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THE WANING OF DOLLAR PRIMACY? DE-DOLLARIZATION, GEOPOLITICS, AND THE NEW MONETARY ORDER

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This article examines how and why the US dollar's dominance is increasingly being challenged, following a brief overview of the factors that underpinned its rise to global primacy. It also considers the role of the BRICS group as a key driver of de-dollarization.

The post-war international monetary system that emerged from Bretton Woods reflected the balance of power of the US *vis a vis* the Western European nation-states and the developing world. The 'rules of the game' of the post war economic and trading systems were drawn up by the USA, central to which was a free market capitalist system and in which the US dollar became the world's de-facto international reserve currency. The corollary of this post war financial architecture crafted by the US, was *inter alia* the need for foreign (non-US) banks to have nostro correspondent accounts with New York banks; the dominant role of the US dollar in the foreign exchange markets and international trade; control over the newly founded institutions such as the IMF.

The US turned from being a net exporter of manufactured goods in the years immediately after the Second World War to becoming a net importer in the following decades with the largest and most successful industrialised exporting countries being West Germany and Japan (and in the most recent decades The People's Republic of China) (hereafter referred to as 'China'). This resulted in the US recording persistent and large trade deficits. Dollars accumulated from export receipts would ultimately find their way back into the US financial system by foreigners who would acquire financial and non-financial assets.

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The ending of the Bretton Woods era in the 1970s when the US moved away from the gold standard did not result in a loss of dominance of the US dollar. Petrodollars – representing an arrangement whereby crude oil from OPEC was to be priced and settled in US dollars, effectively replaced Bretton Woods, reinforcing the primacy of the US dollar as well as the economic, financial and geopolitical hegemony of the US. These petrodollars would be re-cycled into the US financial system mostly in portfolio investments.

Being the de-facto world reserve currency meant foreigners (non-US governments, central banks, corporates, private individuals, and international organisations) wanted to hold US dollars. This demand was a driving force behind the US dollar appreciating *vis a vis* the currencies of the rest of the world. Consequently, US manufactured goods became less competitive in world markets and this factor also contributed towards the US recording trade deficits.

Fast forward to 2017, President Trump vowed to address the trade deficit and bring manufacturing (jobs) 'back' to the US. This was the motivation behind his administration's use (or threat) of tariffs on trading partners / countries, to induce them to reduce or eliminate their trade surpluses and extract from them FDI commitments. Commentators (e.g., Varoufakis), argue that, taken to its logical conclusion, an inherent conflict lies at the heart of this policy. Even if the tariffs are ultimately successful (which is doubtful), by definition, the current account and capital account must offset each other, so if a trade deficit disappears, the capital account surplus must also disappear. By trying to please one domestic constituency (the 'America First' / MAGA voter base) the Trump administration will inevitably displease another (interest groups representing Wall Street and the real estate sector).

Despite its incumbency advantages, some uncertainty is emerging over whether the US dollar will retain its undisputed dominance. Macro-level factors are driving the push towards de-dollarization.

The 2008 financial crash exposed deep vulnerabilities at the core of the United States financial system, which could undermine foreign investors' confidence in both the US dollar and US financial assets. The crisis originated in US housing and credit markets, leading to the collapse or bailout of major financial institutions and revealing weaknesses in regulation, risk management, and transparency. As a result, foreign investors - who had long viewed US markets as among the safest and most stable - began to question the reliability of US financial institutions and the effectiveness of oversight by bodies like the Federal Reserve. In addition, aggressive policy responses such as near-zero interest rates and large-scale money creation raised concerns about future inflation and the long-term value of the dollar. Together, these factors could erode trust, prompting some investors to

diversify away from dollar-denominated assets and reconsider the leading role of the US in the global financial system.

Even more than in the first term, the second / current Trump presidency can appear at times as being an administration going about the business of government in an unpredictable and chaotic manner (e.g., the 'Liberation Day' tariffs) while concerns have been expressed about the undermining of independent institutions (e.g., Trump putting pressure on Federal Reserve Chair Powell to cut rates) – the institutional framework that underpins investor confidence in the US financial system.

There are concerns regarding the fiscal position of the US (federal) government – with regards to the size of the budget deficit and (national) debt. We often hear it said that, left unchecked, the debt will reach a point at which it becomes unsustainable, possibly even resulting in the US (federal) government defaulting and thus the likelihood of a financial crash. The author does not subscribe to this widely held, mainstream view nor shares the concerns about an impending disaster. Analysing the situation using a modern monetary theory lens, it is axiomatic to state that the USA has monetary sovereignty; the US (federal) government is a currency *issuer* (as opposed to a currency *user*) and that the US dollar is a 'fiat' currency – therefore, the author contends that negative equity at the federal government level, in and of itself, is not a cause for alarm.

Foreign governments and persons who hold US dollar financial assets, such as bank deposit accounts or US Treasury bonds, face the risk that these assets could be frozen or restricted by US authorities, particularly in the context of sanctions or geopolitical disputes. Because transactions in dollars pass through the US financial system and fall under the jurisdiction of the US Treasury and OFAC, access to those funds can be restricted by the US government. This creates a degree of political and legal risk for non-US holders, which may discourage them from keeping their reserves or investments in dollar-denominated assets and encourage diversification into other currencies or financial systems.

In addition to restrictive measures imposed by multilateral organisations (read: the UN) and/or a supra-national government (read: the EU) ('international sanctions'), it lies within the 'gift' of the authorities of individual countries to impose their own restrictive measures ('unilateral' or 'local' sanctions) as they see fit, on persons, entities, banks, insurers, vessels, ports, etc. In the post-cold war era, there has been a proliferation of unilateral sanctions imposed by the US – most notably on Russia and Iran. Given the outsized role and dominance of the US dollar and New York as a financial centre, a feature virtually unique to these unilateral sanctions is their 'extra-territorial' reach. In practice it is extremely difficult for entities / banks domiciled in third countries to lawfully have financial /

trade dealings with persons on a US sanctions list and at the same time adhere with US sanctions programmes. A person sanctioned by the US is, to all intents and purposes, excluded from the Western / international financial system, even when those transactions are in currencies other than the US dollar and there is no US nexus. The imposition (or threat) of being on the receiving end of unilateral US sanctions provides a key motivation for countries (particularly Russia and China) to reduce their dependence on the US dollar and the Western / US financial system.

US administrations are opposed to multilateral level de-dollarization initiatives. It has been argued that the US decision to attack Iran in February 2026 was as much about achieving longer term geopolitical objectives as it was to accomplish more immediate goals. The US wanted to inflict economic pain on China. It is not simply that Iran supplies China with oil. Iran occupies a strategic (geographic) location, along regional trade/economic and transport/infrastructure corridors, most notably China's Belt and Road Initiative (BRI) but also the North-South Transport Corridor - a strategic cooperation between Russia, India and Iran. The 'common thread' running through these countries is that they are members of the BRICS group.

Following pressure from the US the EU sanctioned designated Iranian and Russian banks by cutting them off from SWIFT. SWIFT - The Society for Worldwide International Financial Telecommunications - is a cooperative incorporated under Belgian law, owned by member banks and other types of financial intermediaries from countries all around the world. SWIFT provides a secure, standardized messaging system that allows banks and financial institutions around the world to communicate payment instructions. Its central function is not to move money itself, but to ensure that cross-border transactions are transmitted accurately, efficiently, and securely between parties.

The original members of the BRICS group are Brazil, Russia, India, China and South Africa. Membership has subsequently expanded to include Egypt, Iran, the United Arab Emirates (UAE), Ethiopia and Indonesia. Collectively the BRICS group represents approximately 45% of the world's population and its share of global GDP is estimated to be around 35%.

A foundational principle underpinning BRICS is national sovereignty: a framework in which no member state dominates another, all countries - irrespective of economic size - are treated as equals, and none are required to cede aspects of their political independence to a supra-national state. While the motivations of each member state may differ, collectively the BRICS members broadly share the common objective of wanting to reduce their dependence of the US dollar, by

building an alternative payment infrastructure for a multipolar financial world order.

Progress by BRICS members towards achieving this objective has thus far been reflected in the adoption of local currencies in bilateral trade transactions: the large share of Russian ruble-based exports; increase in China and Russia trade using their local currencies; Brazil – China trade is conducted using the Brazilian real and yuan; India and the UAE trade conducted using Indian rupees. This necessitated an alternative (to SWIFT) payment infrastructure for the settlement / clearing of these transactions. A proposed BRICS payment system (BRICS Pay) – which might one day compete with SWIFT – is at an early (design) stage. This will be no easy or quick endeavour; the considerable challenges would not just be technical, but also legal/regulatory and political. Even if there is a decision soon to move BRICS Pay from a prototype to live production, it will likely be a few decades before this is realised.

The trade transactions between BRICS countries as mentioned previously are processed through the existing payment platforms of the BRICS countries the main ones being:

China: Cross-Border Interbank Payment System (CIPS)

Russia: System for Transfer of Financial Messages (SPFS)

India: Unified Payment Interface (UPI)

Brazil: Pix

Interoperability between the above platforms is therefore crucial and this is what makes it possible to execute these cross-border payments.

Further evidence of the scope and ambition of BRICS in realizing the vision of building a viable alternative to the Western, dollar-centric financial system, is the establishment of the New Development Bank (NDB) to provide financing in local currencies.

At the 2023 BRICS summit Brazilian president Luiz Inácio Lula da Silva proposed the creation of a common currency. It is surely no coincidence that the Trump administration in 2025 slapped punitive tariffs on Brazil and no accident that President Lula then dropped the idea. It is also noteworthy to mention that since the 2023 BRICS summit – no doubt reflecting the reality that BRICS is far from monolithic but is comprised of disparate states each with their own national interests and priorities – other countries too distanced themselves from the common currency proposal and subsequent BRICS leaders declarations didn't even mention de-dollarization. All told, it appears that the US takes seriously the threat of de-dollarization. For what it is worth, Steve Keen (economist, author and

Honorary Professor at UCL) talked recently about the solution advocated by the British economist John Maynard Keynes after the Second World War: the Bancor - a supra-national reserve 'currency.' More accurately the Bancor was to be the unit of account of a multilateral clearing system called the International Clearing Union (ICU). Instead, the outcome of Bretton Woods was to make a national currency - the US dollar (taking on the mantle from the British Pound Sterling) - the international de-facto reserve currency. If / when there are more favourable conditions the BRICS bloc could consider reviving the Bancor / ICU idea.

The evidence suggests that the era of unchallenged dollar dominance is giving way to a more contested and pluralistic monetary order. While the U.S. retains formidable economic, financial, and institutional advantages, the cumulative effect of its own policy choices - combined with the strategic ambitions of blocs such as BRICS - is accelerating the search for viable alternatives. The transition will be uneven and protracted, but the direction of travel is clear: toward a system in which monetary power is more diffuse, and where reliance on a single national currency is no longer taken for granted.

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