

## Unpacking the Implications of De-dollarization: Navigating a Changing Global Financial Landscape

Iqram Hossain Mahboob<sup>1</sup>

### Introduction

“Every night I ask myself why all countries have to base their trade on the dollar,” Brazil’s President Lula da Silva said in a 13 April, 2023 speech he gave at the New Development Bank in Shanghai.<sup>2</sup> From this quote, it can be drawn that the dependency on dollars as only one and international currency is likely to be decreasing. A wide range of implications emerge as countries seek to reduce their reliance on the U.S. dollar in financial institutions, international trade, and transactions, changing geopolitics, currency dynamics, economic stability, and the operation of the global financial system. For governments, firms, and investors to adjust to a shifting economic landscape and explore new opportunities and challenges in a multi-currency world, it is essential to comprehend and navigate these consequences.

This commentary sheds light on the concept of de-dollarization, geopolitical changes due to de-dollarization and significance of its implications, economic impacts: impact on the US economy, challenges in de-dollarization, and lastly, conclusion and recommendation.

### Dollarization and De-dollarization

The US dollar has dominated worldwide reserves and been the primary currency used in international trade for about 80 years. On July 1, 1944, delegates from 44 nations gathered at Bretton Woods, New Hampshire's remote Mount Washington Hotel, as the Second World War's

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<sup>1</sup> Iqram Hossain Mahboob is a research intern at Bangladesh Institute of Peace and Security Studies (BIPSS). He is studying in Global Studies and Governance (GSG) at Independent University, Bangladesh (IUB). His field of study focuses on two tracks: International Relations and Comparative Politics, and International Security and Strategic Studies.

<sup>2</sup> Maria Demertzis, “De-Dollarisation,” Bruegel, April 25, 2023, <https://www.bruegel.org/comment/de-dollarisation>.

hostilities raged in Europe and the Pacific.<sup>3</sup> In order to establish a new global order in the years following World War II, the agreement was given the name Bretton Woods. The deal made the dollar the de facto<sup>4</sup> standard for the whole world. When a nation starts to accept the US dollar as legal money alongside or in instead of its own currency, this is referred to as "dollarization." Contrarily, the movement known as "de-dollarization" aims to lessen the reliance of other nations on the dollar, frequently in an effort to undermine the US. The phrase may be new, but countries have long called for lessening their reliance on the US dollar. Many heads of state, like Brazil's President Luiz Inacio Lula da Silva, have criticized US predominance in international trade.<sup>5</sup>

## **Geo-political Shifts due to De-dollarization**

The US's dominance of the global financial system through the dollar's status as the primary reserve currency is eroding as the de-dollarization movement gains momentum. Concerns over the potential weaponization of the US dollar through sanctions imposed by the United States are motivating countries and regions all over the world, including major economies like Brazil, Russia, India, China, South Africa (collectively referred to as BRICS countries), Argentina, Malaysia, the Middle East and South East Asia to actively seek out ways to lessen their reliance on the US dollar.<sup>6</sup>

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<sup>3</sup> Department Of State. The Office of Electronic Information, Bureau of Public Affairs. "The Bretton Woods Conference, 1944." Department Of State. The Office of Electronic Information, Bureau of Public Affairs., January 7, 2008. <https://2001-2009.state.gov/r/pa/ho/time/wwii/98681.htm#>.

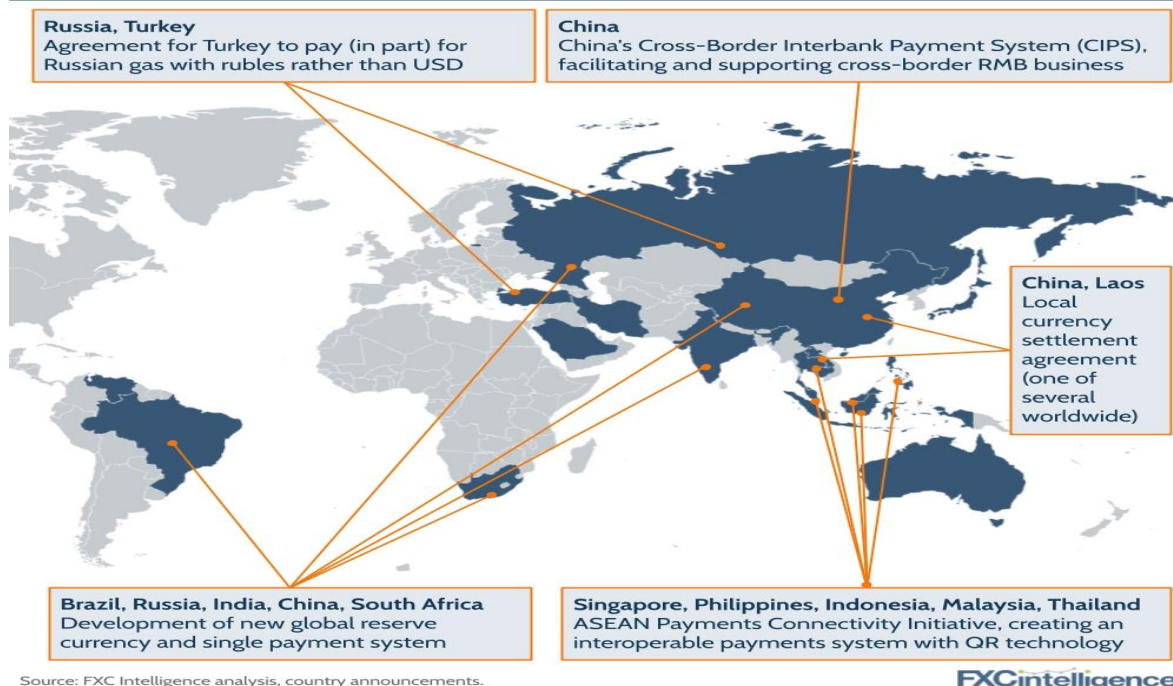
<sup>4</sup> Wikiwand, "Wikiwand - De Facto Currency." Accessed May 24, 2023. [https://wikiwand.com/en/De\\_facto\\_currency](https://wikiwand.com/en/De_facto_currency).

<sup>5</sup> Amit Chaturvedi, "What Is De-Dollarisation? Countries' Plan To Dump Dollar Explained." NDTV.com, April 27, 2023. <https://www.ndtv.com/feature/what-is-de-dollarisation-countries-plan-to-dump-dollar-explained-3984034>.

<sup>6</sup> Shafiq Khattak, "Geopolitical Chessboard: De-Dollarization and the Battle for Currency Supremacy - Modern Diplomacy," April 15, 2023. <https://moderndiplomacy.eu/2023/04/15/geopolitical-chessboard-de-dollarization-and-the-battle-for-currency-supremacy/>.

## De-dollarisation around the world

Countries promoting de-dollarisation, with key examples highlighted



Source: <https://www.fxcintel.com/research/analysis/de-dollarisation-the-impact-on-cross-border-payments>

In Asia, India is attempting to internationalize the rupee for bilateral trade,<sup>7</sup> which would make it possible to settle international transactions in Indian rupees rather than other currencies like US dollars. Also, China is leading efforts to promote the yuan as the next world currency.<sup>8</sup> In an effort to internationalize its currency, China has long promoted the use of yuan to settle cross-border business. With regard to using the yuan for trade, Russia, Iran, Brazil, Argentina, and Bangladesh are making progress.<sup>9</sup> Cross-border payments and receipts in yuan reached a record \$549.9 billion in March of this year, up from \$434.5 billion in February, making yuan the most popular currency for such transactions in China for the first time, surpassing the dollar.<sup>10</sup>

<sup>7</sup> Snehashish Roy, "Centre Aims to Internationalise Rupee in Foreign Trade. Know the Plan." Hindustan Times, March 31, 2023, sec. Business. <https://www.hindustantimes.com/business/centre-aims-to-internationalise-rupee-in-foreign-trade-know-the-plan-101680243081106.html>.

<sup>8</sup> Meaghan Tobin, Lyric Li and David Feliba, "China Pushes Yuan to Be Global Currency, Vying to Rival U.S. Dollar." The Washington Post, May 16, 2023, sec. Asia. <https://www.washingtonpost.com/world/2023/05/16/china-yuan-renminbi-us-dollar-currency-trade/>.

<sup>9</sup> Huileng Tan, "China's Yuan Is Emerging as a Strong Challenger to the Dollar's Dominance. Here Are 5 Countries That Recently Turned to the Yuan Instead of the USD for Trade." Business Insider, May 9, 2023. <https://www.businessinsider.com/dedollarization-countries-us-dollar-dominance-china-yuan-rmb-brics-currency-2023-5>.

<sup>10</sup> Reuters, "Yuan Overtakes Dollar to Become Most-Used Currency in China's Cross-Border Transactions," April 26, 2023. <https://www.reuters.com/markets/currencies/yuan-overtakes-dollar-become-most-used-currency-chinas-cross-border-transactions-2023-04-26/>.

Moreover, Russia has intensified its de-dollarization efforts on March in the last year. Putin signed an executive order prohibiting unfriendly nations from paying for natural gas contracts in any currency other than the ruble.<sup>11</sup> The country has committed to de-dollarize its economy after being subject to western sanctions as a result of its invasion of Ukraine. Russia was compelled by this to move to other currencies for commerce and to enhance its gold reserves. It was announced in January of this year that both Russia and Iran will jointly launch a new cryptocurrency that would be backed by gold and used for international trade.<sup>12</sup> The fact that Russia's economy is inextricably linked to the dollar through its oil trade is one of its biggest issues. One of Moscow's key sources of income is crude oil, and US dollars are frequently used in deals. However, over the past year, China has significantly boosted the usage of the yuan to purchase Russian goods, paying for almost all of its purchases of oil, coal, and some metals from its neighbor in yuan rather than dollars.<sup>13</sup>

From Latin America, Lula da Silva, president of Brazil, has pushed developing countries to find a substitute for the dollar and criticized the dollar's dominant position in international trade. In a speech at the New Development Bank of Shanghai, Lula urged the BRICS countries to create a single currency that they could use for trade.<sup>14</sup> Next is Argentina, which has now joined Brazil to abandon the dollar and trade in Chinese yuan. To preserve its decreasing dollar reserves, the South American nation stated that it will pay for imports from China in yuan rather than dollars.<sup>15</sup>

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<sup>11</sup> RFE, "Putin Changes Gas Payment Decree To Allow 'Unfriendly' Countries To Pay Debt In Foreign Currency," December 31, 2022. <https://www.rferl.org/a/russia-natural-gas-debts-foreign-currency/32202098.html#>.

<sup>12</sup> Paul Goncharoff, "Russia and Iran Taking Steps Towards a Gold Stablecoin - Russia Briefing News," March 7, 2023. <https://www.russia-briefing.com/news/russia-and-iran-taking-steps-towards-a-gold-stablecoin.html/>.

<sup>13</sup> Chen Aizhu. "Vast China-Russia Resources Trade Shifts to Yuan from Dollars in Ukraine Fallout." Reuters, May 11, 2023, sec. Currencies. <https://www.reuters.com/markets/currencies/vast-china-russia-resources-trade-shifts-yuan-dollars-ukraine-fallout-2023-05-11/>.

<sup>14</sup> Filip De Mott, "Brazil's President Backs Calls for BRICS Nations to Use Own Currency." Business Insider, April 13, 2023. <https://markets.businessinsider.com/news/currencies/brazil-president-de-dollarization-lula-brics-nations-currency-china-yuan-2023-4>.

<sup>15</sup> Firstpost, "The De-Dollarisation Drive Continues: Which Nations Are Dumping the US Dollar?," April 28, 2023. <https://www.firstpost.com/explainers/us-dollar-chinese-yuan-de-dollarisation-countries-currency-for-trade-12519242.html>.



Source: <https://moderndiplomacy.eu/2023/05/11/the-de-dollarization-and-weaponization-of-dollar/>

Nonetheless, regional organizations like ASEAN at a meeting in Indonesia, finance ministers and central bank governors discussed ways to increase the use of local currencies for settlement and lessen reliance on the US dollar, the euro, the yen, and the British pound.<sup>16</sup> Through this initiative, ASEAN might aspire to boost regional value chains, expand financial integration across the region, and increase commerce by implementing the local currency transaction strategy.

<sup>16</sup> Ayman Falak Medina, "ASEAN to Increase Local Currency Transactions, Reduce USD Reliance." ASEAN Business News, May 12, 2023. <https://www.aseanbriefing.com/news/asean-to-increase-local-currency-transactions-reducing-reliance-on-the-us-dollar/>.

## **Importance of the Impacts of De-dollarization**

Policymakers, companies, investors, and individuals are among the many stakeholders who must understand the effects of de-dollarization. Here are some justifications for why it's crucial to examine these implications:

**Economic Stability:** The stability of the domestic and international economy can be significantly impacted by de-dollarization. Policymakers can create efficient ways to manage potential risks, reduce disruptions, and maintain economic stability during the transition. Businesses and investors take advantage of opportunities presented by the shifting financial landscape by making well-informed decisions to reduce currency risks.

**Geo-political evolution:** De-dollarization may cause geopolitical changes and a realignment of the balance of power in the world. To negotiate shifting alliances, foresee shifts in influence, and plan their foreign policies appropriately, officials and governments must understand and analyze these ramifications. They will be better able to adapt to the new multi-currency global system with its aid.

**Opportunities for Trade and Investment:** De-dollarization may open up new channels for Trade and Investment. Businesses and investors can find potential markets, diversify their holdings, and consider partnerships with nations adopting alternative currencies or regional trade agreements by understanding the ramifications. They can take advantage of the shifting nature of the global financial scene and keep ahead of changing trends thanks to this.

**Risk management:** Currency volatility and significant trade and financial costs are introduced by de-dollarization. Understanding the ramifications enables companies and investors to create risk management plans that include currency hedging, currency diversification, and financial planning. It aids them in navigating conceivable difficulties and lessens the negative consequences on their business operations and financial performance.

**Reshaping GFS:** De-dollarization may cause the global financial system (GFS) to change, which could result in the emergence of alternative payment methods and financial organizations. Stakeholders can adapt to these changes, spot emerging possibilities, and take part in the creation of new financial infrastructure by being aware of the ramifications. It

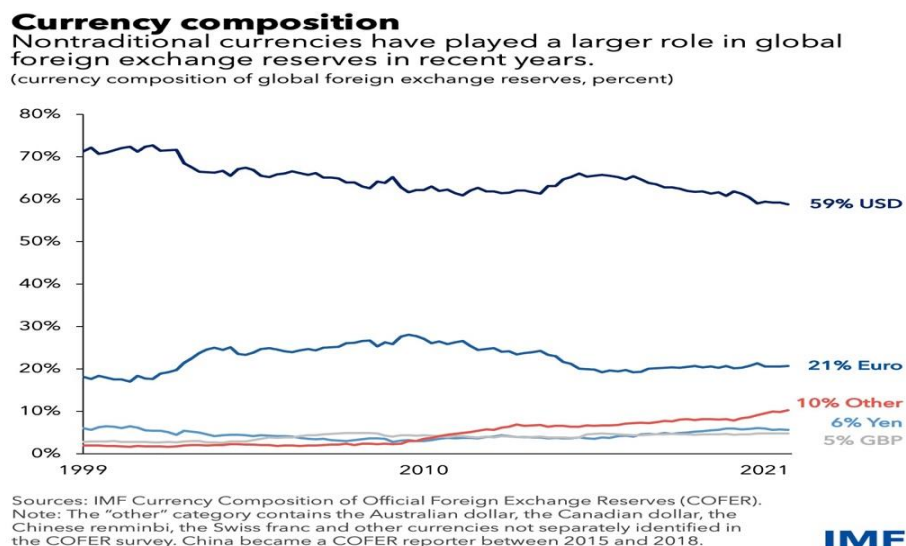


promotes conversations on rules, norms, and cooperation in the international financial sector, leading to a more resilient and inclusive GFS.

**Global interactions:** De-dollarization has an impact on international relations and international collaboration between nations. Policymakers can evaluate the potential effects on diplomatic ties, frameworks for collaboration, and business alliances by looking at the implications. It promotes international cooperation and coordination in addressing the effects of de-dollarization by facilitating discussion and negotiation.

## Implications for US Economy

The US economy may be significantly impacted by de-dollarization. It might result in currency depreciation, raising the price of imports and possibly causing inflation. As alternate currencies gain popularity, increased borrowing expenses could have an impact on the US administration and businesses. As the demand for the U.S. dollar declines globally, the trade deficit may change. The demand for US Treasury bonds and financial assets may be impacted by changes in capital flows. As the dollar becomes less popular, the effectiveness of US fiscal policy might decline. De-dollarization may also restrict the nation's capacity to use sanctions to apply economic pressure. According to the statistics from the IMF's Currency Composition of Official Foreign Exchange Reserves, dollar's share in the world's foreign currency reserves decreased below 59 percent in the fourth quarter of 2021, continuing a two-decade drop.<sup>17</sup>



<sup>17</sup> IMF, "Dollar Dominance and the Rise of Nontraditional Reserve Currencies," January 6, 2022. <https://www.imf.org/en/Blogs/Articles/2022/06/01/blog-dollar-dominance-and-the-rise-of-nontraditional-reserve-currencies>.

## **Challenges in de-dollarization**

Despite the slow loss of its hegemony, the U.S. dollar is not anticipated to be overthrown anytime soon, according to analysts, simply because there aren't any suitable alternatives at the moment.<sup>18</sup> Firstly, the USA is obviously going to adopt means as resistance to de-dollarize the global economy. The economic giant will opt for any measures to subdue the dominance of other currencies. Moreover, compared to the US dollar, most currencies might remain unstable or encounter restrictions from other countries. For example, due to regulation by the government, many nations may find it unacceptable to use the Chinese yuan as the primary currency. The yuan is still considered to be a miniature in the world of currencies, in spite of the fact that China is directly competing with the US for the title of having the largest economy. It scarcely accounts for slightly more than 2% of trade and is only the fifth most frequently used currency in cross-border payments on the SWIFT network.<sup>19</sup> Lastly, de-dollarization would necessitate substantial international cooperation to create a system of trade that is acceptable to all parties. Given the various agendas and interests of the various participating nations, this could be difficult.

## **Conclusion and Recommendation**

The long-standing US dollar hegemony in the global economy has been challenged by recent geopolitical events and the worldwide movement toward de-dollarization. This has significantly altered the global financial environment and increased doubt about the dollar's future. Understanding and navigating the effects of de-dollarization are vital as the globe moves toward a more multipolar financial system. To successfully traverse this changing international financial landscape, stakeholders must pay close attention to currency dynamics, adjust to volatility, grab new trade and investment possibilities, promote international collaboration, and spend money on research. Moreover, the regional and international financial organizations should come forward with policies and framework for vulnerable countries, and thereby have plans to ensure global financial stability, if de-dollarization really turns into an adverse direction.

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<sup>18</sup> Penny Chen, "Economic and Political Factors behind Acceleration of De-Dollarization." CNBC, April 24, 2023. <https://www.cnbc.com/2023/04/24/economic-and-political-factors-behind-acceleration-of-de-dollarization.html>.

<sup>19</sup> Samdart, "De-Dollarization and the World Economy." United States - English, May 18, 2023. <https://convera.com/blog/foreign-exchange/threat-of-de-dollarization/>.