



# Managing De-Dollarization of the Global Economy

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## Introduction

It has been almost eighty years since the *Bretton Woods economic system* was brought into existence by the United States and its World War Two allies in 1944. The agreement, named for the resort in New Hampshire where it was negotiated, has guided global financial rules ever since. It made the US dollar the basis of international trade and investment. This simple fact gave America enormous global influence, promoting its own commercial interests, and as the muscle behind universal principles like democratization and human rights.



Where it started in 1944: The Mount Washington Hotel, Bretton Woods, New Hampshire.

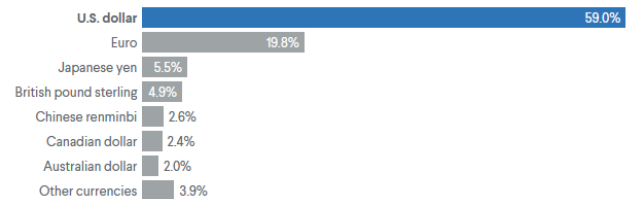
But with new powers rising and new their currencies becoming more available, the dominance of the dollar is being questioned like never before. Many countries rely on the US dollar for stability. Others see dollar dependency

as a trap. The Member States of the UN are divided, but under pressure to find solutions that all Member States can support.

The global economy, worth USD 105 trillion annually, and virtually all international trade, worth roughly USD 25 trillion annually, are largely managed through the US dollar.<sup>1</sup> By pricing much of the global economy in dollars, traders everywhere are assured stable value and convenient transactions. They can be confident deals will be paid, making international trade possible. There are USD 6.8 trillion in the hands of banks, firms, governments and individuals around the world, 58 percent of all foreign exchange holdings. This assures enough dollars around the world to make the global economic system functional.

### Most Foreign Exchange Reserves Are in U.S. Dollars

Share of allocated foreign exchange reserves, first quarter of 2023



Source: International Monetary Fund's Currency Composition of Official Foreign Exchange Reserves (COFER) database.

COUNCIL ON FOREIGN RELATIONS

But reliance on the US dollar has disadvantages for many countries, especially poorer countries and countries at risk of being targeted by Washington. For poorer and less stable economies, lack of dollars makes it expensive to import good and services. And reliance on US dollars gives Washington great influence over

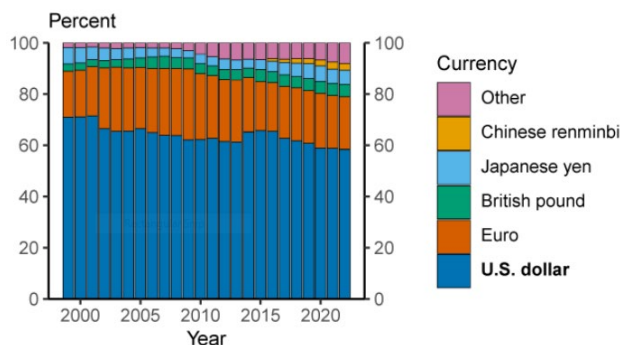
<sup>1</sup> Anshu Siripurapu and Noah Berman, 'The Dollar: the world's reserve currency'

, *Council on Foreign Relations*, 19 July 2023, <https://www.cfr.org/backgrounders/dollar-worlds-reserve-currency>

their domestic affairs. The American-led financial sanctions imposed on Russia after its invasion of Ukraine, on 24 February 2022, showed the entire world the exceptional power Washington gets from global reliance on the dollar. Russia compensated by turning to other currencies, especially the Chinese yuan (also known as the renminbi), but this limits its trade to just a few countries, and it pays a substantial mark-up on its trade as a result.<sup>2</sup>

The Western financial sanctions on Russia were viewed with alarm in much of the world, where leaders fear they could face similar sanctions someday. Because the dollar is not provided as a neutral, independent service, but as a tool of American foreign policy, many of these countries would like an alternative. But at this point, there simply are not enough British pounds, Chinese yuan or renminbi, European euros, Japanese yen or other currencies in global hands to sustain current levels of world trade.

Global foreign exchange reserves



Since the invasion of Ukraine and the imposition of Western Sanctions, though, Russia has been forced to price its oil and gas exports in Chinese renminbi, leading to massive trade in the Chinese currency. A side effect of the sanction is to greatly increase the amount and important of Chinese currency available for trade. Other potentially vulnerable exporters—especially OPEC countries in the Middle East—are shifting their trade to Chinese currency in anticipation. This leads observers to conclude the era of Bretton Woods style dollar dependency is coming to an end.<sup>3</sup>

De-dollarization is reducing dependence on the US dollar, either as an official currency or as the primary reserve currency in international transactions. This phenomenon has gained momentum recently as countries seek to diversify their foreign exchange reserves, reduce currency risk, and assert greater monetary independence.<sup>4</sup>

De-dollarization brings both numerous challenges and potential positives to the United Nations and the global economy. Some sources say that the trend toward de-dollarization is being exaggerated.<sup>5</sup> However, some degree of de-dollarization is inevitable as wealth grows more equally around the world. A less-dollarized future is inevitable, although a de-dollarized future might be more of a choice.

What do these trends mean for the Member States of the United Nations? The 193 countries have very different interests and needs. Some benefit greatly from reliance of the US dollar

<sup>2</sup> 'The U.S. dollar as the world's dominant reserve currency', *Congressional Research Service*, 15 September 2022, <https://crsreports.congress.gov/product/pdf/IF/IF11707>

<sup>3</sup> Somesh Jha, 'Will Russia sanctions dethrone 'King Dollar'?' *Al Jazeera*, 7 March 2023, <https://www.aljazeera.com/features/2023/3/7/will-russia-sanctions-dethrone-king-dollar>

<sup>4</sup> Imran Khalid, 'De-dollarization and emergence of Chinese yuan', *Geopolitical Monitor*, 21 June 2023, <https://www.geopoliticalmonitor.com/de-dollarization-and-emergence-of-chinese-yuan/>

<sup>5</sup> Barry Eichengreen, 'Is de-dollarisation happening?' *CEPR*, 12 May 2023, <https://cepr.org/voxeu/columns/de-dollarisation-happening>

and strong relations with the United States. Others would like to enhance their freedom of action, reducing their vulnerability to Washington's caprices. And other want to see the financial dominance of the United States permanently destroyed. What can the United Nations General Assembly do to promote international trade and the divergent interest of its diverse membership?

## Background



For many countries, reliance on the US dollar is an affordable way to ensure a stable international trading system. US allies in Asia and Europe, for example, want to bind their economies to Washington to ensure their security and safety. Another group of countries rely on the US dollar as their domestic currency, as a way to insulate their economies from the unpredictability of their local currencies.

But many power actors resent dollar dominance. The most powerful impetus for de-dollarization came from a major group of large outsider states. On 16 June 2009, this group of countries met officially for the first time, as the BRICS. Its

original purpose was to facilitate trade and economic interdependency between Brazil, Russia, India and China. Later South Africa was added to the group. The original acronym 'BRICs' was coined in 2001 by the London-based economist Jim O'Neill to describe fast-growing economies that he thought would collectively dominate the global economy by 2050.<sup>6</sup>

An economic group that includes the world's two largest countries and four of its richest matters. Currently, the BRICS make up approximately 26 percent of the world economy and 40 percent of the world population.<sup>7</sup> The group is slowly attempting to create an international reserve currency that will rival or overtake the US dollar.<sup>8</sup> Many other countries have taken note and now want to join the new economic alliance.

## Motivations, implications and challenges

*Currency risk diversification:* One of the main motivations behind de-dollarization is to reduce currency risk. Countries that heavily rely on the US dollar are vulnerable to fluctuations in its value, which can have adverse effects on their economies, particularly if they have significant dollar-denominated debt. De-dollarization seeks to reduce exposure to such risks by diversifying currency holdings and reducing reliance on a single dominant currency.

The world has already witnessed a bit of economic turmoil due to dollarization. An example of this is the 2008 recession. In 2008,

<sup>6</sup> 'BRICS', *Wikipedia*, n.d., <https://en.wikipedia.org/wiki/BRICS>

<sup>7</sup> 'BRICS Summit 2023: dates, who's attending and what's on the agenda?' *Reuters*, 18 August 2023, <https://www.reuters.com/world/key-facts-about-brics-2023-summit-2023-08-07/>

<sup>8</sup> Michael Roach, 'De-dollarisation: shifting power between the US and BRICS', *Lowy Institute*, 3 August 2023, <https://www.lowyinstitute.org/the-interpretor/de-dollarisation-shifting-power-between-us-brics>



## Managing De-Dollarization of the Global Economy



the housing market in the United States of America collapsed and sent the entire globe into a recession. Global trade was at risk of collapse, declining by 15 percent between 2008 and 2009. Global unemployment rose by 3 percent between 2007 and 2010, with 30 million total jobs lost. After the 2008 financial crisis, many states lost trust in the US. It took time to recover from the recession, and some of the effects can still be seen today.

*Geopolitical considerations:* Geopolitical factors can also drive de-dollarization efforts. Countries may choose to de-dollarize as a way to assert their sovereignty, reduce dependency on the United States, and pursue a more balanced approach to global economic relations. In times of geopolitical tensions, de-dollarization can also be used as a tool to counteract potential US sanctions that could target dollar-denominated assets.

The People's Republic of China has competed economically with other global powers and shown that it would like to protect its economy from threats and gain more power. The nation has shown this by being a founding state of BRICS and increasingly allowing or even requiring foreign trade paid with the Chinese Yuan.

*Monetary policy autonomy:* De-dollarization aims to grant countries greater autonomy over their monetary policy. By reducing their reliance on the US dollar, countries can have more flexibility in setting interest rates and managing money supply to address their specific economic conditions and goals.

### Impact on Individual Countries

*Exchange rate fluctuations:* De-dollarization can have significant implications for a country's exchange rate. As a country reduces its dollar

holdings and diversifies into other currencies, the demand for the US dollar decreases, leading to depreciation against other currencies. This depreciation may help boost exports by making domestically produced goods and services more competitive in international markets.

*Sovereign debt management:* Countries heavily reliant on dollar-denominated debt face challenges related to servicing that debt when their national currency depreciates against the US dollar. De-dollarization might mitigate this risk by reducing the exposure to dollar-denominated debt, providing greater control over debt management, potentially reducing borrowing costs.

*Capital flight and investment:* De-dollarization efforts can influence investor sentiment. If investors perceive de-dollarization as a sign of economic instability, it may trigger capital flight, as investors seek safer assets in other countries. However, if de-dollarization is seen as a prudent strategy to diversify currency holdings, it may attract foreign investment seeking exposure to a more balanced currency portfolio.

### Impact on International Trade

*Trade and Currency Conversion Costs:* De-dollarization can affect international trade by increasing currency conversion costs and exchange rate risks for exporters and importers. As countries transact in multiple currencies, businesses need to hedge against exchange rate fluctuations, leading to higher transaction costs. This may hinder trade efficiency and raise overall costs for businesses engaged in cross-border commerce.

*Trade Competitiveness:* The effect of de-dollarization on trade competitiveness can vary. A depreciated national currency resulting from de-dollarization may lead to increased export competitiveness, benefiting domestic industries.



## Managing De-Dollarization of the Global Economy



However, it could also lead to higher import costs, potentially affecting consumer prices and triggering inflationary pressures.

### Monetary Policy Implications

**Enhanced Policy Flexibility:** One of the primary advantages of de-dollarization is the restored autonomy over monetary policy. Central banks can adjust interest rates and money supply to respond more effectively to domestic economic conditions, without being constrained by US monetary policy decisions.

**Inflation Management:** De-dollarization can have implications for inflation management. Central banks may face new challenges in maintaining price stability if their national currency fluctuates significantly due to de-dollarization. Careful coordination of monetary policy and exchange rate management is crucial to achieve stable and predictable inflation rates.

### Financial Stability

The impact of trade in multiple currencies is not clear. Advocates, like the BRICS, believe de-dollarization will reduce systemic risk in the global financial system. When multiple countries diversify their reserves away from the US dollar, the potential spillover effects of a US dollar crisis on other economies decrease, contributing to greater financial stability.

Skeptics maintain the uncertainty of which currency is required in any transaction, doubt over its availability and value, will weaken confidence in global trade. Because no single currency will replace the dominance of the US dollar, the stability it brought will be lost. International trade and payments will become less predictable and more expensive. The new system will be more fragile, they fear, more vulnerable to disruption.

The effects of de-dollarization could be particularly pronounced for emerging economies. Countries with large dollar-denominated debts, trade dependencies, and financial linkages may experience more significant short-term disruptions and challenges in managing the de-dollarization process.

### How it affects the UN

De-dollarization can potentially have both positive and negative impacts on various aspects of the global economy, including international organizations like the United Nations (UN). Here are some potential ways in which de-dollarization could have negative implications for the UN:

*Funding and contributions:* Many UN programs and initiatives are funded through contributions from member countries, often denominated in US dollars. If a significant number of countries were to de-dollarize and reduce their reliance on the dollar, it could impact the stability and predictability of funding for UN operations, potentially leading to funding shortfalls or fluctuations in contributions.

*Currency exchange risks:* De-dollarization could increase the complexity of currency exchange for international transactions involving UN member states. Fluctuations in exchange rates between various currencies could lead to increased transaction costs and potential financial risks, affecting the efficient allocation of resources for UN initiatives.

*Global financial system stability:* The US dollar is a primary global reserve currency, and many international financial transactions, including those involving the UN, are conducted in dollars. If de-dollarization were to occur on a large scale, it could disrupt the stability and functioning of the global financial system,



## Managing De-Dollarization of the Global Economy



affecting the UN's ability to conduct financial operations smoothly.

*Influence on international trade:* De-dollarization could impact international trade dynamics and trade-related financing, potentially affecting the economies of member countries. The UN plays a role in promoting international trade and economic cooperation, so changes in trade patterns could indirectly influence the UN's goals.

*Global economic coordination:* The US dollar's role as a dominant global currency facilitates coordination and cooperation among countries, including efforts to address global economic challenges. If de-dollarization were to lead to greater currency fragmentation and reduced coordination, it could complicate international efforts to tackle issues such as economic crises, climate change, and sustainable development.

It's important to note that the impacts of de-dollarization are complex and interconnected with various aspects of the global economy. While there could be potential challenges for the UN, the effects would depend on the extent of de-dollarization, the policies adopted by different countries, and the ability of international institutions to adapt to changing dynamics.

Ultimately, any significant changes in global economic and financial systems, including de-dollarization, would require careful consideration of potential benefits, risks, and the need for international cooperation to ensure the smooth functioning of international organizations like the UN.

### Country and bloc positions

**China:** A major goal of Chinese diplomacy is enhancing its global influence by weakening or replacing existing centers of power, especially the United States. Chinese officials want to conduct all China's trade not in US dollars, but Chinese yuan. But they have to be careful. China is major holder of US dollars, cannot afford to weaken their value. It needs to gradually reduce global reliance, not suddenly. China can be expected to support any UN resolution that supports opportunities for international payments in alternative currencies.<sup>9</sup>

With the expansion of US economic sanctions and the explosion of new technologies for international payments, cracks are starting to appear in the dollar's once impregnable position. And China, with its embrace of the digital renminbi, or e-yuan, and its drive to develop an alternative global payments system, is hoping to take advantage.

China's aim is not to depose the dollar, which would hurt China's investments in US bonds and currency, but to chip away at its dominance, and create space for China's economy to easily endure if the US one day targets it with the type of sanctions it has imposed on Russia.<sup>10</sup>

**European Union (EU):** For the 27 Member States of the EU and its 10 Associate States (applicants for membership), de-dollarization is worrisome, raising the threat of greater unpredictability in international trade and the risk of economic disruptions in near-by Africa and Asia. Uncertainty does not benefit their international position.

<sup>9</sup> James Kynge, 'China's blueprint for an alternative world order', *Financial Times*, 22 August 2023, <https://www.ft.com/content/8ac52fe7-e9db-48a8-b2f0-7305ab53f4c3>

<sup>10</sup> Michael Stott and James Kynge, 'China capitalises on US sanctions in fight to dethrone dollar', *Financial Times*, 24 August 2023, <https://www.ft.com/content/3888bdba-d0d6-49a1-9e78-4d07ce458f42>



## Managing De-Dollarization of the Global Economy



As beneficiaries of American security assurances, European countries benefit from dollar dominance. They have their own currencies, the Euro and British Pound, which might attract more interest in lieu of the current focus on the dollar. But they have no interest in greater global power shifting toward China or Russia. They also have broader global agenda, including strengthening democracy and respect for human rights. They would lose an essential tool for promoting those goals if the dollar lost salience.

**Non-Aligned Movement (NAM):** the 120 Member States of the UN's largest voting bloc have diverse interests. Many are dependent on the US dollar, some rely on it as their primary national currency. Other countries are debating a shift to *greater* reliance on the dollar, most notably Argentina.<sup>11</sup>

Eleven countries have adopted the US dollar as their official currency:<sup>12</sup>

Bonaire  
British Virgin Islands  
Ecuador  
El Salvador  
Marshall Islands  
Micronesia,  
Palau  
Panama  
Timor L'este  
Turks and Caicos  
Zimbabwe

But other non-aligned states want to broaden their independence and freedom of action. For

these countries, alternatives are appealing. They already trade extensively with China and will welcome the ability to pay their debts to China in its own currency. Brazil's President Lula da Silva, most prominently, has portrayed the issue nationalistically; 'Everyone knows that I defend the idea that we have our own currency to trade between countries... Why does Brazil need the dollar to trade with China or Argentina? We can trade in our currency.'<sup>13</sup>

**United States** and its allies can be expected to fight to maintain the central role of the US dollar. The US benefits greatly from international trade in its own currency, which lowers the cost of its imports and makes its trade more efficient. The US gains influence with allies, and power over its adversaries. The dominance of the dollar in world trade strengthens America's ability to support human rights and anti-genocide diplomacy, to maintain its military bases abroad, and to work with international organizations on major problems like climate change and pandemic preparation.

Dollar diplomacy also makes American sanctions diplomacy credible. The list of individuals and entities placed under financial sanctions by the US Treasury's Office of Foreign Assets Control now runs to 2,206 pages and lists more than 12,000 names. The use of financial sanctions has accelerated sharply in the past decade as successive US presidents have opted for an apparently low-cost, bloodless solution to foreign policy problems. It's an approach that greatly expanded after the Russian attack on Ukraine, proving Washington low cost, high impact influence, which it will fight to preserve.<sup>14</sup>

<sup>11</sup> Eduardo Levy Yeyati, 'Dollarization is not a panacea for Argentina', *Financial Times*, 1 September 2023, <https://www.ft.com/content/ce580dc9-7b89-4c59-a0de-917ad8dc892e>

<sup>12</sup> Troy Adkins, 'Countries using the US dollar', *Investopedia*, 10 June 2022,

<https://www.investopedia.com/articles/forex/040915/countries-use-us-dollar.asp>

<sup>13</sup> 'Brazil's Lula says he favors stopping use of dollars in trade', *TASS*, 2 August 2023, <https://tass.com/economy/1655891>

<sup>14</sup> Stott and Kynge, *ibid*.



## Managing De-Dollarization of the Global Economy



### Possible proposals for the UN General Assembly

De-dollarization is a multi-faceted process with far-reaching implications for individual countries, international trade, monetary policy, financial stability, and the global economy. While it might offer benefits to emerging powers, such as reduced currency risk and increased monetary autonomy, it also presents challenges, including exchange rate fluctuations, capital flight, and potential impacts on global financial markets. As countries navigate the path of de-dollarization, careful planning, effective coordination, and a nuanced approach are essential to achieve positive outcomes and promote a stable and resilient global economy.

The UN General Assembly does not set global financial policy. Its power is to show an example for the international community, above all through the example of its own internal finances. It also can call upon the Member States to convene conference and negotiate.

Some possible proposals Second Committee might consider:

#### **Encourage payment of UN dues in the currency of each Member State's choice.**

Currently Member States pay their annual dues to the UN in dollars or other accepted global currencies in amount denominated in dollars.<sup>15</sup> The General Assembly could permit payment in any currency. This would be especially welcome by poorer countries, enabling them to monetize their annual dues, essentially printing money for free and using it to pay the UN. This would be

especially popular with the Non-Aligned Movement. It would be opposed by the countries that pay the biggest bills; Europe and the United States. For the UN, this would be devastating, undermining its budget and credibility.

**Encourage payment of UN dues in any of several major currencies.** If Member States could pay in any of a basket of accepted currencies, they would have greater flexibility. This would allow them to make use of currencies they accumulate but do not spend as quickly as dollars. It would be popular with the non-aligned, but also with China, the non-aligned and Russia, if their currencies are included. It would be opposed by Europe and the United States worries about the loss of influence and the impact on UN functioning.

**Encourage other UN agencies to accept dues in alternative currencies.** Other UN agencies, such as UNICEF, the UN Development Program and the World Health Organization, set their own budgets and dues payments. The General Assembly can ask their governing bodies to accept the same payment procedures as the General Assembly requires for the UN itself. This will be popular with countries like China and the non-aligned, but less with Europe, the US and their allies, who fear the effects on program funding and delivery of vital services.

**Call for a world financial conference** to replace the Bretton Woods system with *a new financial order*, tailored to serve the needs of emerging economies. Established powers and countries committed to the US dollar will be opposed. Even some voices demanding change might be skeptical, unless the goals are made clear.

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<sup>15</sup> '5 Things to Know about UN funding', *Permanent Mission of France*, 28 March 2023,

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# Managing De-Dollarization of the Global Economy



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