommodate multipolar liquidity provision. Encourage interoperability among payment systems and ensure that new digital rails meet common compliance standards.
- 4. For Investors and Corporations:** Recognize that currency diversification is now a structural feature of the landscape. Portfolio strategies should assume a gradual decline in dollar dominance but continued US relevance as a benchmark.

A Transitional Era

The global monetary system is entering a transitional era reminiscent of the 1970s – one of innovation, uncertainty, and competing visions. The difference is that this time the challenge is not inflation or gold convertibility but the diffusion of financial power itself. The institutions created after 1945 were designed for a unipolar world. They will now have to adapt to a polycentric one.

Over the next decade, dedollarization will proceed unevenly. The dollar will remain the currency of last resort during crises, but its monopoly will erode in normal times as alternative systems mature. The endgame is unlikely to be a single successor currency, but a plural equilibrium in which several monetary poles coexist. For policymakers and investors alike, recognizing this evolution early is essential to navigating the turbulence ahead.

8. Closing Reflections: The Shape of the Post-Dollar World

A Slow Erosion, Not a Sudden Collapse

Every major monetary transition in history has followed a long arc rather than a sharp break. The dollar's trajectory will be no different. Its decline in dominance will occur not through a spectacular crash but through gradual dilution – a slow redistribution of functions across an expanding field of currencies and technologies. The process is already visible in trade, reserves, and payments data: the dollar still dominates, but each year its share edges lower while non-dollar channels gain a little more traction.

The reason is structural. The US currency remains deeply woven into the world's balance sheets, legal contracts, and risk systems. Unwinding that integration requires decades of replacement and adaptation. Even governments most intent on dedollarization continue to hold dollars as working capital because no other instrument offers comparable liquidity. The immediate future, therefore, is one of coexistence: an American core surrounded by a widening periphery of alternatives.

Three Emerging Layers of Global Money

The evolving system can be described in three layers.

1. The Dollar Core

This remains the base of global liquidity. Treasuries, US bank deposits, and dollar-denominated repo markets will continue to anchor financial collateral and emergency lending. In crises, investors will still sprint toward the dollar because its depth and legal protections remain unmatched.

2. The Regional Periphery

Around the core, regional hubs — Europe, China, the Gulf, and parts of Asia — are building their own ecosystems of trade settlement and liquidity. Each will rely partly on its own currency and partly on digital or commodity-linked instruments. These hubs will interact with the core through swap lines and bridge institutions, producing a network of overlapping monetary zones rather than a single hierarchy.

3. The Technological Frontier

Beyond both core and periphery lies the digital realm: CBDCs, tokenized securities, and programmable settlement rails. Here, national currencies blend with code. Whoever controls the standards of interoperability, identity, and settlement finality will exercise a new form of monetary power. The contest for digital standards may determine the hierarchy of the next half-century.

This layered configuration — core, periphery, frontier — captures how dedollarization will manifest in practice. The system's center will remain American for the foreseeable future, but its outer rings will increasingly operate on different logics and under different authorities.

Winners and Losers in a Multipolar Order

Winners will include countries that can issue credible local-currency assets and build domestic financial markets deep enough to attract international participation. The euro area, if it resolves its fiscal fragmentation, could reclaim influence; China will gain leverage in commodity trade; and middle-income economies able to intermediate between blocs — India, Indonesia, Brazil — will enjoy new flexibility.

Losers will be those reliant on single-channel access to dollar liquidity. Economies with weak institutions or heavy dollar debt will face higher funding costs and volatility as the global system fragments. The poorest countries, which

depend on multilateral support denominated in dollars, may find financing more expensive unless new regional safety nets emerge.

For the United States, the outcome will be mixed. Reduced global demand for Treasuries could raise borrowing costs but also temper chronic overvaluation of the dollar, benefiting exporters. The loss of automatic privilege may even prove salutary if it disciplines fiscal behavior and restores a balance between domestic production and consumption.

The Role of Policy Choices

Nothing about dedollarization is inevitable. Policy can accelerate or retard the process. The United States could preserve much of its monetary leadership by addressing the fiscal trajectory, maintaining open capital markets, and avoiding the overt politicization of its financial system. A reputation for fairness and predictability will remain the dollar's greatest asset.

Conversely, if Washington continues to weaponize financial infrastructure or neglects macro discipline, it will hasten the very diversification it seeks to prevent. The global reaction to the freezing of Russian reserves was instructive: even allies quietly questioned whether similar measures could someday be turned against them. Restoring the perception of neutrality is therefore a strategic imperative.

Emerging markets face their own choices. They must weigh the allure of autonomy against the benefits of integration. Many will find that selective dedollarization – reducing exposure without abandoning dollar liquidity altogether – offers the best balance between sovereignty and stability.

What Could Accelerate Change

Two catalysts could compress the timeline:

1. A US Fiscal or Political Shock

A crisis of governance – prolonged debt-ceiling standoff, technical default, or inflationary spiral – would shake confidence in Treasuries and accelerate diversification. Even a temporary disruption in US payment capacity could prompt reserve managers to seek insurance elsewhere.

2. Technological Leapfrogging

If a credible multi-CBDC network demonstrates efficiency, privacy, and legal reliability, adoption could expand rapidly, especially in commodity trade. A successful pilot among BRICS or Asian central banks could convert political intent into operational reality within a few years.

Neither scenario is inevitable, but both illustrate how fragility in US governance or complacency in innovation could shorten the long glide path of dedollarization into a more abrupt transition. The coming decades will likely resemble the late nineteenth century — a period of overlapping standards, competing empires, and rapid technological change. The countries that built and governed those networks set the rules of globalization. The same principle will apply in the digital age.

Final Synthesis

To summarize the argument developed throughout this white paper:

1. **The dollar's dominance** arose from unique postwar circumstances — US economic scale, institutional credibility, and the network effects of liquidity.
2. **Current challenges** stem from fiscal overextension, the politicization of finance, and the emergence of credible technological alternatives.
3. **Dedollarization efforts** fall into four main strategies: local-currency settlement, alternative payment networks, reserve diversification, and digital-asset innovation.
4. **Feasibility** depends on the depth of markets, the credibility of governance, and geopolitical alignment. None alone can displace the dollar, but together they can dilute its monopoly.
5. **The likely outcome** is a multipolar, functionally differentiated system in which several currencies share global roles.

The dollar's story is therefore not ending — it is evolving. Its supremacy will fade not through defeat but through diffusion, as the world's financial architecture becomes more distributed, technologically diverse, and regionally balanced.

The age of a single global reserve currency is likely drawing to a close. What replaces it will not be chaos but complexity: a web of interlocking monetary networks reflecting the multipolar reality of twenty-first-century power. The challenge is not to resist dedollarization but to manage it wisely — to ensure that as monetary power decentralizes, financial stability and the open flow of trade survive the transition. In that balance lies the future of global prosperity.

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