Proceedings of ICFTBA 2026 Symposium: Digital Government, Finance, Accountability, and Sustainable Economic Development
DOI: 10.54254/2754-1169/2026.AB38797

# *De-dollarization: Drivers, Institutional Constraints, and the Evolution of the International Monetary System*

**Zerun Su**

*School of business, Macau University of Science and Technology, Macau, China*
*suzerun2024@yeah.net*

***Abstract.*** The inherent contradictions of the dollar-centered international monetary system have become increasingly prominent in recent decades, compounded by geopolitical tensions and fluctuations in US monetary policy. These developments have intensified efforts by some countries and emerging economies to reduce their dependence on the US dollar, contributing to structural adjustments in the international monetary system. This paper examines the global de-dollarization trend and systematically analyzes its realistic drivers and institutional constraints through literature review, mechanism analysis, and comparative research. The study finds that the evolution of the Triffin dilemma under the dollar standard, the weaponization of dollar-based financial tools, and deepening monetary cooperation among emerging economies jointly constitute the realistic drivers of de-dollarization. However, institutional constraints, including currency network externalities, lock-in effects of global settlement infrastructure, and developmental limitations of alternative currencies, determine that de-dollarization will be a long-term, gradual process. In the long run, the international monetary system may become more multipolar, and currencies of emerging markets can enhance their international influence through continuous institutional improvement.

***Keywords:*** De-dollarization, International monetary system, Currency substitution, Settlement infrastructure, Institutional constraints

## 1. Introduction

Since the Bretton Woods system in the 1970s, the US dollar has remained dominant in global trade settlement, foreign exchange reserves, and financial transactions, solidifying its role as the world's primary reserve and transaction currency under the Jamaica system. For decades, the dollar standard supplied global liquidity, while the US enjoyed the "exorbitant privilege" of issuing the core reserve currency, reinforced by deep, liquid financial markets [1]. The 2008 financial crisis revealed systemic risks in the dollar-dominated architecture. Later, the Fed's large-scale quantitative easing during the COVID-19 pandemic amplified concerns about spillovers of US monetary policy. More recently, geopolitical weaponization of the dollar's reserve status has heightened global risk awareness, accelerating the decline in the dollar's share of official reserves and fueling de-dollarization efforts, including local-currency settlement and regional monetary cooperation [2]. Existing literature emphasizes de-dollarization's drivers and manifestations but lacks a systematic

© 2026 The Authors. This is an open access article distributed under the terms of the Creative Commons Attribution License 4.0 (https://creativecommons.org/licenses/by/4.0/).

DOI: 10.54254/2754-1169/2026.AB38797

analysis of its institutional constraints, and no unified framework integrates driving forces with structural barriers. This paper addresses three questions: (1) what real-world mechanisms drive de-dollarization? (2) what core institutional constraints shape its pace and limits? and (3) where is the international monetary system headed long term? Building on currency competition theory and network externality theory, combined with typical global practice cases, this paper clarifies the practical drivers, dissects key institutional constraints, and assesses the likely long-term trajectory. This work advances both theoretical understanding of monetary system reform and practical strategies for currency internationalization in emerging economies.

## 2. Conceptual definition and theoretical foundations of de-dollarization

### 2.1. Core connotation and dimensional division of de-dollarization

De-dollarization describes a process in which the US dollar gradually diminishes its role as an international currency in global or regional economic activities and is partially replaced by other currencies or multi-currency arrangements [3]. It does not refer to a complete displacement of the dollar's status, nor a wholesale abandonment of dollar assets across all economies. Instead, it represents a gradual adjustment of currency structure within the international monetary system, reflecting global economies' diversified demands for currency utility and risk hedging.

From the perspective of international currency functions, de-dollarization can be divided into four core dimensions. First, reserve de-dollarization, whereby central banks reduce the share of dollar-denominated assets in foreign exchange reserves and increase holdings of other currency assets or real assets such as gold. Second, trade settlement de-dollarization, whereby local currencies or third-party currencies are used for pricing and settlement in bilateral or multilateral trade, reducing dollar dependence in trade circulation. Third, financial transaction de-dollarization, whereby the use of the dollar in cross-border investment, bond issuance, and financial market transactions is reduced, and the scale of financial transactions denominated in other currencies is expanded. Fourth, commodity pricing de-dollarization, whereby pricing currencies for bulk commodities such as energy and grain are adjusted to reduce the dominance of the US dollar in international commodity pricing. These four dimensions interact and reinforce each other and jointly constitute the overall connotation of the de-dollarization trend.

### 2.2. Core theoretical foundations

Analysis of de-dollarization rests on three interrelated theoretical foundations, which provide analytical frameworks for understanding currency substitution and structural changes in the international monetary order. First, currency substitution theory provides a basis for understanding shifts in currency holdings and use. This theory holds that when the holding cost or risk of a given currency rises, economic agents will opt to hold other currencies with higher stability and lower risk, giving rise to currency substitution [3]. Under the dollar standard, fluctuations in US monetary policy and rising geopolitical risks increase the holding cost and risk exposure of dollar assets, driving economies to adjust their currency asset structures and fueling de-dollarization. Currency substitution is usually a gradual process, and its magnitude depends on differences in return, risk, and liquidity between alternative currencies and the incumbent currency.

Second, network externality theory explains why the international monetary system exhibits strong path dependence. As a medium of exchange, the value of a currency hinges on the scale of its use, the more economic agents adopt a currency, the lower its transaction costs and the stronger its

DOI: 10.54254/2754-1169/2026.AB38797

attractiveness to other users, creating a positive feedback loop [1]. Once a currency occupies a dominant position, it continuously consolidates its status through network effects, making it extremely difficult for latecomer currencies to challenge its position. Network externality, path dependence, and switching costs therefore help explain why de-dollarization is a gradual and difficult process. Third, international currency competition theory posits that the international monetary system is essentially a competitive landscape of currency power, and the status of each currency depends on its comprehensive strength, including economic scale, financial market depth, currency stability, and institutional credibility [3]. Competition among international currencies is not a zero-sum game but a dynamic adjustment of relative status. The rise of emerging economies and the growing strength of their currencies may drive diversification of the international monetary system, while network externalities explain the persistence of the incumbent currency, and international currency competition explains the possibility of gradual structural change.

## 3. Realistic foundations and driving mechanisms of the global de-dollarization trend

### 3.1. Evolution of inherent contradictions in the dollar standard system

The rise of de-dollarization is rooted in the inherent contradictions of the dollar standard system, among which the contemporary evolution of the Triffin dilemma serves as the core endogenous driver. Under the dollar-centered international monetary system, the US faces a structural tension between supplying sufficient dollar liquidity to the global economy and maintaining confidence in the long-term stability of the dollar [4]. In recent decades, the US current account deficit has increased significantly, raising concerns about the long-term sustainability of the dollar-centered system. The contemporary Triffin dilemma is no longer limited to the contradiction between liquidity supply and currency credibility but is further amplified by the domestic policy orientation of the US. The Federal Reserve primarily formulates monetary policy around domestic objectives, while the resulting policy spillovers can generate substantial effects on other economies, triggering fluctuations in global capital flows and exchange rates.

The negative spillover effect of US monetary policy has further strengthened economies' incentives to advance de-dollarization. Following the 2008 financial crisis and the 2020 pandemic, the Federal Reserve launched multiple rounds of quantitative easing, contributing to capital-flow volatility, imported inflationary pressures, and asset-price fluctuations in emerging economies [5]. Subsequently, the Fed implemented aggressive interest rate hikes to curb domestic high inflation, triggering large-scale capital outflows, currency depreciation, and debt servicing pressure in emerging markets. Such policy shifts have highlighted the external risks associated with dependence on the dollar-centered system, prompting more economies to pursue diversified currency arrangements to reduce dollar dependence. As shown in Table 1, the share of the US dollar in global official foreign exchange reserves declined from 65.7% in 2015 to 57.8% in 2023, while the combined share of the renminbi and other non-traditional reserve currencies rose from 5.4% to 12.2% over the same period, providing quantitative evidence of the ongoing diversification of reserve currency composition.

Table 1. Currency composition of global official foreign exchange reserves (2015–2023, %)

| Currency | 2015 | 2018 | 2020 | 2022 | 2023 |
|---|---|---|---|---|---|
| US Dollar | 65.7 | 61.8 | 59.0 | 58.4 | 57.8 |
| Euro | 19.9 | 20.7 | 21.2 | 20.5 | 19.8 |

DOI: 10.54254/2754-1169/2026.AB38797

Table 1. (continued)

| | | | | | |
|---|---|---|---|---|---|
| Japanese Yen | 4.3 | 5.2 | 5.9 | 5.5 | 5.5 |
| Pound Sterling | 4.7 | 4.6 | 4.7 | 4.9 | 4.7 |
| Renminbi | 1.1 | 1.9 | 2.3 | 2.7 | 2.6 |
| Other currencies | 4.3 | 5.8 | 6.9 | 8.0 | 9.6 |

*Note: Data are calculated based on allocated foreign exchange reserves. Compiled from IMF Currency Composition of Official Foreign Exchange Reserves (COFER) database.*

### 3.2. Exogenous shocks: geopolitics and the weaponization of dollar financial instruments

Geopolitical conflicts and the weaponization of dollar financial instruments represent critical exogenous catalysts for the acceleration of de-dollarization in recent years. The US has long leveraged the dollar's central position in the global financial system as a foreign policy tool, imposing financial sanctions on targeted countries or entities by cutting off dollar settlement channels and freezing foreign exchange reserves [6]. During the 2022 Russia-Ukraine conflict, the US and European countries froze a substantial share of Russia's foreign exchange reserves, reportedly around half, while several major Russian banks were disconnected from SWIFT. These measures highlighted the geopolitical and jurisdictional risks associated with holding dollar-dominated reserve assets.

This weaponization of dollar hegemony has produced a strong demonstration effect, prompting central banks worldwide to re-evaluate the security of their dollar reserve holdings. For economies that may face geopolitical frictions with the US, holding large volumes of dollar assets entails potential political risks, which has driven reserve asset diversification and adjustment of reserve currency structure [7]. Unlike earlier economically driven de-dollarization, geopolitically driven de-dollarization may involve stronger strategic motivations and has become a key direction for many emerging economies seeking to safeguard financial sovereignty.

### 3.3. Practical support: global exploration of pluralistic currency cooperation

The expanding scope of global multi-currency cooperation practices has provided tangible support for the de-dollarization trend. At the regional level, regional economic blocs have stepped up monetary cooperation to reduce dollar usage in intra-regional trade. For instance, ASEAN member states have advanced the Local Currency Settlement framework, expanding the scale of local currency settlement for intra-regional trade and investment, the Eurasian Economic Union has also established a cross-border settlement mechanism based on local currencies. These practices primarily reduce dependence on the dollar in trade settlement rather than replacing the dollar across the entire international monetary system.

Among emerging economies, the BRICS bloc has emerged as a key proponent of de-dollarization practices. In recent years, BRICS countries have continuously expanded local currency settlement in bilateral trade and explored diversified financing arrangements to reduce reliance on dollar-denominated funds [8]. In addition, bilateral local currency cooperation between China and its trading partners has developed rapidly, with the scale of RMB cross-border settlement in trade and investment expanding steadily, becoming an important pillar of regional de-dollarization [9]. These diversified currency cooperation practices have gradually formed a multi-level alternative system outside the dollar settlement framework, laying a practical foundation for further de-dollarization.

DOI: 10.54254/2754-1169/2026.AB38797

## 4. Core institutional constraints on the de-dollarization process

### 4.1. Currency network externality and path dependence constraints

Despite the advancing de-dollarization trend, it faces strong institutional constraints, among which currency network externality and the resulting path dependence constitute one of the most fundamental constraints. As an international currency, the US dollar has built a vast usage network across global trade, finance, and reserve fields over decades of development. The wider a currency is adopted, the lower the transaction and exchange costs for users, which attracts more participants and forms a self-reinforcing positive feedback mechanism [1].

This network effect gives rise to strong path dependence in the evolution of the international monetary system. Even as US economic strength declines relative to other economies, the dollar's existing scale and usage network continue to underpin its core position. For economic agents worldwide, switching from the dollar to alternative currencies entails additional conversion costs, adaptation costs, and transaction frictions. As long as most market participants remain dollar users, individual agents will not easily change their currency usage habits, which gives the de-dollarization process its distinctly gradual character. Historical experience also shows that replacement of a dominant international currency typically takes decades or longer, and fundamental change is unlikely to occur in the short term [4].

### 4.2. Institutional lock-in effect of global financial infrastructure

The dollar-centered global financial infrastructure has created a strong institutional lock-in effect, representing a major institutional constraint on rapid de-dollarization progress. At present, the global cross-border payment and financial messaging infrastructure is still dominated by the SWIFT messaging system and the CHIPS dollar clearing system, which remain central to international cross-border payment and financial messaging. These infrastructures were built under the dollar standard, and their operating rules, technical standards, and service systems are all tailored to dollar transactions, creating high institutional switching costs [10].

In recent years, although some economies have built alternative settlement systems such as the Cross-Border Interbank Payment System (CIPS) and the System for Transfer of Financial Messages (SPFS), these systems remain more limited in international coverage, participating institutions, and global network scale. Due to insufficient liquidity and network scale, these alternative systems remain largely confined to specific regions or scenarios and are unlikely to form a global substitute for the dollar settlement system in the near term. The lock-in effect of financial infrastructure means the de-dollarization process must go through a prolonged period of infrastructure construction and network expansion.

### 4.3. Supply capacity and institutional shortcomings of alternative currencies

The absence of mature alternative currencies is another core constraint on the de-dollarization process. To become an international currency capable of competing with the dollar, a currency must satisfy conditions including stable value, deep and open financial markets, sufficient liquidity, and sound institutional credibility. At present, major alternative currencies, including the euro and the renminbi, each have their own institutional shortcomings.

As the world's second-largest international currency, the euro benefits from a large economic base and mature financial markets, but its inherent institutional flaws restrict further internationalization.

DOI: 10.54254/2754-1169/2026.AB38797

The eurozone has a unified monetary policy but lacks a unified fiscal policy, and there is no common euro-denominated safe asset, which weakens the euro's attractiveness as a reserve currency [8]. In addition, fragmentation of European financial markets limits the depth and liquidity of euro-denominated assets.

For the renminbi, although its international usage has expanded significantly in recent years, notable institutional shortcomings remain. The capital account is not yet fully liberalized, the depth and openness of domestic financial markets need improvement, and the currency's liquidity and convertibility still lag behind those of the dollar and euro [9]. These institutional factors limit the renminbi's ability to play a larger role in the global de-dollarization process.

### 4.4. International coordination mechanisms and global governance constraints

The lack of effective international coordination mechanisms and the slow pace of global monetary governance reform also constrain the orderly advancement of de-dollarization. The current international monetary governance system was largely established after World War II, and the voice and voting power of emerging economies in institutions such as the International Monetary Fund (IMF) do not match their economic weight. Reform of IMF quotas and governance has progressed slowly, making it difficult to form a global governance framework adapted to a multipolar currency system [11].

In the absence of a unified international coordination mechanism, current de-dollarization practices are mostly scattered bilateral or regional arrangements, lacking overall planning and interconnection. This fragmented promotion model is not conducive to generating scale effects for alternative currencies and may also increase transaction costs of cross-border currency conversion. Imperfections in the global governance system leave the de-dollarization process without top-level institutional support, and it is therefore likely to advance gradually through bilateral, regional, and multilateral exploratory arrangements.

## 5. Discussion: long-term trends and development implications

### 5.1. Future evolution trend of the global monetary system

Combined with the realistic foundations and institutional constraints analyzed above, the global de-dollarization process will exhibit the overall characteristics of "long-term gradual progress, local acceleration, and diversified differentiation," and the international monetary system will steadily evolve toward multipolarity. In the short term, constrained by currency network externalities, infrastructure lock-in, and the institutional shortcomings of alternative currencies, the core international status of the dollar cannot be fundamentally shaken. In the long run, however, the relative status of the dollar will continue to decline gradually: the international use of the euro and the renminbi will expand, regional monetary cooperation and local currency settlement will rise, and a "one core, multiple poles" currency pattern will gradually take shape. Regionally, de-dollarization will advance faster in Eurasia and within the BRICS framework, while remaining relatively slower in regions with strong dollar influence, such as the Americas.

### 5.2. Implications for international financial governance and currency internationalization

The de-dollarization trend carries important implications for global financial governance and currency internationalization in emerging economies. For global financial governance, it is

DOI: 10.54254/2754-1169/2026.AB38797

necessary to advance the reform of multilateral institutions such as the IMF, enhance the voice of emerging economies, and promote the interconnection and diversified competition of cross-border payment infrastructure. For currency internationalization in emerging economies, steady progress should be based on maintaining currency stability and credibility, deepening financial market reform, expanding regional monetary cooperation, and improving cross-border financial infrastructure so as to gradually expand the international use of the currency.

## 6. Conclusion

This paper systematically sorts out the realistic foundations and institutional constraints of the global de-dollarization trend. The research shows that, first, the contemporary evolution of the Triffin dilemma under the dollar standard system, the negative spillover effect of the Federal Reserve's monetary policy, and the instrumental use of dollar financial hegemony under geopolitical conflicts jointly constitute the core realistic drivers of the rise of de-dollarization. The diversification trend of global trade settlement and foreign exchange reserves has initially emerged. Second, path dependence brought by currency network externalities, institutional lock-in of global financial infrastructure such as SWIFT, and shortcomings of alternative currencies such as the euro and the renminbi in liquidity, openness, and institutional construction constitute the core institutional constraints of de-dollarization. These constraints determine that this process will be a long-term and gradual one, and the core position of the dollar in the international monetary system cannot be fundamentally shaken in the short term.

The limitation of this study is that it does not conduct quantitative tests on the heterogeneous effects of de-dollarization in different economies. Future research can construct a panel model to further empirically analyze the influencing factors and economic effects of de-dollarization in different types of countries. In the long run, the multipolarization of the international monetary system is an inevitable trend. Countries can promote the development of the international monetary system in a more balanced and stable direction by deepening regional monetary cooperation and improving the construction of cross-border financial infrastructure.

## References

[1] Eichengreen, B. (2011). *Exorbitant privilege: The rise and fall of the dollar and the future of the international monetary system*. Oxford University Press.
[2] Arslanalp, S., Eichengreen, B., & Simpson-Bell, C. (2023). The stealth erosion of dollar dominance and the rise of nontraditional reserve currencies. *Journal of International Economics, 138*, 103656. https://doi.org/10.1016/j.jinteco.2022.103656
[3] Cohen, B. J. (2015). *Currency power: Understanding monetary rivalry*. Princeton University Press.
[4] Zhang, Y., & Cao, Y. (2022). The reality, constraints and prospects of global "de-dollarization". *Studies of International Finance*, (10), 3-12.
[5] Bank for International Settlements. (2024). *Annual Economic Report*. BIS.
[6] Subacchi, P. (2022). De-dollarization and the reshaping of the international monetary order. In Helleiner, E., Kirshner, J. (Eds.), *The Great Wall of Money: Power and Politics in China's International Monetary Relations* (pp. 125-148). Cornell University Press.
[7] Eichengreen, B., Chitu, L., & Mehl, A. (2016). Stability or upheaval? The currency composition of international reserves in the long run. *IMF Economic Review, 64*(2), 354–380. https://doi.org/10.1057/imfer.2015.19
[8] Guan, T. (2023). The evolution of global de-dollarization trend and its impact on the international monetary system. *World Economy Studies*, (8), 3–15.
[9] Prasad, E. S. (2016). China's efforts to expand the international use of the renminbi. Report for the U.S.-China Economic and Security Review Commission, Washington, D.C.

DOI: 10.54254/2754-1169/2026.AB38797

[10] Kaltenbrunner, A., & Painceira, J. P. (2023). De-dollarization in emerging markets: Between aspiration and reality. *New Political Economy, 28*(6), 923–941.
[11] International Monetary Fund. (2023). *Global financial stability report: Safeguarding financial stability amid high inflation and geopolitical risks*. IMF, Washington, D.C.