

Li, Yuefen

Research Report

Trends, reasons and prospects of de-dollarization

Research Paper, No. 181

Provided in Cooperation with:

South Centre, Geneva

Suggested Citation: Li, Yuefen (2023) : Trends, reasons and prospects of de-dollarization, Research Paper, No. 181, South Centre, Geneva

This Version is available at:

<https://hdl.handle.net/10419/278680>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

181

Research
Paper

14 August 2023

Trends, Reasons and Prospects of De-dollarization

Yuefen Li



 **SOUTH
CENTRE**



RESEARCH PAPER

181

TRENDS, REASONS AND PROSPECTS OF DE-DOLLARIZATION

Yuefen Li¹

SOUTH CENTRE

14 AUGUST 2023

¹ Senior Advisor on South-South Cooperation and Development Finance, South Centre, Geneva. The author would like to express her sincerest thanks to Prof. Jayati Ghosh, Dr. Carlos Correa, Mr. Nakshatra Pachauri and Mr. Danish for their valuable comments and wishes also to thank Mr. Brian Darrer for his kind assistance.

SOUTH CENTRE

In August 1995, the South Centre was established as a permanent intergovernmental organization. It is composed of and accountable to developing country Member States. It conducts policy-oriented research on key policy development issues and supports developing countries to effectively participate in international negotiating processes that are relevant to the achievement of the Sustainable Development Goals (SDGs). The Centre also provides technical assistance and capacity building in areas covered by its work program. On the understanding that achieving the SDGs, particularly poverty eradication, requires national policies and an international regime that supports and does not undermine development efforts, the Centre promotes the unity of the South while recognizing the diversity of national interests and priorities.

NOTE

The views contained in this paper are attributable to the author/s and do not represent the institutional views of the South Centre or its Member States. Any mistake or omission in this study is the sole responsibility of the author/s.

Any comments on this paper or the content of this paper will be highly appreciated. Please contact:

South Centre
International Environment House 2
Chemin de Balexert 7–9
POB 228, 1211 Geneva 19
Switzerland
Tel. (41) 022 791 80 50
south@southcentre.int
www.southcentre.int

Follow the South Centre's Twitter: [South Centre](#) 

ABSTRACT

The 1944 "Bretton Woods Agreement" gave birth to the new international financial system marked by the centrality of the US dollar which is a crucial pillar of the global power of the United States. Over the past eight decades, the asymmetry of the shrinking US economic weight in the world economy and growing dominant role of the dollar has become more and more glaring. The disadvantages of overreliance on the dollar have been keenly felt, especially by developing countries. The recent moves to weaponize the dollar and the payment clearance system have triggered another wave of reassessment by national states and enterprises of the role of the dollar and led to the hitherto most broad-based de-dollarization process covering from Southeast Asia to Latin America and the Middle East. De-dollarization has been incrementally taking place in different forms and led by BRICS and some commodity exporting countries. However, there are many challenges to meaningful de-dollarization. Overall, de-dollarization efforts, despite important progress, have been limited and partial. There has been progress in reducing overreliance on the dollar through foreign exchange reserve diversification and trade invoicing as evidenced by the decline in the dollar's share of allocated foreign exchange reserves and the increase of trade invoiced and transacted in currencies other than the dollar. However, on aspects requiring the deep financial market and wide network such as foreign exchange transactions, issuance of debt and payment clearance, the dollar's share has not suffered a decline. To reform the international financial system, the BRICS in particular should continue to take the lead in furthering the de-dollarization efforts.

Les accords dits de Bretton Woods, qui ont été signés en 1944, ont donné naissance à un nouveau système financier international marqué par la centralité du dollar américain, pilier essentiel de la puissance des États-Unis sur la scène internationale. Le déséquilibre né de l'affaiblissement, au cours des huit dernières décennies, du poids des États-Unis dans l'économie mondiale et le renforcement, dans le même temps, du rôle dominant du dollar est de plus en plus manifeste. Les inconvénients d'une dépendance excessive à l'égard de cette devise ont été vivement ressentis, en particulier par les pays en développement. Les récentes tentatives de ce que les spécialistes dénomment la militarisation du dollar et du système de compensation des paiements ont déclenché une nouvelle vague de réévaluation par les États et les entreprises nationales du rôle attribué au dollar et ont conduit à un processus de dédollarisation, le plus large jamais observé, qui s'étend de l'Asie du Sud-Est à l'Amérique latine en passant par le Moyen-Orient. Cette dédollarisation, qui s'impose progressivement sous l'impulsion des BRICS et de certains pays exportateurs de matières premières, revêt des formes diverses. Cependant, de nombreux obstacles s'opposent à ce que le processus parvienne à son terme. Dans l'ensemble, les efforts qui ont été déployés en ce sens demeurent, en dépit d'avancées importantes, partiels et limités quant à leur portée. Des progrès ont été accomplis dans la réduction de la dépendance excessive à l'égard du dollar grâce à une plus grande diversification. En témoignent la diminution de la part du dollar dans les réserves de change allouées et l'augmentation des échanges réalisés et facturés dans des devises autres que le dollar. Toutefois, cette part n'a pas diminué pour ce qui est des aspects nécessitant un marché financier profond et un vaste réseau, tels que les transactions en devises, l'émission de titres de créance et la compensation des paiements. Pour réformer le système financier international, les BRICS en particulier doivent continuer de jouer un rôle moteur dans les efforts entrepris en vue de la dédollarisation.

El "Acuerdo de Bretton Woods" de 1944 dio lugar a un nuevo sistema financiero internacional marcado por el gran protagonismo del dólar estadounidense, que es un pilar fundamental del poder de los Estados Unidos en todo el mundo. Durante las últimas ocho décadas, la asimetría entre la decreciente importancia económica de los Estados Unidos en la economía

mundial y el papel cada vez más dominante del dólar ha cobrado una mayor notoriedad. Las desventajas de la sobredependencia del dólar han sido muy palpables, sobre todo en los países en desarrollo. Las medidas recientes para convertir el dólar y el sistema de compensación de pagos en un arma han desencadenado otra oleada de nuevas evaluaciones por parte de los Estados y las empresas nacionales del papel del dólar, y han dado lugar al que hasta ahora es el proceso más amplio de desdolarización, que abarca desde Asia Sudoriental hasta Latinoamérica y Oriente Medio. La desdolarización se ha estado produciendo gradualmente de diversas formas, y viene impulsada por el grupo BRICS y algunos países exportadores de productos básicos. Sin embargo, una desdolarización significativa se enfrenta a muchos desafíos. En general, las iniciativas de desdolarización, pese a haber conseguido progresar, han sido limitadas y parciales. Se han producido avances en la reducción de la sobredependencia del dólar a través de la diversificación de las reservas de divisas y la facturación comercial, tal como demuestra la disminución del porcentaje del uso del dólar para las reservas de divisas asignadas y el aumento de la transacción y la facturación comercial en divisas diferentes al dólar. No obstante, en aspectos relacionados con el mercado financiero profundo y una red amplia, como las operaciones en divisas, la emisión de deuda y la compensación de pagos, la proporción del dólar no ha experimentado descensos. Para reformar el sistema financiero internacional, el grupo BRICS en particular debería continuar tomando la iniciativa para redoblar los esfuerzos dirigidos a la desdolarización.

TABLE OF CONTENTS

I. INTRODUCTION	1
II. REASONS FOR DE-DOLLARIZATION	3
<i>II.1. Asymmetry of shrinking US economic weight and growing dominant role of the dollar</i>	3
<i>II.2. Transfer of resources via the dollar from the periphery to the United States</i>	5
<i>II.3. Exorbitant privileges and “exorbitant” duty of the dollar</i>	6
<i>II.4. Weaponization of the US dollar and the SWIFT/CHIPS systems</i>	7
III. ONGOING TRENDS OF DE-DOLLARIZATION	8
<i>III.1. Increasing use of currencies other than the dollar in international trade</i>	8
<i>III.2. Diversification of official foreign reserves</i>	9
<i>III.3. Alternative SWIFT system</i>	11
<i>III.4. Common currency</i>	12
<i>III.5. Internationalization of domestic currency</i>	12
<i>III.6. Digital currency</i>	13
IV. BRIEF HISTORY OF DOLLARIZATION AND DE-DOLLARIZATION	14
V. CHALLENGES FOR DE-DOLLARIZATION.....	16
<i>V.1. Lack of qualified alternative to the dollar</i>	18
<i>V.2. Resistance from the United States</i>	18
<i>V.3. Geoeconomics</i>	18
VI. PROSPECTS	20

I. INTRODUCTION

Emerging economies often run trade surpluses while many developed countries have the tendency to carry deficits. As for the United States (US), it has run persistent and increasingly large current account and fiscal deficits for decades, living beyond its means². However, while developing countries would suffer from economic or debt crisis with severe balance of payment problems, the centrality of the US dollar in the international monetary system allows the United States to escape constraints that the balance of payments would otherwise impose³. The US dollar is not only the world's number one reserve currency, but also the dominant currency for trade invoicing, the leading currency for the issuance of debt instruments, and the top currency for payment clearance. The global financial system is based on the US dollar. The exorbitant privileges for the United States of such a position have extended much beyond international finance. The US dollar is a crucial pillar of the global power of the United States, which has intertwined with its hegemonic position since the Second World War.

Historically, there have been attempts by some countries and regions to reduce the reliance on the dollar, which was dubbed as 'de-dollarization'. But none was broad-based. Unhappiness with the dollar's dominance and the power it grants Washington has been obvious, but none of the de-dollarization efforts till date have achieved meaningful outcome. Therefore, the dominance and supremacy of the dollar is still the current global narrative.

However, this time it is different, the discontent is more widespread, geographically covering from Southeast Asia to Latin America and the Middle East. The de-dollarization process has also been multi-pronged, manifested in different areas and channels. Above all, de-dollarization has become part of the policies and strategies for some countries. However, de-dollarization does not mean that the demise of the dollar is imminent, nor that the sway of the dollar has come to an end. As a matter of fact, currently there is no good alternative to the dollar. Neither is there any substantial evidence to demonstrate that the dollar's supreme status is under threat.

Nevertheless, the disadvantages of overreliance on the dollar have been keenly felt, especially by developing countries. Many countries have started their search for alternatives to the dollar in trade invoicing, in foreign exchange reserves, modes of financial clearance, debt issuances etc. De-dollarization also seems to be a reflection of the sentiment and efforts of moving away from a unipolar world towards a multipolar world in the face of deepening fragmentation, changing narratives and the aspiration for a new and more democratic international economic order.

Owing to the deep-rooted dominance of the dollar, the reduction of reliance on the dollar seems to be gradual and incremental, but it has the potential for a critical transformation for the international financial system and carries significant implications for the future of international trade and investment policies.

Historically, a shift from one dominant international currency to another norm has been a slow process⁴. It would be even more so this time. Unlike the overall smooth transition from the

² Catherine L. Mann, "On the Causes of the US Current Account Deficit", Peterson Institute for International Economics, 19 August 1999. Available from <https://www.piie.com/commentary/speeches-papers/causes-us-current-account-deficit>.

³ Benjamin J. Cohen, *The Geography of Money* (Ithaca, NY, Cornell University, 1998).

⁴ Rebecca Nelson and Martin Weiss, "The U.S. Dollar as the World's Dominant Reserve Currency", Congressional Research Service, September 15, 2022. Available from <https://crsreports.congress.gov/product/pdf/IF/IF11707>.

pound sterling to the dollar, de-dollarization has faced strong resistance and relentless inertia. However, the discontent with the dollar dominance has been mounting. To maintain the status quo does not seem to be an acceptable option. The de-dollarization trend is bound to further deepen and widen.

Following the introduction, Section II discusses mainly the economic rationale, with a very light touch on political reasons, for the current de-dollarization trend. Section III showcases the various modes of de-dollarization led by Brazil, Russia, India, China and South Africa (BRICS) and major developing exporters and importers. Section IV briefly reviews the history of dollarization and de-dollarization. Section V elaborates the enormous challenges for meaningful transformation for the dollar-centred international financial system. The final section succinctly highlights the prospects for de-dollarization.

II. REASONS FOR DE-DOLLARIZATION

Currently, not only States but also investors have been reassessing the role of the dollar in the global economy and its implications for the financial system as a whole. The centrality of dollar in the international monetary and economic systems is overwhelming. It is a reserve currency, medium of exchange, and also a unit of account.

II.1. Asymmetry of shrinking US economic weight and growing dominant role of the dollar

The US dollar's share in international foreign reserves, global trade invoicing, international debt securities and cross border loans are respectively many times that of the share of the US in the global gross domestic product (GDP) or its share of international trade. As Akinci has pointed out,

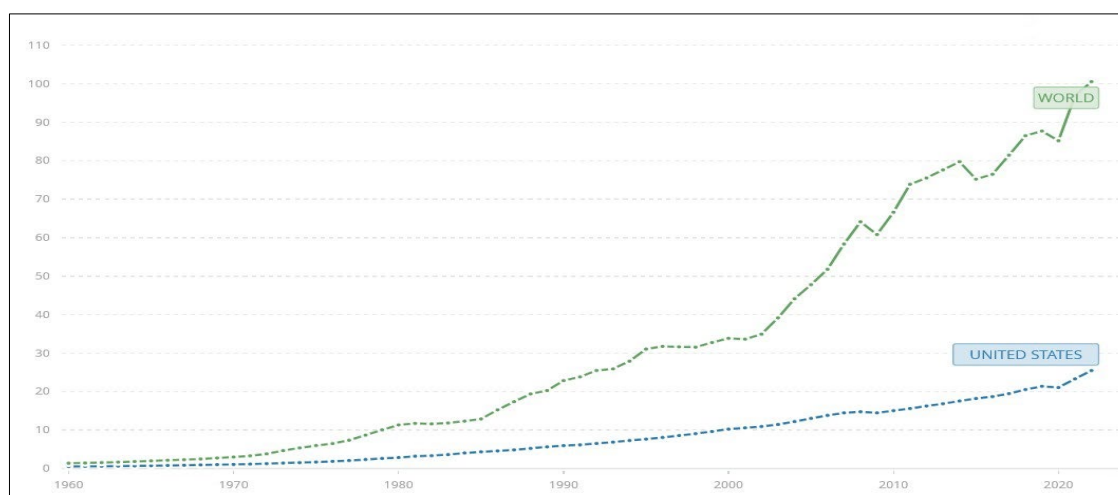
“there is a fundamental asymmetry between the shrinking exposure of the “real” U.S. economy to global developments versus the growing global role of the U.S. dollar. ...The asymmetry relies on growing dominant role of the U.S. dollar while the U.S. economy is shrinking its importance both in terms of its weight as a share of global GDP and as a share of global trade”⁵.

It is mind boggling to think about the potential risks of one country, whose share of GDP has reduced from around 45 per cent of the world GDP since World War II to the current approximately 25 per cent, yet still shoulders an oversized burden or responsibility for the performance of the world economy. Such a concentration of power in one country seems to be scary for the rest of the world. Many scholars also think the current dollar dominated international financial system is skewed in the favor of the United States and is unsustainable. Nouriel Rubini stated that *“sooner or later an alternative will have to emerge to correct this imbalance that has been continuing since the Nixon shock in 1971!”⁶*. President Nixon's unilateral termination in 1971 of the gold standard, which was agreed at the Bretton Woods conference in 1945, gave unchecked power to the United States over the supply of the dollar. From then on, the dollar has been printed without the need for collateral.

⁵ Ozge Akinci *et al.*, “The Dollar's Imperial Circle”, Federal Reserve Bank of New York Staff Reports No. 1045, December 2022. Available from https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1045.pdf.

⁶ Nouriel Rubini, “A bipolar currency regime will replace the dollar's exorbitant privilege”, *Financial Times*, 5 February 2023.

Figure 1 –The United States and the World GDP (current US\$) (in \$ trillions)



Source: World Bank

For years, the US government has struggled with a debt burden which is the highest in the world. The US government's most recent debt ceiling standoff in the first half of 2023 made countries consider the possible risk of the government defaulting on its more than 31 trillion US dollar debt. The world's reserve currency relies tremendously on other countries' confidence and trust in its national strength and stability. The twin deficits and heavy debt burden certainly have weakened the country's credibility in the world.

Countries, especially developing ones, have for many times experienced the spillover effects of the appreciation and depreciation of the dollar. They are now trying to cope with the impact of the Federal Reserves' hiking of the interest rates, which has reached a 22-year high and may increase even further⁷. Irrespective of the original aims of interest rates normalization, it has led to depreciation of currencies, huge increase in debt service cost and inflation in many emerging and developing countries.

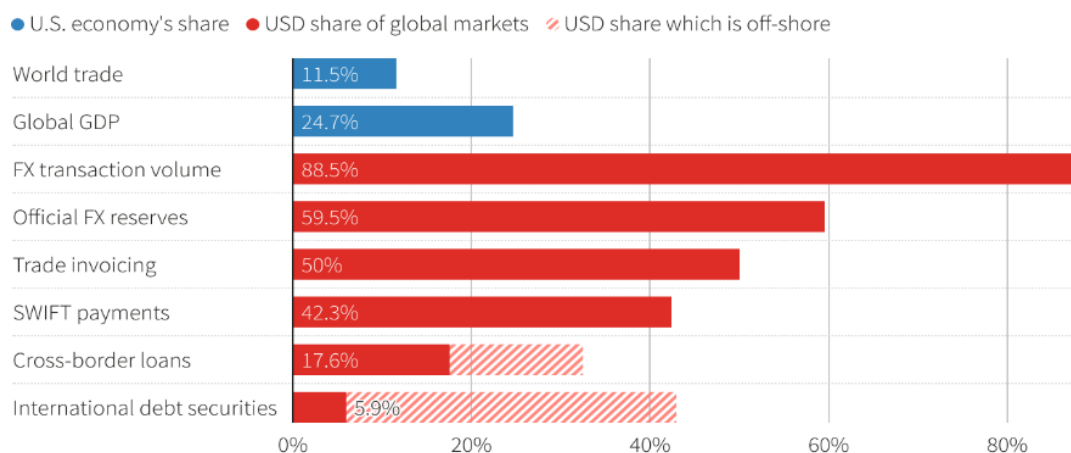
Actions to weaponize the dollar for the promotion of the US foreign policies or to put US economic interests before the rest of the world have been keenly felt or suffered by the rest of the world, in particular developing countries as their resilience to the external shocks is weak. As John Connally, President Nixon's Treasury Secretary said, "*The dollar is our currency, but it's your problem.*" The dollar is a national currency, and the United States has full sovereignty to make monetary and fiscal decisions with global implications. Yet, there is no mechanism to compel the national government to consult with other countries which will be at the receiving end of the spill-over effects of these decisions. Neither does the international monetary system have leverage to discipline issuing countries of reserve currencies. This is indeed the problem of the world.

⁷ Steve Matthews, "Fed Raises Interest Rates to 22-Year High, Leaves Door Open for More", *Bloomberg*, 26 July 2023. Available from <https://www.bloomberg.com/news/articles/2023-07-26/fed-raises-rates-to-22-year-high-leaves-door-open-for-more>.

Figure 2

U.S. and the dollar's key role in the world

The United States and its currency remain important across several key indicators of the global economy and markets.



Note: All data as of Q2 2022.

Source: BIS | Reuters, May 24, 2023 | By Sumanta Sen

II.2. Transfer of resources via the dollar from the periphery to the United States

The supremacy of the US dollar gives rise to global demand for it as a safe asset for foreign reserves and investment. The exorbitant advantage of the dollar allows the US to import foreign goods and services, more often than not at low rates of return, when comparing to a sizeable excess return on US-backed capital exported back to the rest of world including interest income and on portfolio equity positions as well as other exports of capital in dollars.⁸ Some scholars have demonstrated that the US earns an important average excess return on its net foreign asset position. Gourinchas and Rey pointed out that US foreign liabilities are almost entirely in dollars, whereas approximately 70 percent of US foreign assets are in foreign currencies. Therefore, a 10 percent depreciation of the dollar represents, *ceteris paribus*, a transfer of around 5.9 percent of US GDP from the rest of the world to the United States. They went on to show that for the period 1952-2004, the indirect capital transfer from the world to the US owing to the special dollar status was “0.3 in 1952 to 0.73 in 1973, reached 1.09 in 1991 and, finally, 1.34 in 2004.”⁹ Forbes’ estimates for US excess returns was much higher and he stated that the 2002-2006 period reached about 6.9%.¹⁰ Meyer on the other hand pointed out that other scholars overlooked the impact on developing countries which suffered more than developed ones and had a net loss by reliance on the dollar and estimated that,

⁸ R.J. Caballero *et al.*, “Global imbalances and policy wars at the zero-lower bound”, January 16, 2020, p.9, available from

https://scholar.harvard.edu/sites/scholar.harvard.edu/files/farhi/files/glob_imbalances_011620_pog.pdf & Otaviano Canuto, “The U.S. dollar’s ‘exorbitant privilege’ remains”, Policy Brief, Policy Center for the New South, April 27, 2023. Available from <https://www.policycenter.ma/publications/us-dollars-exorbitant-privilege-remains>.

⁹ Pierre-Olivier Gourinchas and Hélène Rey, “From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege”, in *G7 Current Account Imbalances: Sustainability and Adjustment*, Richard H. Clarida, ed. (University of Chicago Press, 2007). Available from <http://www.nber.org/chapters/c0121>.

¹⁰ Kristin J. Forbes, “Why do foreigners invest in the United States?” *Journal of International Economics*, Volume 80, Issue 1 (January 2010), Pages 3-21.

“Developing economies as a group recorded negative return differentials and valuation losses during 2010–2019, implying a total return differential of about minus three percentage points between developing and developed economies and an annual average resource transfer from developing economies of about \$800bn, or 3.3 per cent of their GDP”¹¹.

Overall, all scholars converge that owing to the use of the dollar by other countries and US asset position abroad, the average excess return on the net foreign assets by the United States was significant. With these advantages, the negative impact of the current account and fiscal deficits of the United States tends to be muted to various degrees to the United States. In other words, the United States can afford to live beyond what its national GDP permits because of the supremacy of the dollar. However, this can give rise to economic imbalances in the world as well as vulnerabilities to countries which persistently run trade surpluses including being trapped in exporting of commodities or low-end products of the international supply chain. Huge and persistent trade surpluses mean excessive domestic savings or suppression of consumption, which would result in less productive investment domestically and increasing foreign exchange reserves in safe assets which is largely in dollars. Trade surpluses and less productive investment tend to perpetuate the exports of commodities or low-end exports with low value added. For the United States, trade deficits would lead to more holdings of US treasury bills by trade surplus countries, which in turn lead to more liquidity for the US financial system to intermediate. This kind of imbalance has sown the seeds of financial crisis as the financial system has not been efficient enough to channel liquidity to productive investment, instead giving more appetite for riskier financialization. In addition, US dollar exchange rates and interest rates fluctuations can cause capital market volatilities in developing countries giving rise to flight to safety leading to large capital outflows or short-term capital inflows seeking for high returns. More and more developing countries have realized these risks and uncertainties, which give rise to desire for de-dollarization.

II.3. Exorbitant privileges and “exorbitant” duty of the dollar

As mentioned above, to borrow money cheaply in global markets and create money inexpensively domestically, then recycle dollar at higher returns is one privilege of the US dollar. However, the privileges of the dollar go much beyond this.

The former Chairman of the US Official Monetary and Financial Institutions Forum had a good summary of all the benefits or privileges of the United States derived from the dollar’s global financing roles:

“The US is largely shielded from exchange risk, whereas other countries must often hedge their currencies. Foreign flows reduce US interest rates, be it for treasuries or corporate paper. Transaction costs are lower. The US benefits from seigniorage, which ultimately helps reduce Treasury financing needs. For better or worse, the US is able to run larger fiscal deficits at lower cost than would otherwise be the case. The US is also able to deploy financial sanctions that can bite. One hopes that the US will run sensible fiscal and financial sanctions policies. The dollar’s global role also helps project US economic might across the world.”¹²

¹¹ Jorg Meyer, “The ‘exorbitant privilege’ and ‘exorbitant duty’ of the United States in the international monetary system: implications for developing countries”, *Review of World Economics*, Vol. 157 (2021), pp. 927–964. Available from <https://doi.org/10.1007/s10290-021-00422-5>.

¹² Mark Sobel, “Exaggerated debate is often conflated with other factors”, Official Monetary and Financial Institutions Forum, 1 July 2021. Available from <https://www.omfif.org/2021/07/dollars-global-role-extraordinary-privilege-or-burden/>.

The dollar's reserve currency role does make US current accounts biased towards deficits owing to global demands for dollar. This is considered as part of the exorbitant duty of the dollar and repeated often by US officials, even though demand for dollar could be met through the capital account, which the US normally runs a surplus, or through greater velocity of money through financial institutions creating quasi money. The US has run persistent deficits for decades. However, it does not seem it would like to follow the International Monetary Fund (IMF)'s advice to suppress domestic demand. In the end this part of the exorbitant duty of the dollar may not really constitute a duty. For trade surplus economies, what normally happens is that their banks would intermediate or they would keep high foreign exchange reserves which implies buying dollar denominated assets. This would reinforce dollar centrality and enable the US Federal Reserve to continue to expand credits. This is one of the reasons why emerging economies are attempting alternative currencies for trade invoicing.

Another exorbitant duty of the dollar is that the US is expected to assist the rest of the world in times of global economic stress. During the 2007-2009 global financial crisis, which originated from the United States, the US did provide much help to the euro zone. Therefore, according to the logic, the US would enjoy "exorbitant privileges" during normal times and suffer from "exorbitant duty" of wealth transfer during times of crisis. But Meyer finds that the United States entailed wealth transfers to other developed countries but provided little insurance to developing and transition economies thus the exorbitant duty of the US dollar in providing insurance payments during bad times benefited primarily main developed economies, or "systemically important countries"¹³.

II.4. Weaponization of the US dollar and the SWIFT/CHIPS systems

The imposition of sanctions on Russia, which included the freezing of \$300bn worth of Russian central bank assets by the United States and its allies, has triggered the fear of Washington using the dollar's global dominance as a vehicle for its foreign policy aims. A question being asked is whether the world's reserve currency is supposed to be completely or mostly neutral. Currently, about 40 countries have been sanctioned by the US, of which Cuba has suffered from economic sanctions for more than 60 years. The coverage of sanctions has also become more systemic and wider, affecting not only the central governments but also enterprises and individuals. This has brought financial activities to a standstill and frozen the overseas assets of many institutions, entities and individuals. The joint statement of the BRICS foreign ministers meeting in 2021 stated that "*The Ministers reaffirmed the sole authority of the UN Security Council for imposing sanctions and called for further consolidation and strengthening of the working methods of UN Security Council Sanctions Committees to ensure their effectiveness, responsiveness and transparency.*"¹⁴ Clearly, the view is that sanctions should not be decided by the country with the leading reserve currency.

As a response, while countries were asking who could be the next to be sanctioned, central banks have tried to diversify their foreign exchange holdings, and been pushed to buy more gold. Some have considered that the imposition of US sanctions on Russia has expedited the process of de-dollarization.

¹³ Jorg Meyer, "The 'exorbitant privilege' and 'exorbitant duty' of the United States in the international monetary system: implications for developing countries", *Review of World Economics*, Vol. 157 (2021), pp. 927–964. Available from <https://doi.org/10.1007/s10290-021-00422-5>.

¹⁴ See <http://www.brics.utoronto.ca/docs/210601-foreign.html>.

III. ONGOING TRENDS OF DE-DOLLARIZATION

BRICS countries, other major developing commodity exporters and importers are taking the lead for the current de-dollarization trend. Their efforts have concentrated in the following areas:

III.1. Increasing use of currencies other than the dollar in international trade

Global trade has been based on the dollar since the end of the Second World War. Most commodities are priced and traded in US dollars even though the actual trade has nothing to do with the United States. Importing countries have to earn or buy mainly dollars to import their needed goods and services while exporting countries would accumulate primarily dollars in return for their exports. Therefore, international trade increases countries' reliance on the dollar. It is not surprising that an important trend for de-dollarization has been to use alternative currencies to undertake international trade.

Recently, Brazilian president Luiz Inácio Lula da Silva said at the the closing ceremony of the Paris Finance Summit in June 2023, *"Every night I ask myself why all countries have to base their trade on the dollar... Why can't we do trade based on our own currencies?"*¹⁵. Lagarde noted that, *"Anecdotal evidence, including official statements, suggests that some countries intend to increase their use of alternatives to major traditional currencies for invoicing international trade"*¹⁶. South Africa's president Cyril Ramaphosa who spoke at the same occasion appeared to support President Lula and said that *"when we have the BRICS summit, the issue of currency is top on the agenda so we are going to discuss it"*¹⁷.

Since the agreement between the United States and Saudi Arabia in 1945, oil trade has always been denominated and conducted in US dollars. Now India has started to purchase Russian oil in renminbi, Saudi currency and roubles¹⁸. Russia and China traded Russian oil, coal and metals in renminbi¹⁹. Russia and a group of African countries initiated talks to establish settlements in national currencies, discontinuing both the US dollar and the euro.

Saudi Arabia, a major oil exporter, has been reported to signal that it is considering to trade oil in currencies other than dollar²⁰. Ghana, a country in debt distress but the world's sixth largest gold producer, has proposed to import oil with gold, equivalent to barter trade.

Chinese national oil company CNOOC and France's Total Energies completed their first-ever deal of 65,000 tons liquified natural gas imported from the United Arab Emirates in renminbi. The French media considered that this marks a major step in undermining the US dollar as a

¹⁵ Joe Leahy and Hudson Lockett, "Brazil's Lula calls for end to dollar trade dominance", *Financial Times*, 13 April 2023. Available from <https://www.ft.com/content/669260a5-82a5-4e7a-9bbf-4f41c54a6143>.

¹⁶ Christine Lagarde, speech at the Council on Foreign Relations' C. Peter McColough Series on International Economics, 17 April 2023. Available from <https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230417~9f8d34fbd6.en.html>.

¹⁷ President Cyril Ramaphosa's remarks at Closing Ceremony of the New Global Financing Pact Summit in France, 23 June 2023. Available from <https://www.youtube.com/watch?v=bR36kuEzhz8>.

¹⁸ Nidhi Verma and Noah Browning, "Insight: India's oil deals with Russia dent decades-old dollar dominance", *Reuters*, March 8, 2023. Available from <https://www.reuters.com/markets/currencies/indias-oil-deals-with-russia-dent-decades-old-dollar-dominance-2023-03-08/>.

¹⁹ Chen Aizhu, "Vast China-Russia resources trade shifts to yuan from dollars in Ukraine fallout", *Reuters*, May 11, 2023. Available from <https://www.reuters.com/markets/currencies/vast-china-russia-resources-trade-shifts-yuan-dollars-ukraine-fallout-2023-05-11/>.

²⁰ Abeer Abu Omar and Manus Cranny, "Saudi Arabia Says Open to Settling Trade in Other Currencies", *Bloomberg*, 17 Jan. 2023. Available from <https://www.bloomberg.com/news/articles/2023-01-17/saudi-arabia-open-to-talks-on-trade-in-currencies-besides-dollar>.

universal "petrodollar" for gas and oil trade²¹. China has also established a commodity exchange in Shanghai for oil and gas futures in 2018, the Shanghai Petroleum and Natural Gas Exchange (SHPGX), where contracts are priced solely in Chinese renminbi²². Nevertheless, the amount of trading is still very small.

For other goods and services, the same trend is going on. Brazil and China signed an agreement in early 2023 to enable mutual trade in local currencies²³. There is the plan to introduce a renminbi clearing arrangement for some trade between the two countries. China and Russia are also now doing a significant portion of their trade in yuan.

At an official meeting of all Association of Southeast Asian Nations (ASEAN) Finance Ministers and Central Bank Governors in March 2023 in Indonesia, an issue discussed was how to reduce their reliance on the US dollar and "move to settlements in local currencies" instead²⁴. India and Malaysia have started to settle their trade in the Indian rupee²⁵. Settlements in national currencies have commenced among the BRICS nations, while Philippines and Thailand have also signed trade deals using non-dollar currencies.

III.2. Diversification of official foreign reserves

In the past two decades, especially since the 2008 global financial crisis, central banks of many countries have been trying to diversify their portfolios to shift away from the US dollar through liquidating holdings of US Treasuries and increasing other assets including the euro, yen, renminbi and gold. Since the turn of the millennium,²⁶ the share of the US dollar in global foreign exchange reserves has declined by more than 10 percentage points (see Figure 3) from about 71 percent in 2000 to a 20-year low of 58% in the fourth quarter of 2022, according to International Monetary Fund data. Comparing with the peak of 85 percent in 1977, the US dollar slide in global foreign exchange reserves has been significant but relatively gradual. Taking into consideration that about a quarter of the USD 12 trillion in global official foreign exchange reserves are held by China and cannot be diversified into renminbi, a global shift away from the dollar is quite obvious.

²¹ Jan van der Made, "'Petrodollar' at risk as Total Energies sells LNG to China in yuan", *RFI*, 31 March 2023. Available from <https://www.rfi.fr/en/business/20230331-petrodollar-under-threat-as-france-s-totalenergies-sells-lng-to-china-in-yuan>.

²² Gennifer Gnana, "China opens door to trade crude oil and natural gas in yuan", *S&P Global*, 11 December 2022. Available from <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/121122-china-opens-door-to-trade-crude-oil-and-natural-gas-in-yuan>.

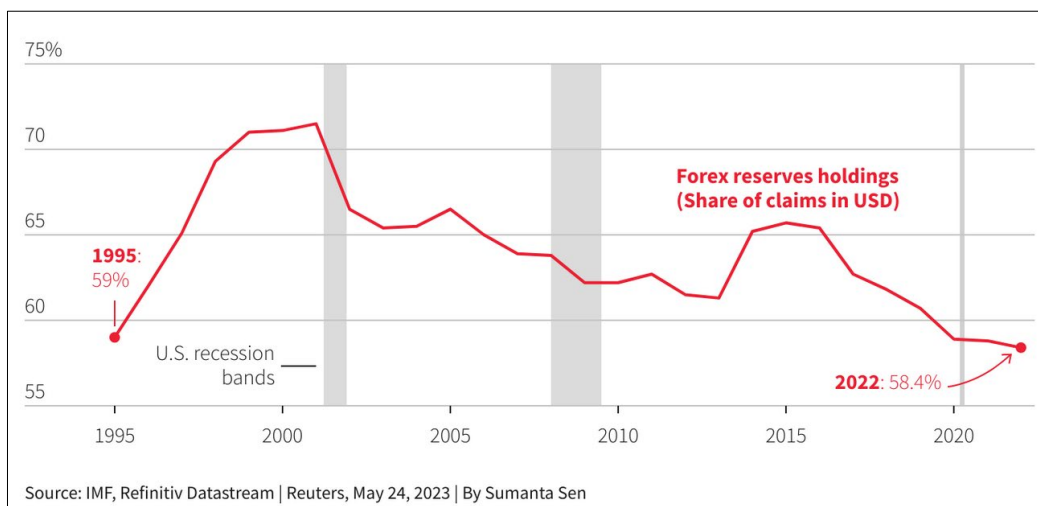
²³ "Brasil assina mais de 20 acordos de cooperação em missão empresarial em Pequim", *APEXBrazil*, 29 March 2023. Available from <https://apexbrasil.com.br/br/pt/conteudo/noticias/brasil-assina-20-acordos-de-cooperacao-em-missao-empresarial-em-.html>.

²⁴ Chris Devonshire-Ellis, "ASEAN Finance Ministers and Central Banks Consider Dropping US Dollar, Euro and Yen, Indonesia Calls for Phasing Out Visa and Mastercard", *ASEAN Briefing*, 29 March 2023. Available from <https://www.aseanbriefing.com/news/asean-finance-ministers-and-central-banks-consider-dropping-us-dollar-euro-and-yen-indonesia-calls-for-phasing-out-visa-and-mastercard/>.

²⁵ Kallol Bhattacharjee, "India, Malaysia move beyond dollar to settle trade in INR", *The Hindu*, 1 April 2023. Available from <https://www.thehindu.com/news/national/india-and-malaysia-announce-trade-in-indian-rupees/article66687080.ece>.

²⁶ European Central Bank, "The international role of the euro", June 2022. Available from <https://www.ecb.europa.eu/pub/pdf/ire/ecb.ire202206-6f3ddeb26.en.pdf>.

Figure 3 – Share of US Dollar Reserves held by Central Banks

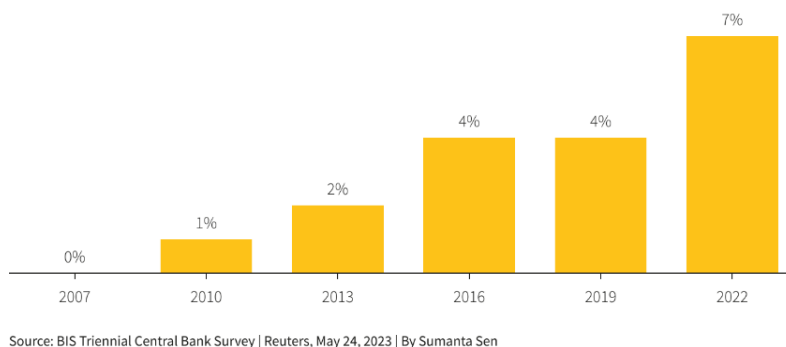


Opposite to the decline of the dollar in foreign exchange reserves is the steady and significant rise of the Chinese renminbi. But as it was at zero more than 10 years ago, its size is no match at all with the dollar. Foreign exchange transactions in renminbi have increased to 7% in trading volume.

Figure 4

The yuan's steady rise in global FX transactions

Although still small compared to its major peers, the renminbi's share of global foreign exchange transactions has risen from zero to 7% in the last 15 years.

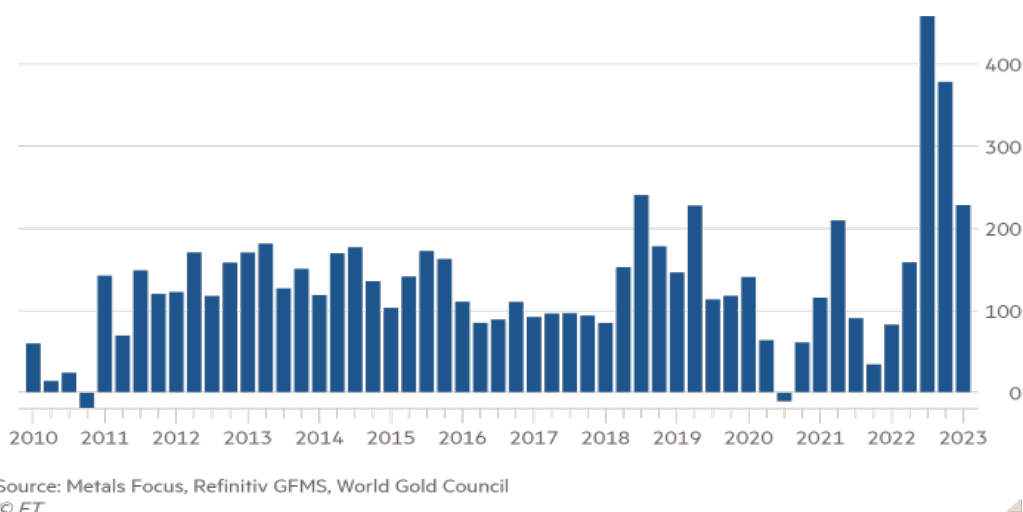


In seeking a safe alternative to the dollar, central banks have been reducing their dollar holdings, turning to gold and other currencies. The purchase of gold by central banks has reached a peak of 33 per cent of monthly global demand for gold contributing to the sharp increase of the price of gold. 2022 saw the record purchase of gold by central banks of 1,089 tonnes, the most since records began in 1950²⁷. In January and February 2023, central banks collectively bought a net 125 tonnes of the metal, the highest amount for the year-to-date

²⁷ Harry Dempsey, "US banking crisis pushes gold close to all-time high", *Financial Times*, 5 May 2023. Available from <https://www.ft.com/content/b28378f9-adbe-429c-ae16-f6919f96369c>.

period since banks became net buyers in 2010²⁸. Russia, China, Turkey and India are among the top buyers of gold. So gold is increasingly becoming a more important alternative reserve asset for central banks while the dollar is becoming less important than before for foreign reserves.

Figure 5 – Central Bank Purchases of Gold (Net purchases in tonnes)



Source: Financial Times²⁹

III.3. Alternative SWIFT system

Global cross border payments infrastructure is essential for the international financial activities and the realisation of the dominant position of reserve currencies and a very important vehicle for imposition of financial sanctions.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a major Belgian carrier of the messages containing the payment instructions between financial institutions involved in a transaction. Since its establishment in 1977, it has gradually expanded and achieved global dominance in wholesale interbank operations. It works closely with the United States' Clearing House Payments Company (CHIPS), which is the network of correspondence banks that owns and operates core payments system infrastructure. Economic sanctions can be carried out by excluding a country's financial institutions from SWIFT or/and CHIPS, (signaling and clearing/settlement processes of financial transactions), which constitutes a major restriction which *de facto* suspends cross-border financial transactions of the countries and their companies from interacting financially in the world. Both CHIPS and SWIFT have been weaponized to implement foreign policies of their owner countries, especially those of the United States.

To deal with this problem, Russia took efforts to develop its own System for Transfer of Financial Messages (SPFS) which is modelled on SWIFT. Recently, Russia has intensified its attempts to use SPFS for cross-border payments. Nevertheless, its use is very limited.

²⁸ Frank Holmes, "Central Banks are buying gold at a record pace so far in 2023", U.S. Global Investors, 6 April 2023. Available from <https://www.usfunds.com/resource/central-banks-are-buying-gold-at-a-record-pace-so-far-in-2023/>.

²⁹ Available from <https://www.ft.com/content/b28378f9-adbe-429c-ae16-f6919f96369c>.

Since 2015, China developed its “Cross-Border Interbank Payment System” (CIPS). This is not modelled after SWIFT but is comparable to CHIPS. It is a complete payment system, incorporating both clearing and settlement. Right now, it still uses SWIFT for most cross-border financial messaging but can be extended to operate by its own. Its coverage is still small but has the potential to be expanded if needed.

France, Germany and the United Kingdom had set up the Instrument in Support of Trade Exchanges (INSTEX) in 2019 as “the main response by Europe to the imposition of US sanctions on Iran, designed to enable the [European Union countries] to meet their commitments under the Vienna Agreement and the Joint Comprehensive Plan of Action (JCPOA), while helping European companies to continue to do business in that country”³⁰. However, it only ever did a single transaction in March 2020 and was subsequently liquidated in March 2023³¹.

The Russian and Chinese attempts were stimulated by the increasing use of SWIFT and CHIPS as a tool for sanctions. There are proposals to return “SWIFT to the status of a global public good”³² to avoid fragmenting international infrastructure for clearing and payments. However, how to implement this is still an issue.

III.4. Common currency

To challenge the dominance of the US dollar and facilitate South-South cooperation, the BRICS nations (Brazil, Russia, India, China, and South Africa) have proposed to establish a common currency. The proposal is to be discussed at the upcoming BRICS summit in August 2023 in South Africa. The immediate goal is to trade with one another directly. Even though this is a complex issue technically and politically, the proposal itself demonstrates the distrust of the dollar and discontent with the current supremacy of the dollar. Brazil and Argentina also announced plans to have a common currency³³.

III.5. Internationalization of domestic currency

China started to internationalize its currency as early as 1993. At that time, there was the intention to gradually push for renminbi convertibility. When the Asian financial crisis hit in 1997, the vehement volatility of capital flows made the Chinese policy makers realize that financial liberalization could lead to great risks. Subsequently, the renminbi’s convertibility was postponed and the government, like other East Asian countries, concentrated their attention on accumulating foreign exchange reserves as a buffer against the financial crisis. Since then, there have been strides in promoting cross-border payments. RMB trading centers have been set up in Hong Kong, Asian and European countries to facilitate transactions in RMB. Bilateral and plurilateral trade deals have been agreed to trade in renminbi. India has also made efforts to trade with other countries in Indian rupees³⁴. Brazil, Russia, India, South Africa and Saudi Arabia have all been discussing and engaging in trade in currencies other than the US dollar.

³⁰ See https://www.europarl.europa.eu/doceo/document/E-9-2020-002028_EN.html.

³¹ See https://www.europarl.europa.eu/doceo/document/E-9-2023-001509-ASW_EN.html.

³² Andreas Nölke, “The weaponization of global payment infrastructures: A strategic dilemma”, SAFE White Paper No. 89, June 2022.

³³ Lisandra Paraguassu, “Brazil and Argentina to discuss common currency”, *Reuters*, 23 January 2023. Available from <https://www.reuters.com/markets/currencies/brazil-argentina-begin-preparations-common-currency-ft-2023-01-22/>.

³⁴ Vidya Mahabare, Praveen Kumar, “Internationalize the rupee while a BRICS currency loses traction”, *Mint*, 17 July 2023. Available from <https://www.livemint.com/opinion/online-views/internationalize-the-rupee-while-a-brics-currency-loses-traction-11689604699727.html>.

III.6. Digital currency

A central bank digital currency (CBDC) is issued and overseen by a country's central bank. It can help speed up settlement of cross-border transactions once it is mature. According to the IMF,³⁵ as of July 2022, there were nearly 100 CBDCs in research or development stages and two have been fully launched. Many countries are testing these digital currencies with the aim, among others, of using it in trade transactions in their own currencies. International trade in CBDC could bypass SWIFT or CHIPS. CBDC has the potential to reduce a country's reliance on the dollar in addition to digitalizing financing.³⁶

³⁵ Andrew Stanley, "The Ascent of CBDC", *IMF Finance & Development*, Sept. 2022.

³⁶ Maria Demertzis, "De-dollarisation", *Bruegel*, 23 April 2023. Available from <https://www.bruegel.org/comment/de-dollarisation>.

IV. BRIEF HISTORY OF DOLLARIZATION AND DE-DOLLARIZATION

The US dollar has become the prominent reserve currency since the end of World War II. In 1944, “the Bretton Woods Agreement set the rules for a new monetary system and ensured United States dominion over the rest of the planet.”³⁷ At that time, the United States held about 55 percent of the world's gold reserves. The US dollar was backed by gold and could be redeemed at any time by gold. The value of gold was fixed to \$35 per ounce, and the value of the US dollar was thus anchored to the value of gold. Other countries' currencies were pegged to the dollar. This arrangement was called the gold standard, which allowed the United States to expand or contract the money supply against gold. Therefore, free printing of money was not permitted.

In 1945, the United States signed an agreement with Saudi Arabia cementing a close alliance as well as the agreement to denominate the price of oil in US dollars. Following the agreement between the governments of the United States and Saudi Arabia to price oil in dollars, other members of the Organization of Petroleum Exporting Countries (OPEC) followed suit after the establishment of the OPEC in 1960. The emergence of the petrodollar boosted demand for the US dollar and further solidified the dollar's position in international trade and the international monetary system. This was the start of the petrodollar as well as the beginning to price commodities and international trade in dollars, constituting a big boost to the dominance of the US dollar in international trade.

In 1971, the United States suffered from negative balance of payments difficulties mainly owing to the massive military expenditure on the war against Viet Nam which used up much of the US' reserves of gold.³⁸ Facing these financial difficulties, President Nixon unilaterally suspended the gold standard, abandoning the free convertibility of the dollar into gold. Massive devaluation of the dollar followed the decision, materializing a huge transfer of wealth from the world to the United States. However, to the pleasant surprise of President Nixon, other countries did not protest against his decision as they might not have been fully aware of its consequence, i.e. the international monetary system is very much in the hands of the United States without the collateral constraint of gold. Benefiting from hindsight, Adam Baratta commented on the suspension of the gold standard and said that,

“The unilateral control of the monetary system (author: by the United States) entrenched American dominance across the globe and sealed the fate of every other nation to playing second fiddle to the United States.... Over the past 57 years, the Federal Reserve has expanded the money base 40 times”³⁹.

Regarding de-dollarization, the establishment of the euro in 1999 could be considered as a serious competition to the dollar. According to Henning⁴⁰, the euro was in part created to protect Europe from the disturbances and negative externalities of U.S. monetary policy. But the 2011 Eurozone debt crisis and the structural problems of the monetary union have weakened the euro's position and made it a distant second international reserve currency to the dollar. Even though it has failed to live up to its potential to meaningfully compete with the dollar as a global reserve currency, without the euro the world would rely even more heavily on the dollar.

³⁷ Adam Baratta, *The Great Devaluation* (Wiley, 2020), p. 72.

³⁸ David Graeber, *Debt - The First 5,000 Years* (2011).

³⁹ Adam Baratta, *The Great Devaluation*, p. 73.

⁴⁰ Randall Henning, “Systemic Conflict and Regional Monetary Integration: The Case of Europe” (Cambridge University Press, 18 August 2003).

The Special Drawing Rights (SDRs) was created by the International Monetary Fund in 1969, agreed by all Member States of the IMF. Its purpose is not to compete with the dollar but it is a way to minimize the burden of the duty of reserve currencies to meet the rising demand of the reserve currencies from the rest of the world. The SDR is not a currency per se but can be held by countries as part of their reserves and converted into currencies when they have balance of payments difficulties. Since 1978, the SDR became an international unit of account. The SDR basket currencies currently comprise of the US dollar, euro, pound sterling, Japanese yen and Chinese renminbi. Some proposed to consider the SDR as a reserve currency or as a model for the future international reserve currency system.⁴¹ IMF researchers concurred with the proposal⁴². Shift Three of the United Nations Secretary-General's High-Level Advisory Board on Effective Multilateralism⁴³ has recommended that SDRs should play a fuller role in the global financial safety net and be a key component of global reserves.

Countries like Venezuela, Iran and Russia have attempted to use currencies other than the dollar to price and trade oil. De-dollarization was the aim of such kind of actions. Further, efforts by some emerging economies including China, Russia and India, etc. to internationalize their domestic currencies for different intentions have the effect of reducing reliance on the dollar. However, they have not constituted a meaningful threat to the dollar so far.

⁴¹ United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report 2009*.

⁴² Ben Rooney, "IMF calls for dollar alternative", *CNN Money*, 10 February 2011.

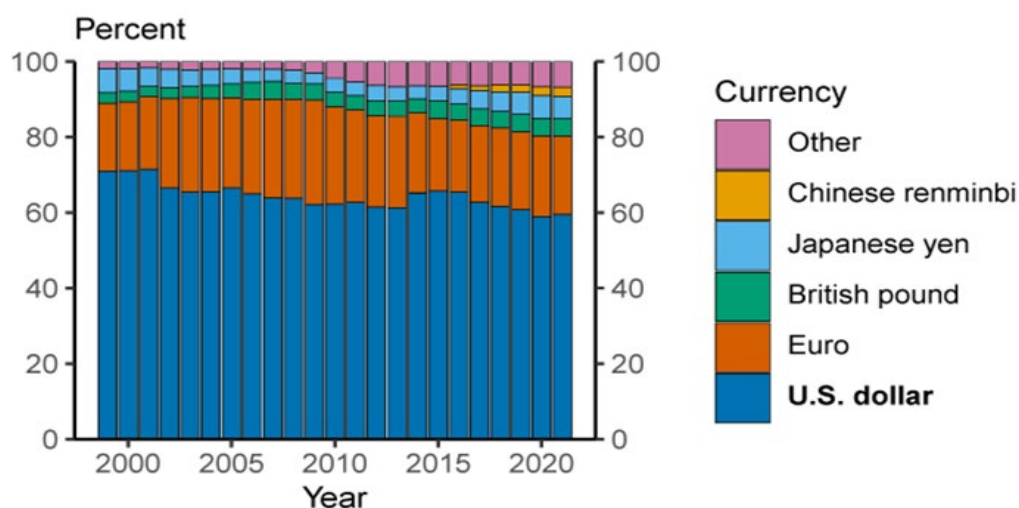
⁴³ High-Level Advisory Board on Effective Multilateralism, Shift Three | Global Finance - Ensure Sustainable Finance that Delivers for All. Available from https://highleveladvisoryboard.org/breakthrough/pdf/highleveladvisoryboard_breakthrough_Shift3.pdf.

V. CHALLENGES FOR DE-DOLLARIZATION

Leading reserve currencies are typically characterized by their liquidity, stability, and wide acceptance in global markets. This is because the currency is not just for **a store of value** such as being held as countries' foreign exchange reserves, but also, or more importantly, **a unit and means of payment** – used for trade invoicing, foreign exchange transactions, denominating and trading foreign debt securities and commodities. Therefore, the currency is required to enjoy free convertibility (no capital control or regulations restricting trading), a deep and liquid financial market (asset availability at all times), and wide network externalities (being accepted widely by countries, financial institutions, private and official investors, exporters, importers, currency traders, debt issuers and lenders, etc.). Using these criteria to assess the major currencies in the world, the dollar still comes by far on the top of the list.

Even though the share of dollar in the foreign exchange reserves of the world's central banks has declined from the height of more than 70% in 2000 to 58% in 2022, back to the level of 1995, it is still dominant. Data from IMF shows that the share of dollar reserves is more than double that of the euro, a distant second in ranking of the most-held currency in the world. The share of the Chinese renminbi in global official foreign exchange reserves has increased relatively fast from very low or zero and has more than doubled since 2016 to almost 3% in 2021 (Figure 6).

Figure 6 - Share and composition of global foreign exchange reserves (BIS)



Note: Share of globally disclosed foreign exchange reserves. At current exchange rates. Data are annual and extend from 1999 through 2021. 2021 is 2021-Q1. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2015-Q2.

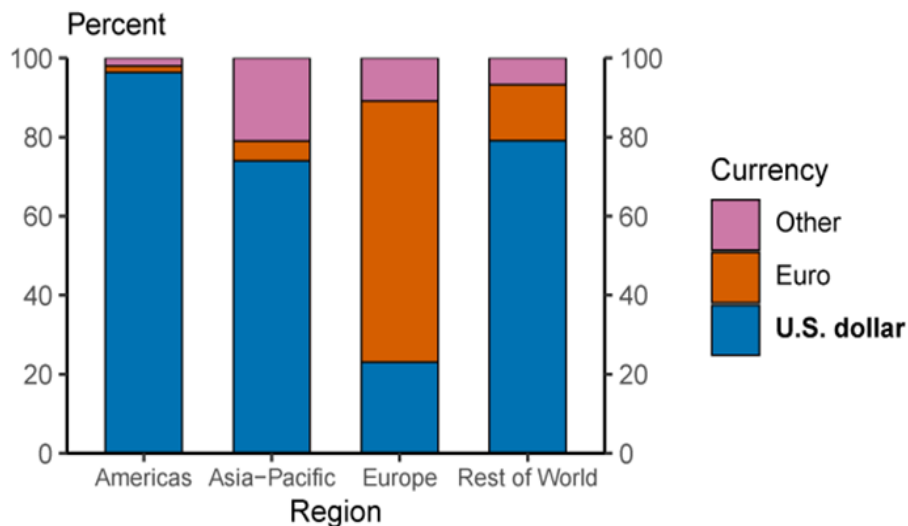
Source: IMF COFER

The recent decline of the US dollar as a global reserve currency shows the diversification efforts by countries especially the emerging economies. Nevertheless, for trade invoicing and international transactions of foreign exchange, the dollar's position has remained stable, at the level of almost 90% of global forex transactions, representing about \$6.6 trillion in 2022, according to Bank for International Settlements (BIS) data. About 50% of global trade is invoiced in dollar even though US real share in world trade is much less.⁴⁴

⁴⁴ E. Boz *et al.*, "Patterns in Invoicing Currency in Global Trade", IMF Working Paper no. 20/126 (2020).

Regarding debt instruments, the dollar has recently had a significant increase in terms of international bond issuance.⁴⁵ According to the BIS, foreign currency debt denominated in US dollars has remained around 60 percent since 2010, while the euro occupied about 23 to 24 percent in 2021. Regarding cross-border transmissions, over 90% of them were being signalled through SWIFT⁴⁶, suggesting an almost absolute monopoly. As for currency composition of SWIFT payments, the dollar accounted 43%, euro 32%, and renminbi was at 2.3%.⁴⁷

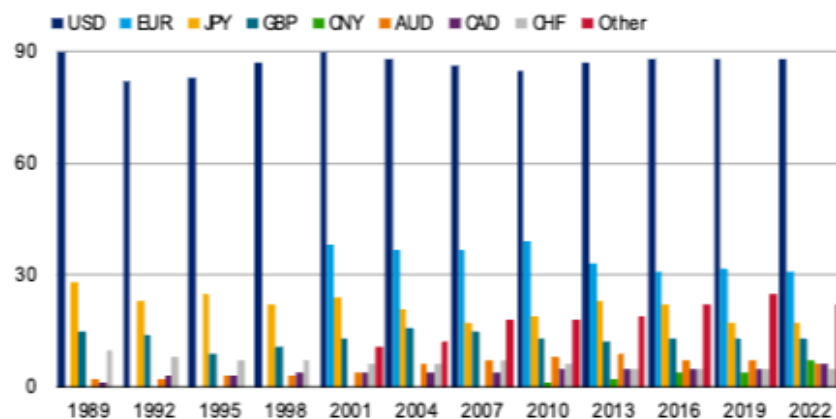
Figure 7 - Share of export invoicing



Note: Average annual currency composition of export invoicing, where data are available. Data extend from 1999 through 2019. Regions are those defined by the IMF. Legend entries appear in graph order from top to bottom.

Source: IMF Direction of Trade; Central Bank of the Republic of China; Boz *et al.* (2020).

Figure 8 – Turnover of OTC foreign exchange instruments, by currency (share)



Source: BIS Triennial Central Bank Survey of foreign exchange and Over-the-counter (OTC) derivatives markets.

BofA GLOBAL RESEARCH

⁴⁵ European Central Bank, "The international role of the euro".

⁴⁶ Nölke, "The weaponization of global payment infrastructures".

⁴⁷ Marc Jones, "JPMorgan flags some signs of emerging de-dollarisation", *Reuters*, June 5, 2023. Available from <https://www.reuters.com/markets/signs-de-dollarisation-emerge-dollar-top-currency-jpmorgan-2023-06-05/>.

On the whole, recent developments, even though broad-based, do not point to any imminent loss of dominance for the US dollar or the euro. The main regression suffered by the dollar is its around 10% decline in its share in foreign exchange reserves. But on the fronts of foreign exchange transactions, debt issuance outside the United States and SWIFT/CHIPS, the dollar and the euro, to a lesser extent, have maintained their important leading role.

V.1. Lack of qualified alternative to the dollar

The most important challenge to de-dollarization is that there is no clear alternative single currency which can meet the criteria for being the world's leading reserve currency and be a store of value and a media and means of payment. Leading contenders include the euro, yen and renminbi. However, owing to their own structural problems, the euro and yen have been number two or number three key reserve currencies but may not have the capacity to shoulder the entire world by themselves. The Chinese renminbi despite its impressive progress in internationalization, still lacks deep financial markets, liquidity and a wide network. That's why proposals have been put forward relating to a basket of currencies to jointly undertake the task of international reserve currency.

V.2. Resistance from the United States

The United States government has expressed resistance to the de-dollarization trend. Jake Sullivan, National Security Advisor to the US, spoke in April 2023 and spelt out emphatically that the United States has been making arrangements to create an international economic order with "...*America at the heart of a vibrant, international financial system.*" This actually is the current *status quo*. "*The US must sustain its hegemony*", said Sullivan, but "*hegemony, however, is not the ability to prevail—that's dominance—but the willingness of others to follow (under constraint), and the capacity to set agendas.*"⁴⁸ However, he did not specify how the US would allow other countries to set agendas and what kind of constraint would be posed to define the boundary and allow countries to follow US lead.

V.3. Geoeconomics

The US dollar and its dominance over the international financial system are not under imminent threat yet. One important reason is geoeconomics. In her speech, Lagarde, based on Weiss's finding⁴⁹, mentioned that "*50-60% of foreign-held US short-term assets are in the hands of governments with strong ties to the United States – meaning they are unlikely to be divested for geopolitical reasons.*"⁵⁰ If countries with some military tie to the US are also included, the percentage will increase by a wide margin. The choice of international reserve currencies, therefore, has close correlation with strategic and geopolitical considerations of a country. Eichengreen *et al.* found that military alliances boost the share of a currency in the partner's foreign reserve holdings by about 30 percentage points.⁵¹ For these countries even large scale trade invoicing in currencies other than the US dollar may not likely to happen.

⁴⁸ Jake Sullivan, remarks at the Brookings Institution, 27 April 2023. Available from <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>.

⁴⁹ C. Weiss, "Geopolitics and the US dollar's future as a reserve currency", International Finance Discussion Papers, No. 1359, Board of Governors of the Federal Reserve System, October 2022. Available from <https://www.federalreserve.gov/econres/ifdp/files/ifdp1359.pdf>.

⁵⁰ Christine Lagarde, speech at the Council on Foreign Relations' C. Peter McColough Series on International Economics, 17 April 2023.

⁵¹ B. Eichengreen, A. Mehl and L. Chițu, "Mars or Mercury? The geopolitics of international currency choice", *Economic Policy*, Vol. 34, No. 98 (April 2019), pp. 315-363.

Even if this is going to be the eventuality, countries with a strong geopolitical alliance with the US also hold an important share of safe US assets. Thus, the dominance of the US dollar would still hold.

VI. PROSPECTS

There are many challenges to meaningful de-dollarization. It seems that it is too early to pronounce that the U.S. dollar's time as the leading reserve currency is coming to an end. Overall, de-dollarization efforts have been limited and partial. There has been progress in reducing overreliance on dollar through foreign exchange reserve diversification and trade invoicing as evidenced by the decline in the dollar's share of allocated foreign exchange reserves and the increasing of trade invoiced and transacted in currencies other than the dollar. However, on aspects requiring the deep financial market and wide network such as foreign exchange transactions, issuance of debt and payment clearance, the dollar's share has not suffered a decline. Dollar centrality of the international financial system has not yet been threatened by the ongoing trend of de-dollarization. The importance of the Euro has not been threatened either.

Obviously, to increase the resilience of the global financial system and to reduce the imbalances created by relying on a single dominant reserve currency whose issuer's national GDP has been shrinking in the world GDP, the current system needs to be transformed. De-dollarization has the potential to reduce the risks of dollar centrality caused to the global financial system and the world economy including financial volatility, trade imbalances, and transfer of resources from developing countries to the reserve currency issuing country. It can also promote a multi-polar world.

A shift away from dollarization does not mean the demise of the U.S. dollar. But the current moves to diversify foreign exchange reserves, increase trade in different currencies other than the dollar, create common currencies, and to develop an alternative payment clearance system would benefit countries in reducing the risks of overreliance on the dollar. It may also mitigate the negative impact of unilateral coercive measures on the targeted countries.

This year is the 50th anniversary of the call for a New International Economic Order (NIEO). The birth of the NIEO was partly a response to the great dollar devaluation caused by the unilateral termination of the gold standard. Right now, people are revisiting the NIEO. It needs to be pointed out that any discussion of a new NIEO should not omit the issue of de-dollarization or the transformation of the dollar centred international financial system. In the deepening of the de-dollarization process, the BRICS should continue to take the lead as they are major international trading nations, possessing large foreign exchange reserve holdings in dollars and have a relatively large GDP in the world.

RECENT SOUTH CENTRE RESEARCH PAPERS

No.	Date	Title	Authors
91	February 2019	Key Issues for BAPA+40: South-South Cooperation and the BAPA+40 Subthemes	Vicente Paolo B. Yu III
92	March 2019	Notification and Transparency Issues in the WTO and ' November 2018 Communication	Aileen Kwa and Peter Lunenburg
93	March 2019	Regulating the Digital Economy: Dilemmas, Trade Offs and Potential Options	Padmashree Gehl Sampath
94	April 2019	Tax Haven Listing in Multiple Hues: Blind, Winking or Conniving?	Jahanzeb Akhtar and Verónica Grondona
95	July 2019	Mainstreaming or Dilution? Intellectual Property and Development in WIPO	Nirmalya Syam
96	Agosto 2019	Antivirales de acción directa para la Hepatitis C: evolución de los criterios de patentabilidad y su impacto en la salud pública en Colombia	Francisco A. Rossi B. y Claudia M. Vargas P.
97	August 2019	Intellectual Property under the Scrutiny of Investor-State Tribunals Legitimacy and New Challenges	Clara Ducimetière
98	September 2019	Developing Country Coalitions in Multilateral Negotiations: Addressing Key Issues and Priorities of the Global South Agenda	Adriano José Timossi
99	September 2019	Ensuring an Operational Equity-based Global Stocktake under the Paris Agreement	Hesham AL-ZAHRANI, CHAI Qimin, FU Sha, Yaw OSAFO, Adriano SANTHIAGO DE OLIVEIRA, Anushree TRIPATHI, Harald WINKLER, Vicente Paolo YU III
100	December 2019	Medicines and Intellectual Property: 10 Years of the WHO Global Strategy	Germán Velásquez
101	December 2019	Second Medical Use Patents – Legal Treatment and Public Health Issues	Clara Ducimetière
102	February 2020	The Fourth Industrial Revolution in the Developing Nations: Challenges and Road Map	Sohail Asghar, Gulmina Rextina, Tanveer Ahmed & Manzoor Illahi Tamimy (COMSATS)
103	February 2020	Eighteen Years After Doha: An Analysis of the Use of Public Health TRIPS Flexibilities in Africa	Yousuf A Vawda & Bonginkosi Shoji

104	March 2020	Antimicrobial Resistance: Examining the Environment as Part of the One Health Approach	Mirza Alas
105	Marzo 2020	Intersección entre competencia y patentes: hacia un ejercicio pro-competitivo de los derechos de patente en el sector farmacéutico	María Juliana Rodríguez Gómez
106	March 2020	The Comprehensive and Progressive Agreement for the Trans-Pacific Partnership: Data Exclusivity and Access to Biologics	Zeleke Temesgen Boru
107	April 2020	Guide for the Granting of Compulsory Licenses and Government Use of Pharmaceutical Patents	Carlos M. Correa
108	April 2020	Public Health and Plain Packaging of Tobacco: An Intellectual Property Perspective	Thamara Romero
109	May 2020	Non-Violation and Situation Complaints under the TRIPS Agreement: Implications for Developing Countries	Nirmalya Syam
110	Mayo 2020	Estudio preliminar del capítulo sobre propiedad intelectual del acuerdo MERCOSUR – UE	Alejandra Aoun, Alejo Barrenechea, Roxana Blasetti, Martín Cortese, Gabriel Gette, Nicolás Hermida, Jorge Kors, Vanesa Lowenstein, Guillermo Vidaurreta
111	May 2020	National Measures on Taxing the Digital Economy	Veronica Grondona, Abdul Muheet Chowdhary, Daniel Uribe
112	Junio 2020	La judicialización del derecho a la salud	Silvina Andrea Bracamonte and José Luis Cassinerio
113	Junio 2020	La evolución de la jurisprudencia en materia de salud en Argentina	Silvina Andrea Bracamonte and José Luis Cassinerio
114	June 2020	Equitable Access to COVID-19 Related Health Technologies: A Global Priority	Zeleke Temesgen Boru
115	July 2020	Special Section 301:US Interference with the Design and Implementation of National Patent Laws	Dr. Carlos M. Correa
116	August 2020	The TRIPS Agreement Article 73 Security Exceptions and the COVID-19 Pandemic	Frederick Abbott
117	September 2020	Data in Legal Limbo: Ownership, sovereignty, or a digital public goods regime?	Dr. Carlos M. Correa

118	September 2020	Re-thinking Global and Local Manufacturing of Medical Products After COVID-19	Dr. German Velásquez
119	October 2020	TRIPS Flexibilities on Patent Enforcement: Lessons from Some Developed Countries Relating to Pharmaceutical Patent Protection	Joshua D. Sarnoff
120	October 2020	Patent Analysis for Medicines and Biotherapeutics in Trials to Treat COVID-19	Srividya Ravi
121	November 2020	The World Health Organization Reforms in the Time of COVID-19	German Velásquez
122	November 2020	Analysis of the Overcapacity and Overfishing Pillar of the WTO Fisheries Subsidies Negotiations	Peter Lunenborg
123	November 2020	The United Nations Declaration on the Rights of Peasants and Other People Working in Rural Areas: One Step Forward in the Promotion of Human Rights for the Most Vulnerable	Maria Natalia Pacheco Rodriguez and Luis Fernando Rosales Lozada
124	November 2020	Practical Implications of 'Vaccine Nationalism': A Short-Sighted and Risky Approach in Response to COVID-19	Muhammad Zaheer Abbas, PhD
125	December 2020	Designing Pro-Health Competition Policies in Developing Countries	Vitor Henrique Pinto Ido
126	December 2020	How Civil Society Action can Contribute to Combating Antimicrobial Resistance	Mirza Alas Portillo
127	December 2020	Revisiting the Question of Extending the Limits of Protection of Pharmaceutical Patents and Data Outside the EU – The Need to Rebalance	Daniel Opoku Acquah
128	February 2021	Intellectual Property in the EU–MERCOSUR FTA: A Brief Review of the Negotiating Outcomes of a Long-Awaited Agreement	Roxana Blasetti In collaboration with Juan I. Correa
129	March 2021	The TRIPS waiver proposal: an urgent measure to expand access to the COVID-19 vaccines	Henrique Zeferino de Menezes
130	April 2021	Misappropriation of Genetic Resources and Associated Traditional Knowledge: Challenges Posed by Intellectual Property and Genetic Sequence Information	Nirmalya Syam and Thamara Romero
131	June 2021	TRIPS Flexibilities and TRIPS-plus Provisions in the RCEP Chapter on Intellectual Property: How Much Policy Space is Retained?	Vitor Henrique Pinto Ido
132	June 2021	Interpreting the Flexibilities Under the TRIPS Agreement	Carlos M. Correa

133	August 2021	Malaria and Dengue: Understanding two infectious diseases affecting developing countries and their link to climate change	By Mirza Alas
134	September 2021	Restructuring the Global Vaccine Industry	Felix Lobo
135	September 2021	Implementation of a TRIPS Waiver for Health Technologies and Products for COVID-19: Preventing Claims Under Free Trade and Investment Agreements	Carlos M. Correa, Nirmalya Syam and Daniel Uribe
136	September 2021	Canada's Political Choices Restrain Vaccine Equity: The Bolivia-Biolyse Case	Muhammad Zaheer Abbas
137	October 2021	The Ocean Economy: trends, impacts and opportunities for a post COVID-19 Blue Recovery in developing countries	David Vivas Eugui, Diana Barrowclough and Claudia Contreras
138	October 2021	Beyond Corporate Social Responsibility: Strengthening Human Rights Due Diligence through the Legally Binding Instrument on Business and Human Rights	Daniel Uribe Terán
139	October 2021	Governing Seed for Food Production: The International Treaty on Plant Genetic Resources for Food and Agriculture	Nina Isabelle Moeller
140	November 2021	Del SIDA al COVID-19: La OMS ante las crisis sanitarias globales	Germán Velásquez
141	November 2021	Utilising Public Health Flexibilities in the Era of COVID-19: An Analysis of Intellectual Property Regulation in the OAPI and MENA Regions	Yousuf A Vawda and Bonginkosi Shoji
142	4 January 2022	Competition Law and Access to Medicines: Lessons from Brazilian Regulation and Practice	Matheus Z. Falcão, Mariana Gondo and Ana Carolina Navarrete
143	11 January 2022	Direito Brasileiro da Concorrência e Acesso à Saúde no Brasil: Preços Exploratórios no Setor de Medicamentos	Bruno Braz de Castro
144	27 January 2022	A TRIPS-COVID Waiver and Overlapping Commitments to Protect Intellectual Property Rights Under International IP and Investment Agreements	Henning Grosse Ruse- Khan and Federica Paddeu
145	9 February 2022	The Right to Health in Pharmaceutical Patent Disputes	Emmanuel Kolawole Oke
146	16 February 2022	A Review of WTO Disputes on TRIPS: Implications for Use of Flexibilities for Public Health	Nirmalya Syam
147	28 February 2022	Can Negotiations at the World Health Organization Lead to a Just Framework for the Prevention, Preparedness and Response to Pandemics as Global Public Goods?	Viviana Muñoz Tellez

148	7 March 2022	Marine Genetic Resources Beyond National Jurisdictions: Negotiating Options on Intellectual Property	Siva Thambisetty
149	8 March 2022	The International Discourse on the Right to Development and the Need to Reinvigorate its Implementation	Yuefen Li, Daniel Uribe and Danish
150	21 March 2022	The Liability of Internet Service Providers for Copyright Infringement in Sri Lanka: A Comparative Analysis	By Ruwan Fernando
147	28 February 2022	Les négociations au sein de l'Organisation mondiale de la santé peuvent-elles aboutir à un cadre juste pour la prévention, la préparation et la riposte aux pandémies en tant que bien public mondial ?	Viviana Muñoz Tellez
147	28 February 2022	¿Podrán las negociaciones en la organización mundial de la salud resultar en un marco justo para la prevención, la preparación y la respuesta ante pandemias como bienes públicos globales?	Viviana Muñoz Tellez
151	19 April 2022	Escaping the Fragility/Conflict Poverty Trap: How the interaction between service delivery, capacity development and institutional transformation drives the process of transition out of fragility	Mamadou Dia
152	21 April 2022	An Examination of Selected Public Health Exceptions in Asian Patent Laws	Kiyoshi Adachi
153	26 April 2022	Patent Analysis for Medicines and Biotherapeutics in Trials to Treat COVID-19	Srividya Ravi
154	9 May 2022	COVID-19 Vaccines as Global Public Goods: between life and profit	Katuska King Mantilla and César Carranza Barona
155	27 May 2022	Manufacturing for Export: A TRIPS-Consistent Pro-Competitive Exception	by Carlos M. Correa and Juan I. Correa
156	1 June 2022	A Tough Call? Comparing Tax Revenues to Be Raised by Developing Countries from the Amount A and the UN Model Treaty Article 12B Regimes	Vladimir Starkov and Alexis Jin
157	3 June 2022	WTO Moratorium on Customs Duties on Electronic Transmissions: How much tariff revenue have developing countries lost?	Rashmi Banga
158	15 June 2022	Twenty Years After Doha: An Analysis of the Use of the TRIPS Agreement's Public Health Flexibilities in India	Muhammad Zaheer Abbas, PhD
156	1 June 2022	Un choix cornélien ? Comparaison des recettes fiscales à engranger par les pays en développement au titre des régimes du Montant A et de l'Article 12B du Modèle de convention des Nations Unies	Vladimir Starkov et Alexis Jin

159	15 July 2022	Reaping the Fruits of Research on Microorganisms: Prospects and Challenges for R&D and Industry in Sri Lanka	Ruwan Fernando
160	21 July 2022	Movement Forward on ABS for the Convention on Biological Diversity: Bounded Openness Over Natural Information	Joseph Henry Vogel, Manuel Ruiz Muller, Klaus Angerer, and Christopher May
161	26 July 2022	Two Pillar Solution for Taxing the Digitalized Economy: Policy Implications and Guidance for the Global South	Irene Ovonji-Odida, Veronica Grondona, Abdul Muheet Chowdhary
162	11 August 2022	The Proposed Standing Multilateral Mechanism and Its Potential Relationship with the Existing Universe of Investor – State Dispute Settlement	Danish and Daniel Uribe
163	19 August 2022	The Human Right to Science: From Fragmentation to Comprehensive Implementation?	Peter Bille Larsen and Marjorie Pamintuan
156	1 June 2022	¿Una elección difícil? Comparación de los ingresos fiscales que recaudarán los países en vías de desarrollo a partir de los regímenes del Monto A y del Artículo 12B de la Convención Modelo de las Naciones Unidas	Vladimir Starkov y Alexis Jin
143	11 January 2022	Brazilian Competition Law and Access to Health in Brazil: Exploitative Pricing in the Pharmaceutical Sector	Bruno Braz de Castro
164	23 September 2022	Impact of a Minimum Tax Rate under the Pillar Two Solution on Small Island Developing States	Kuldeep Sharma
165	4 October 2022	Evaluating the Impact of Pillars One and Two	Suranjali Tandon and Chetan Rao
166	6 October 2022	Lessons From India's Implementation of Doha Declaration on TRIPS and Public Health	Nanditta Batra
167	27 October 2022	Analysing Intersections between Climate Change and Human Rights	Daniel Uribe Teran and Luis Fernando Rosales
168	28 October 2022	TRIPS Flexibilities and Access to Medicines: An Evaluation of Barriers to Employing Compulsory Licenses for Patented Pharmaceuticals at the WTO	Anna S.Y. Wong, Clarke B. Cole, Jillian C. Kohler
169	8 November 2022	The WTO TRIPS Decision on COVID-19 Vaccines: What is Needed to Implement it?	Carlos M. Correa and Nirmalya Syam
170	17 November 2022	Left on Our Own: COVID-19, TRIPS-Plus Free Trade Agreements, and the Doha Declaration on TRIPS and Public Health	Melissa Omino and Joanna Kahumbu
171	29 November 2022	Pautas para el Examen de Solicitudes de Patentes Relacionadas con Productos Farmacéuticos	Carlos M. Correa
162	11 August 2022	El mecanismo multilateral permanente propuesto y su posible relación con el	Danish y Daniel Uribe

		universo existente de solución de controversias entre inversionistas y estados	
162	11 August 2022	Le mécanisme multilatéral permanent proposé et sa relation potentielle avec l'univers existant du règlement des différends entre investisseurs et États	Danish y Daniel Uribe
172	1 December 2022	Illicit Financial Flows and Stolen Asset Recovery: The Global North Must Act	Abdul Muheet Chowdhary and Sebastien Babou Diasso
171	31 January 2023	Directives pour l'examen des demandes de brevet relatives aux produits pharmaceutiques	Carlos M. Correa
173	7 February 2023	Analysis of COVID-Related Patents for Antibodies and Vaccines	Kausalya Santhanam
174	13 February 2023	Leading and Coordinating Global Health: Strengthening the World Health Organization	Nirmalya Syam
138	October 2021	Más allá de la responsabilidad social de las empresas: reforzar la diligencia debida en materia de derechos humanos mediante el Instrumento jurídicamente vinculante sobre empresas y derechos humanos	Daniel Uribe Terán
138	October 2021	Au-delà de la responsabilité sociale de l'entreprise : Renforcer le devoir de diligence en matière de droits de l'homme au moyen de l'instrument juridiquement contraignant relatif aux entreprises et aux droits de l'homme	Daniel Uribe Terán
167	27 October 2022	Analyse des Intersections entre le Changement Climatique et les Droits de l'Homme	Daniel Uribe Teran y Luis Fernando Rosales
167	27 October 2022	Análisis de las intersecciones entre cambio climático y derechos humanos	Daniel Uribe Teran y Luis Fernando Rosales
175	22 March 2023	Experiencias internacionales sobre la concesión de licencias obligatorias por razones de salud pública	Catalina de la Puente, Gastón Palopoli, Constanza Silvestrini, Juan Correa
176	29 March 2023	De dónde viene y a dónde va el financiamiento para la salud mundial	Germán Velásquez
176	29 March 2023	Where Does Global Health Funding Come From and Where Does It Go?	Germán Velásquez
177	18 May 2023	Policy Dilemmas for ASEAN Developing Countries Arising from the Tariff Moratorium on Electronically Transmitted Goods	Manuel F. Montes and Peter Lunenborg
178	22 May 2023	A Response to COVID-19 and Beyond: Expanding African Capacity in Vaccine Production	Carlos M. Correa

179	12 July 2023	Reinvigorating the Non-Aligned Movement for the Post-COVID-19 Era	Yuefen Li, Daniel Uribe and Danish
180	9 August 2023	Neglected Dimension of the Inventive Step as Applied to Pharmaceutical and Biotechnological Products: The case of Sri Lanka's patent law	Ruwan Fernando

S**OUTH** **CENTRE**

International Environment House 2
Chemin de Balexert 7-9
POB 228, 1211 Geneva 19
Switzerland

Telephone: (41) 022 791 8050
E-mail: south@southcentre.int

Website:
<http://www.southcentre.int>

ISSN 1819-6926