Assessment of the Economic Factors and Motivations Towards De-dollarization Since the Early 2000s and Their Implications

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Abstract

The US dollar has long served as the world's primary reserve currency. However, this dominance faces growing challenges from internal US economic pressures and the rise of alternative currencies. Internally, issues like high debt, inflation, reduced competitiveness, and economic instability due to inequality in economic policies threaten the dollar's position. Externally, many countries are establishing alternative currencies, payment systems, and regional financial institutions to reduce dollar dependence. These drivers have contributed to a decline in the dollar's share of global foreign exchange reserves from 71% in 2001 to an estimated 58% in 2022. While this 13 percentage point drop took two decades, recent initiatives suggest dedollarization could accelerate in the coming few decades. Efforts to establish non-dollar trade deals and alternative financial systems were intensified since the early 2000s though they show more substantial progress in recent initiatives. As the nature of the world system is anarchic, states do either individuals or group efforts to guarantee their economic security and achieve their interests. Based on neoclassical realism, this paper analyzes both internal and external economic factors driving current and future dedollarization and the implications on the international monetary system in addition to examining the states' motivations to such moves. Previous research has largely neglected this issue, failing to adequately consider recent trends in macroeconomic data and strategic international deals that could mitigate US dollar dominance.

Key words: dedollarization, alternative currencies, the US dollar, internal factors, external factors.