

# The End of Dollar-Only Power? A Comprehensive Analysis of the Emerging Multipolar Currency System

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DOI: <https://doi.org/10.36348/sjef.2025.v09i12.005>

| Received: 03.10.2025 | Accepted: 09.12.2025 | Published: 23.12.2025

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## Abstract

The global financial system is changing, and this is directly challenging the long-standing dominance of the U.S. dollar. Rather than one world leader being replaced by another, we are witnessing the development of a heterogeneous multipolar architecture. This paper argues that a unitary currency will not take control of the next stage of this new monetary order. Rather, it is turning into a stratified ecosystem. The dollar remains strong but is gradually losing its relative significance. In the meantime, it is no longer just about the dollar, euro, and Yuan, but the world is warming up to a new form of competition: central bank digital currencies (CBDCs) are being experimented with, and investors and governments around the world are considering gold as a safe investment that is not confined to the politics of a single nation. Although this shift can help decrease dependence on a single currency, it increases the dangers of fragmentation and a decrease in coordination. These dangers are the reasons why more effective global monetary governance is necessary, which implies cooperation and institution-building to ensure systemic stability.

**Keywords:** The international monetary system, Dominance of U.S Dollar, Internationalization of Renminbi (Yuan), Central Bank Digital Currencies (CBDCs), Digital Currencies, International Payments, SWIFT, Geopolitical Sanctions, Reserve Diversification, Financial Fragmentation.

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## INTRODUCTION

### The Unipolar Order Historical Preconditions and Theoretical Predicates

Since 1945, the U.S. dollar has been considered the foundation of the global monetary system. This position was institutionalized in Bretton Woods and continued even after the breakdown of the fixed exchange-rate regime (Eichengreen, 2011). Dollar dominance is commonly accounted for by the hegemonic stability theory of Kindleberger (1981), which states that a dominant state should provide significant public goods, in particular, liquidity in the world, and a lender-of-last-resort during crises. Cohen (2015) continues by stating that monetary dominance is self-reinforcing: as a currency gains popularity as the medium of trade, invoicing, and reserves, network effects generate significant inertia to disrupt. As a matter of fact, the U.S.

economic size, the deep and liquid Treasury market, the credibility of the Federal Reserve, and the global infrastructure facilitating dollar payment and settlement, especially SWIFT messaging and correspondent banking networks, have supported the dollar (Eichengreen, 2019).

The start of the 21st century has seen the start of some overlapping forces that are undermining the foundation of dollar unipolarity. The United States lost approximately 30 percent of the world GDP to 25 percent in 2023 structurally, which redefined the economic pillar of global currency demand (IMF, 2023). The 2008 Global Financial Crisis demonstrated the weaknesses of the Anglo-American financial paradigm and triggered the wider re-evaluation of the heavy reliance on assets through the dollar (Tooze, 2021).

The expanding use of dollar-based financial infrastructure as a geopolitical instrument is also another accelerant (Subacchi, 2020). The freeze of dollar reserves like the one placed on Russia and access restrictions to SWIFT have transformed the balance of the cost of holding and trading in dollars (IMF, 2023). The networks that used to be considered a source of stability are perceived by some countries as a possible vulnerability, reinforcing the desire to diversify reserve portfolios and work on the alternative system of payments.

We argue that the new order that is taking shape today can be defined as heterogeneous multipolarity: the dollar is not weaker but now exists in parallel with competing fiat currencies, new digital layers of money, and the greater use of commodity-linked assets (Olawore *et al.*, 2025). Using a new three-dimensional framework, we plot this change and show that its path is conditioned by geopolitical decisions (Subacchi, 2020), institutional reforms (Prasad, 2021), and the rate of technological integration (BIS, 2024) and has profound implications on global financial governance.

**Research Gap, Objective, and Contribution**

The role of the euro and the internationalization of the Yuan have been scrutinized extensively by existing studies as potential substitutes for the dollar (Chinn & Frankel, 2008; Prasad, 2021). However, much less focus has been placed on the interaction between these currency changes and the changes in monetary technology, particularly CBDCs, as well as on the resurgence of commodity-based assets like gold. This paper addresses that gap by developing a three-dimensional framework and applying it to claim that the system is on the road to heterogeneous multipolarity: a stratified order where not only major fiat currencies compete, but also monetary instruments and infrastructures (Olawore *et al.*, 2025).

**The Main Research Question is as Follows:**

What is the nature and probable course of the shift to a less dollar-based system and a more plural international monetary order, and what forces and consequences define that change?

In order to respond to this question, this paper has three objectives:

- 1) To examine the competitive pressures of the euro and the Chinese Yuan and structural and policy restrictions to their future use as reserve alternatives.
- 2) To determine the new strategic position of digital layers (CBDCs and stablecoins) and gold in transforming the conventional monetary architecture.
- 3) To establish realistic future scenarios and come up with policy priorities to control the risk of fragmentation and safeguard the stability of the global financial system.

This paper makes two contributions. Analytically, it promotes heterogeneous multipolarity and a more legitimate explanation of modern developments than bipolar and tripolar models. Prescriptively, it claims that to cope with such a transition, global monetary governance needs to become more proactive than reactive, that is, to be based less on crisis-induced coordination and more on institution-building, including the creation of interoperability standards and financial safety nets.

Although Kindleberger (1981) and Cohen (2015) offer fundamental conclusions about the reasons behind currency dominance, they do not emphasize the importance of technological disruption and the geopolitical weaponization of finance. The dimensions are merged in our framework, which suggests that currency power in the 21st century is built not only on the foundations of economic size and network effects but also on the sovereignty of digital infrastructure and non-exposure to the danger of sanctions. It is a conceptual change in that hegemonic stability gives way to contested and layered multipolarity.

**Analytical Framework: A Three-dimensional Solution.**

This paper is based on a three-part analytical framework, which links structural-economic, institutional-political, and technological-financial aspects. The strategy reflects the fact that economic size alone does not determine international currency status. Instead, it is based on market depth and liquidity, institutional credibility and the rule of law, and the efficiency of infrastructures that enable the cross-border payment and financial integration (Olawore *et al.*, 2025).

**Table 1: Comparison of Major International Currencies (2024–2025)**

| Criterion            | U.S. Dollar (USD)   | Euro (EUR)            | Chinese Yuan (CNY)     | Analysis   |
|----------------------|---------------------|-----------------------|------------------------|--|
| Reserve Share (2024) | 57.8%               | 19.8%                 | 2.2%                   | Diversification does not eliminate clear hierarchical structure. |
| Trend (2000–2024)    | Declining from >70% | Stable (~20% average) | Rising from negligible | Different institutional models and constraints are               |

| Criterion                | U.S. Dollar (USD)   | Euro (EUR)  | Chinese Yuan (CNY)  | Analysis  |
|--------------------------|---|---|---|---|
|                          |   |   |   | manifested in divergent trajectories.   |
| <b>Currency Dynamics</b> | High pressure of devaluation in 2024-2025 perspective (IMF, 2024)   | Valued at the beginning of 2024 on the prospects of fiscal stimulus (ECB, 2024)                             | Managed; assumed to be undervalued (IMF, 2024)  | The period between 2024 and 2025 can be an inflection point of relative valuations.   |
| <b>Transactional Use</b> | Makes up to ~50 percent of the world payments and up to 88 percent of the FX turnover (BIS, 2023; SWIFT, 2024).                   | Second most popular currency to make payments; the most popular currency in the whole of Europe (ECB, 2024) | About ~ 4% of international transactions; 3rd in trade finance (SWIFT, 2024; ADB, 2024) | The network effect is emphasized by the fact that Dollar has a far greater transactional lead over its reserve share advantage. |
| <b>Capital Account</b>   | Fully Open  | Fully Open  | Restricted (Controlled)   | One of the basic limitations to Yuan internationalization.  |
| <b>Digital Currency</b>  | CBDC studies; stablecoins are mostly dollar-pegged (market capitalization of more than \$220B) (Federal Reserve, 2024; BIS, 2024) | Preparation stage of digital Euro (ECB, 2024)   | e-CNY (advanced pilot); and integrated with CIPS (PBoC, 2024)                           | Digital innovation is a new frontier in currency competition.   |

Table 1, provides a comparative outlook of the structural stance and strategic orientation of the three major international currencies in 2024-2025. These numbers show a decades-old, yet increasingly debatable dollar hegemony the dollar still has a significant place in transactions, which is far larger than its portion of global reserves. The euro remains a stable regional anchor that has well-established institutional bases. The Yuan demonstrates a quantifiable improvement, although such improvement is still pegged to a highly controlled system, which also aligns with the evidence of systemic depolarization (Olawore *et al.*, 2025). One of the implications of the last column is that the evolving struggle is no longer being pursued only by conventional macroeconomic fundamentals but also by disparities in capital account openness and by divergent approaches to digital currency creation and financial infrastructure.

#### Structural-Economic Dimension:

This dimension is concerned with the economic bases that enable a currency to be extensively used throughout the world, one of which is the proportion of foreign exchange reserves in the IMF COFER data, which indicates the store-of-value options of central banks (IMF, 2024). Another is the size, depth, and stability of the sovereign bond market, since that market supplies the safe assets global investors rely on (Gourinchas & Rey, 2021).

#### Institutional-Political Dimension:

The currency status is institutionalized and also trust-based. It is a dimension that evaluates the transparency and predictability of the monetary policy, the effectiveness of legal systems to enforce contracts,

and the level of capital account convertibility (Chinn & Ito, 2023). It also considers how governments use financial leverage for geopolitical purposes (sanctions are the obvious case) and how this can push other countries to diversify defensively (Subacchi, 2020).

#### Technological-Financial Dimension:

This dimension describes how payment and settlement innovations may reshape the currency usage by making it a faster, cheaper, and programmable cross-border settlement that no longer requires the services of traditional intermediaries (Auer and Boehme, 2020). Stablecoins and tokenized real-world assets give rise to new sources of digital liquidity to be alongside and, in some cases, compete with the means of the bank (BIS, 2024). At the same time, the renewed interest in gold is a more conventional response to uncertainty: a preference for a store of value with no value-neutrality and physicality in the era of digital transformation and geopolitical risk (World Gold Council, 2024).

More importantly, these dimensions are interdependent, i.e., the implementation of sanctions (institutional-political) can expedite the process of creating alternative payment schemes like digital-Yuan schemes (technological-financial), which can subsequently affect the way trade is settled in the long run (structural-economic).

## METHODOLOGY

This paper uses a systematic, qualitative case study design based on an innovative, three-dimensional analytic framework (structural-economic, institutional-

political, and technological-financial). The main aim is to prognose the nature of changes, the causes, and the likely paths of the current transition from a unipolar, dollar-centered international monetary system (IMS) to a heterogeneous multipolar one.

### 1. Research Design Justification

The research question, which deals with the complicated relationship between economic structures, state power, and technological disruption, is a suitable fit for qualitative analysis. Quantitative models can be useful in predicting the behavior in well-behaved systems but less efficient in studying paradigm shifts where nonlinear interactions, strategic state behavior, and emergent technology exist (George and Bennett, 2005). Our qualitative methodology helps us process-trace causal mechanisms linking dimensions (e.g., the relationship between sanctions and the development of digital infrastructure) and make a comparative study of how different currency projects respond to the same forces.

### 2. Analytical Framework Application

The three-dimensional model is not only an organizational mechanism but also the engine of analysis. All the dimensions are operationalized using certain indicators:

**Structural-Economic:** Looked at using measures like reserve share (IMF COFER), how deep and liquid the market is (BIS data).

**Institutional-Political:** The measures were measured by capital account openness (Chinn-Ito) indices, central bank credibility, rule of law measures (World Bank WGI), and case studies of the application of financial sanctions.

**Technological-Financial:** This category is measured by the progress reports of CBDC initiatives (BIS surveys), the adoption of stablecoins, and investments in tokenized assets.

The merit of the framework is that it investigates the interrelationships among these dimensions, e.g., the way a technological innovation (e.g., mBridge) can change structural incentives and become influenced by institutional constraints.

### 3. Case Selection & Data Collection

This article is based upon a most-different-systems comparative design, where three major fiat currencies are involved: the incumbent U.S. dollar, the institutionalized regional alternative euro, and the state-led strategic challenger Chinese yuan. Cases are also generalized to new monetary layers, such as CBDCs (as a technological layer) and gold (as a commodity-based asset layer).

The triangulation of data is performed with three sets of secondary sources to secure the strength of data and reduce bias of sources:

**Official and Institutional Data:** The first publications and data of the Federal Reserve (Fed), the European Central Bank (ECB), the People's Bank of China (PBoC), the IMF, the BIS, and SWIFT.

**Academic Literature:** International political economy, monetary theory, and fintech Foundational and contemporary scholarship.

**Analytical & Policy Reports:** We also use the works of large think tanks (Brookings, Chatham House, and CSIS) and the most popular financial institutions, which provide the most recent analysis of the current trends and policy debates.

### 4. Analytical Techniques

**Comparative Historical Analysis:** Used to follow the history of dollar hegemony and the chronological response of Europe and China.

**Process Tracing:** This is used to understand the reactions of the three dimensions following the occurrence of particular events (e.g., the 2022 sanctions on Russia).

**Exploratory Scenario Analysis:** In 2040, three possible scenarios are developed using the variables of the framework (e.g., the extent of geopolitical collaboration, the speed of capital account liberalization, and the effectiveness of CBDC interoperability) to examine how various strategic options will impact the system.

### 5. Limitations

We recognize the natural limitations of the approach. There is a risk that the information based on publicly available data will fall behind actual market or policy events. The long-term building of scenarios is associated with an inevitable degree of uncertainty, particularly in terms of disruptive technological adoption. Moreover, although the framework is exhaustive, the representational focus of major currencies and systemic layers can provide less weight to the agency of smaller states and innovations in the private sector, which is where the three-dimensional framework can be useful to make sense of this multidimensional transition.

### The Strong but Weakening Dollar: A Two-Sided Reality

#### Continuous Incumbency: The Network Effects

The dominance of the U.S. dollar, although it has been relative, is because of strong network effects that are hard to undo. It is still popular as a trade invoicing instrument (in approximately half of the transactions), in foreign exchange trading (almost 90% of the transactions), and in issuing international debt (BIS, 2023). The U.S. Treasury market, due to its size, depth, and liquidity, remains the global safe asset of first choice, a role that is enhanced during periods of increased uncertainty (Gourinchas & Rey, 2021). The Federal Reserve and the strength of U.S. legal institutions make dollar assets more credible than most

alternatives (Oatley & Yackee, 2020). The combination of these factors creates a lock-in effect: for a great number of market participants, the costs of switching to another monetary center are still high, which helps to maintain dollar centrality (Cohen, 2015).

**The Erosion of the Data:** The quantifiable fall of the dollar and its strategic impact.

Despite the dollar being deeply embedded, there are quantifiable signs of its gradual and gradual decline. One of them is a decrease in the dollar's portion of allocated global foreign exchange reserves, which was over 72 percent in 2001 and about 58 percent in the fourth quarter of 2023 (IMF, 2024). This 14-percentage-point change is a sign of a diversification process by central banks, rather than a sudden replacement.

This trend is determined by drivers that act in the three dimensions:

**Structural:** The increase of Asian trade connections and more direct trading between China and resource exporters means that more transactions can be billed and cleared in non-dollar currencies, and in these routes the

dollar does not play the middleman (Aizenman *et al.*, 2022).

**Institutional-Political:** The short-term effects of sanctions can strengthen the power of the dollar, but in the long run, it will make the countries less exposed to the dollar-based channels. The fact that Russia was kicked out of SWIFT and its reserves were frozen indicated that access to the extant system can be limited, which has increased interest in alternatives like the Cross-border Interbank Payment System (CIPS) in China and bilateral agreements resolving trade in local currencies (Subacchi, 2020; IMF, 2023).

**Technological:** New payment infrastructure, while in its initial phases, does demonstrate the possibility that over time cross-border payments can be made digitally without necessarily using dollar-based systems like those provided by established financial channels, as illustrated by the multi-CBDC platform mBridge (BIS & MAS, 2022).

**Overall:** The picture is mixed. The dollar is still the most widely used currency in the present day, but the trend of change is towards a system where international monetary influence has been more dispersed.

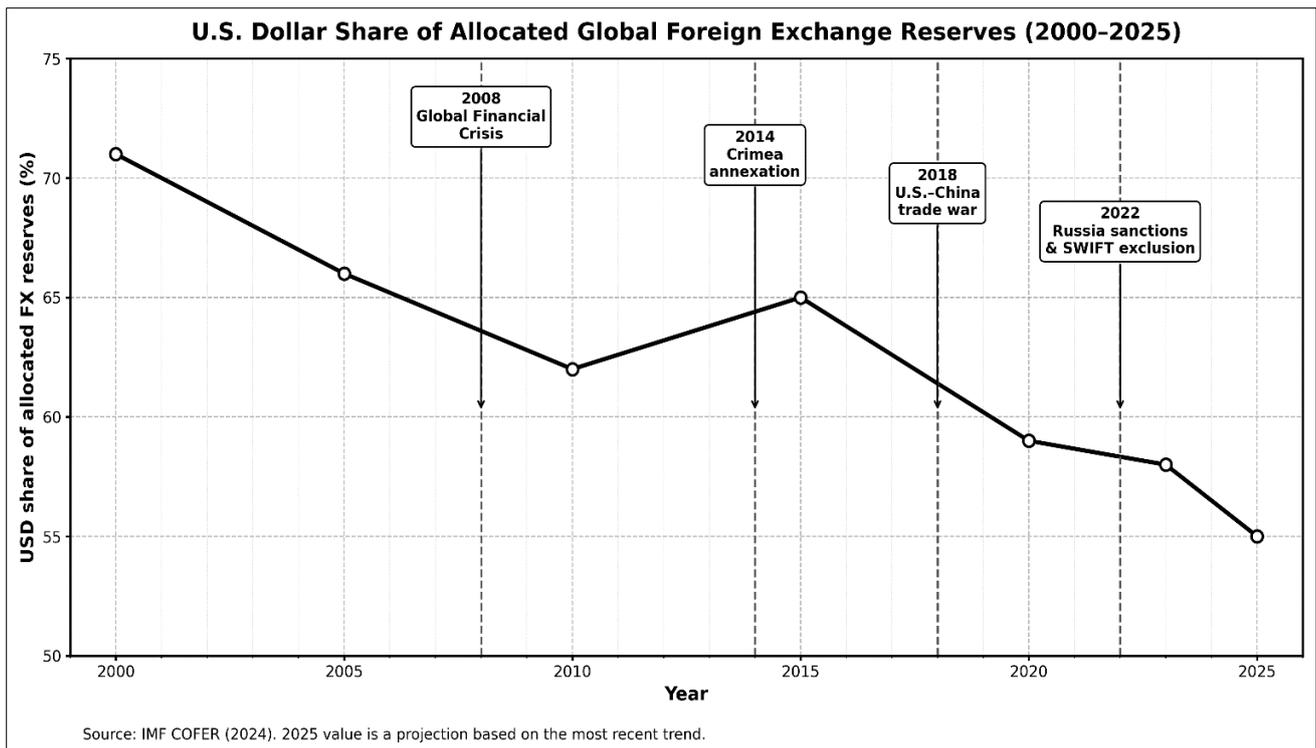


Figure 1

Figure 1 illustrates the decline of the American dollar in global foreign reserves from 2000 to 2025. The data of 2000-2023 is provided by IMF COFER (International Monetary Fund, 2024); the data of 2025 is forecasted due to the current trends. The most significant geopolitical and financial events are marked (including the 2008 Global Financial Crisis, 2014 sanctions on

Russia, and the 2022 comprehensive financial restrictions following Russia's invasion of Ukraine).

**The Euro a Half-Baked Competitor: Institutional Credibility and Structural Strengths**

The euro, which holds a more stable share of about 20 percent of the world reserves, is the most institutionalized substitute for the dollar (ECB, 2024). It

has solid roots: it is backed by one of the biggest economic blocs in the world, with developed financial markets, and the European Central Bank has earned its credibility by being independent and determined to maintain price stability (ECB, 2023). Practically, the euro is a regional anchor, which is widely used in intra-European trade and in the neighboring regions, including parts of the Mediterranean and Africa.

### The Eurozone Trilemma of Politics-Architecture

A political-architectural trilemma limits the ability of the euro to compete with the dollar in the international arena. The Eurozone is not able to accomplish (1) a unified monetary policy, (2) long-term national fiscal autonomy, and (3) the degree of financial integration and risk-sharing that generally goes hand in hand with being a global reserve currency. Practically, it has focused on the first two, which restricts the development of the third (Feldstein, 2017).

### This Limitation Manifests Itself in Three Key Forms:

- 1) **The Safe Asset Gap:** There is no common Eurozone sovereign bond instrument (a "Eurobond") that could be compared to U.S. Treasuries in terms of size and liquidity. Instead, investors have to own a package of national sovereign bonds of differing riskiness, making the euro less attractive as a premier reserve currency.
- 2) **Geopolitical Passivity:** The EU foreign policy is perceived to be divided and incapable of projecting power in a united, strategic way, and thus the euro does not enjoy the stable geopolitical backing for the reserve currency status as it used to. It is therefore widely perceived to be an inactive international currency and not an active tool of statecraft.
- 3) **An Incomplete Banking Union:** The Eurozone does not have a unified deposit insurance and an integrated bank resolution mechanism that completes bank-sovereign feedback loops, which proved to be their greatest weakness during the debt crisis of 2010-2012 and jeopardizes the financial stability that a global reserve currency should provide (IMF, 2019).

The digital euro project is to modernize the payment system and may enhance cross-border efficiency, although it is primarily designed to be used by retail in the Eurozone and puts a heavy focus on privacy (Siklos, 2024). Until a major leap in political and fiscal integration is made, it will probably not evolve into a means to supplant the dollar as the leader in wholesale finance around the globe (ECB, 2023). The euro will remain more of a powerful regional pillar than a global monetary powerhouse challenger.

### The Chinese Yuan Strategic Soaring in a Control Paradigm

**State-Led Internationalization Multi-Pronged Strategy:** The move by China to make the Yuan a global currency is a premeditated state-based project that does

not only signify its economic size but also indicates its foreign policy intentions. The plan operates on multiple fronts (Prasad, 2021).

**Embedding by Using Trade Networks:** The Belt and Road Initiative (BRI) creates infrastructure links and long-term trade relationships. China can facilitate, and even enforce, the settlement of the currency in Yuan along these lines, steadily bringing the currency into supply chains.

**Infrastructure Development:** The Cross-border Interbank Payment System (CIPS) is a non-SWIFT payment channel in the form of a Yuan-denominated channel. There is also a substantial bilateral swap line network maintained by China (more than 3.5 trillion RMB). These swap lines make offshore Yuan available to partner central banks (Hillman & Sacks, 2024).

Expanding commodity pricing in Yuan: China, as one of the major importers of key commodities, has promoted the utilization of Yuan-denominated contracts and settlement, particularly in oil and some of the trade agreements based on commodities. This move has traditionally challenged dollar dominance (Subacchi, 2020).

### The Essential Dilemma Internationalization vs. Control

The global course of the Yuan is determined by an underlying tension. A global reserve currency normally requires deep, open, and freely convertible financial markets that can supply long-term liquidity abroad. The model used in China, however, is based on capital controls, a controlled exchange rate, and state-directed credit allocation to preserve financial and political stability (IMF, 2022).

### The Tension is expressed in a Number of Constraints

**Capital Account Restrictions:** The Yuan is still partly convertible; even though it is more commonly used in trade, it is still heavily cross-border financially controlled, which is frustrating and creates perceived risk among foreign investors and reserve managers (Chinn & Ito, 2023).

**A Managed Exchange-Rate Regime:** The People's Bank of China (PBoC) controls the Yuan's basket of currencies and interferes when the exchange rate gets too volatile to prevent the perception of the exchange rate being entirely market-based and injects political risk into valuation expectations.

**Institutional Opacity:** Chinese financial decision-making is less transparent. The absence of political priorities is likely to prevail over law and regulatory institutions (Transparency International, 2023). This lack of trust prevents the type of holdings of confidence that are usually the basis of being a reserve currency (World Bank, 2023).

### **The Digital Yuan (eCNY): A Technological Workaround?**

The digital Yuan (e-CNY) expands China's strategic toolkit. Its domestic objectives include efficiency in payment and enhanced transmission of monetary policy (PBoC, 2022). It might permit cross-border use internationally. In theory, the e-CNY would enable trade payments to be offered to select partners without having to liberalize the capital account on a larger scale (Brookings Institution, 2024). This would increase the degree of Yuan use in selected environments without having to liberalize the broader control system in China (Olawore *et al.*, 2025).

In summary, the Yuan will continue to grow as a settlement and regional financing currency, particularly among nations that are aligned with Beijing or seeking to avoid sanctions. Nonetheless, its emergence as a major reserve currency commonly held as a neutral store of value is limited by China's control mechanisms. The Yuan can therefore be viewed as a strategic instrument and not as a universal reserve asset.

### **The New Monetary Layers Gold and the Digital Disruption**

**Digital Reconfiguration of Money:** The world of finance is shifting to new digital layers that coexist with and sometimes replace the use of traditional payment channels. The most important aspect of this change is central bank digital currencies (CBDCs). CBDCs are being considered by over 130 countries, and they include 98% of the world's GDP (BIS, 2024). These projects are not limited to digital cash. They are new settlement infrastructure, which determines speed, cost, and control.

Multi-CBDC systems such as Project mBridge are designed to enable central banks to settle cross-border on shared technical infrastructure, which, ideally, can help make cross-border settlements less costly, shorter in time, and less risky (Auer *et al.*, 2022).

A key effect is that the historic link between the use of an international currency and its reserve status is likely to be weakened. A digital payment channel can enable a country to settle its transactions in a certain currency without necessarily holding large reserves of that currency. This undermines the presumption that settlement use and reserve holdings always have to move in the same direction (Prasad, 2021).

The privately issued digital assets, in addition to CBDCs, are growing at a faster rate. Stablecoins pegged to the dollar (including USDT and USDC) have now created a large source of dollar-linked liquidity on the blockchain networks. They do not use traditional banking systems and can be used as a point of entry into crypto markets or as an instrument to tokenize traditional assets such as bonds or funds and produce new digitally native instruments that are functionally similar to safe assets.

### **Digital Fragmentation is a Risky Matter**

CBDCs would be able to pay in less time and with less money, but when they become disconnected and uncoordinated, they also pose significant threats.

**Weaker Financial Guardrails:** When the systems fail to communicate, loopholes may appear, and money laundering or avoiding the consequences of sanctions may come through more easily (FATF, 2023).

**Greater and More Focused Cyber Threats:** New digital payment networks are now high-value targets, and a big breach would shake a currency bloc (Hoffmann, 2022).

**Bigger, More Focused Cyber Risks:** New digital money systems are now a high-value target, and a significant breach would destabilize a whole currency bloc (Hoffmann, 2022).

**Interruption of Trade Finance:** In case payment blocs break, the main instruments of trade finance, such as letters of credit, may disintegrate, increasing the cost of transactions and slowing trade (World Bank, 2023).

The bottom line is that it is not only a technical standards issue. It is the issue of financial stability. Interoperability should be implemented as a security requirement but not as an option to have.

### **Gold: The Non-Digital, Strategic Hedge**

Gold has re-emerged as a strategic reserve asset. The level of gold purchased by central banks has been very elevated and has reached over 1,000 tonnes in both 2022 and 2023. The last occasion when central banks bought such a large amount of gold was the Bretton Woods period (World Gold Council, 2024). This trend is led by the central banks of emerging-market economies (such as China, Turkey, and India) and states facing heightened geopolitical pressures (such as Russia).

The trend aligns with the identified risks in the analytical framework.

**Institutional-Political Risk:** Gold is not subject to sanctions and external control. It does not have an issuer risk, and it is not deposited within foreign financial systems, which minimizes its exposure to restriction or seizure (Iancu *et al.*, 2022).

**Hedge against Monetary Fragmentation:** In a world where currency blocs are in competition with each other and the commitment to fiat currency is weaker, gold is a good store of value. Its resurgence is an indicator of the dwindling trust of a fully fiat dollar-centric regime.

Gold is not a medium of exchange. Instead, it is a complementary layer, the asset that allows diversification beyond the dollar (or euro/Yuan) but does not entail the commitment to another geopolitical center (Aizenman & Lee, 2007).

### **Synthesis towards Heterogeneous Multipolarity**

The emerging monetary landscape is not just a three-way competition between the dollar, the euro, and

the Yuan, but can be outlined as a heterogeneous multipolar structure with three interconnected layers (Olawore *et al.*, 2025).

**Traditional Fiat Currencies:** A dollar that is stagnating but declining gradually, a regionally oriented euro, and a Yuan whose growth is affected by strategic limitations.

Digital monetary and financial instruments: CBDCs, stablecoins, and tokenized assets could enhance the efficiency of payment and settlement, yet they can also disintegrate the system and introduce new ways of how digital currencies can acquire power.

**Commodity-Based Reserves:** Gold as the non-sovereign store of value, which can serve as some sort of insurance against systemic uncertainty.

Even though the role of non-aligned and developing economies in this transition has not been adequately studied in the literature, such as Mawdsley (2012), nations such as Indonesia, Saudi Arabia, and Nigeria are in a frenzy to hedge, diversify, and negotiate

in the new currency environment and experiment with digital yuan corridors, euro-based trade deals, and dollar liquidity hubs (Aizenman *et al.*, 2023). Their strategic hedging accelerates monetary fragmentation, but it also opens possibilities of new regional currency setups, local currency settlement systems have been set up in the ASEAN and African Continental Free Trade Area (AfCFTA) (World Bank, 2023). This interaction demonstrates that not only does rivalry among major powers at the high level condition multipolarity but also strategic actions of emerging and developing economies at the lower level.

The key governance issue is the coordination of the interactions between these layers where they are competing, where they complement each other, and where they generate new sources of systemic risk.

**Scenario and Implications: Roadmaps to 2040**

Based on the interaction of the three dimensions of analysis, this paper constructs three likely scenarios of the international monetary system by 2040.

**Table 2: Scenario Analysis for the International Monetary System (2040)**

| Scenario                       | Drivers & Assumptions   | Projected Reserve Share (approx.)                                      | Technological Landscape  | Primary Systemic Risks  |
|--------------------------------|---|--|--|---|
| <b>1. Resilient Asymmetry</b>  | Geopolitical stability; U.S. is meeting fiscal challenges; institutional reform is limited in EU/China.                                   | USD: 50–55%<br>EUR: ~20%<br>CNY: 8–12%<br>Gold/Other: ~15%             | CBDCs were local; little interference on the cross-border.   | Ongoing exposure to the U.S. policy spillovers; laxity regarding governance reform.               |
| <b>2. Balanced Tripolarity</b> | The great crisis brings about collaboration; EU gets fiscal convergence; China engages in step-by-step liberalization of capital account. | USD: 40–45%<br>EUR: 25–30%<br>CNY: 15–20%<br>Gold/Other: ~15%          | International standards of CBDC interoperability are established, and multi-CBDC systems grow and gain popularity. | Multilateral monetary policy coordination; transition volatility.                                 |
| <b>3. Fragmented Ecosystem</b> | Intensification of great-power competition; fragmentation of the EU; China is more about control; the Tech Cold War.                      | USD: ~35%<br>EUR: <20%<br>CNY: 15%<br>Gold/CBDCs/Bloc-currencies: >30% | Incompatible digital blocs; emergence of regional/private payment networks.  | Liquidity fragmentation; increased volatility; ineffective trade finance; cyber security warfare. |

Table 2. The scenarios give a summary of what could occur to the global monetary system in the year 2040, as the literature on currency competition (Eichengreen, 2022) and CBDCs (BIS, 2023) did, focusing on how the institution and geopolitics may influence the reserves, infrastructure, and risk.

**DISCUSSION OF SCENARIOS**

**Scenario 1:** The current trajectory is referred to as "resilient asymmetry." The dollar is centralized as a result of strong network effects and will persist in being the point of reference, however, its relative status will degrade over time.

**Scenario 2:** (Balanced Tripolarity) has the best cooperative solution. It can only be achieved through big political concessions in Europe and China. It also requires a drastic upgrade to global financial governance, which would be as ambitious as a new Bretton Woods, which would be adapted to the current financial and technological realities (Gopinath, 2022).

**Scenario 3:** (Fragmented Ecosystem) is a high-risk and high-cost scenario. Economic efficiency would be subdued by geopolitical conflict. It would entail digital Balkanization, more weaponization of payment systems, and more physical gold demand. Such transformations would increase the expenses of international trade and finance (Tooze, 2022). In general, the most likely path would be a fluctuating movement between Scenarios 1

and 3. The second scenario (Scenario 2) is unpredictable and needs a stable and deliberate political orientation.

### The Catalytic Impact of the Emerging Economies

The shift towards a more multipolar system is not only being led by the largest actors, but is also being accelerated by the decisions made by emerging and non-aligned economies, such as Indonesia, Saudi Arabia, and India. Many of these “swing states” are trying to reduce their exposure to any one center of power, so they hedge their bets in three main ways (Mawdsley, 2012; Aizenman *et al.*, 2023):

**Diversification of Reserves:** Acquiring additional gold and currency baskets so that they are no longer dependent on one currency (World Gold Council, 2024; Iancu *et al.*, 2022).

#### Building Alternatives:

Striking more local-currency trade agreements and entering regional payment networks such as those that are being created by ASEAN and the AfCFTA (World Bank, 2023; ASEAN, 2023).

#### Experimenting in the Digital Space:

They are also experimenting with such ideas as cross-border CBDC corridors and other payment innovations in the digital space to avoid being tied to one system in the future (BIS Innovation Hub, 2023; Atlantic Council CBDC Tracker, 2024).

Collectively, these actions can helpfully influence the direction of the global system to come. The shift towards exclusive alliances in hedging would push the system towards a Fragmented Ecosystem (Scenario 3). However, when hedging supports pragmatic regional arrangements that are nonetheless interoperable, it can serve to make the system more resilient, create multi-node networks, and stabilize the transition (Mawdsley, 2012; Aizenman *et al.*, 2023).

## CONCLUSION AND RECOMMENDATION OF POLICY

The paper argues that the world monetary system is undergoing a paradigm shift: from the unipolar, dollar-based hegemony to the heterogeneous, multipolar one, dictated by coexistence, competition, and interaction among three layers of monetary activity.

This change is propelled by three forces: (i) economic restructurings toward an increasingly multipolar growth distribution; (ii) institutional-political options, in particular, the geopolitical exploitation of dollar-based financial infrastructures; and (iii) faster innovation in payment and financial technologies.

The institutions will depend on the governance, connection, and mediation of these layers to render the future system stable and functional. The main problem is how to cope with the fall of the dollar and how to create

the system of cooperation in governance. This requires the establishment of compatible digital standards and the strengthening of the multilateral safety nets.

This shift needs the concerted actions of the states, central banks, and international financial institutions. The imperative policy is to diminish the risk of fragmentation and destabilizing volatility and to ensure the new multipolar order helps maintain global stability and prosperity instead of increasing geopolitical and financial conflict.

### Priorities in Policies

The rise of CBDCs and stablecoins leaves numerous issues unanswered, such as who will determine the rules of operation of these systems, and how do we ensure the privacy of the people across the borders? The BIS Innovation Hub (2022) states that the majority of pilot projects have not worked out the issues yet, and we think that the answer is to put more voices into the room and make central banks, tech firms, and international organizations like the BIS collaborate instead of operating in isolated settings (Carstens, 2022; Prasad, 2021). Otherwise, we will be left with a patchwork of digital currencies that do not connect the global system but instead increase the existing divides, the IMF (2023) has warned.

To prevent the risks of Scenario 3, fragmentation, the major stakeholders will be forced to act proactively and with a specific focus.

#### For the United States:

Policy needs to change. The highest priority is to revive long-term fiscal sustainability to ensure that the status of the U.S. Treasuries as a safe asset is preserved (Gourinchas & Rey, 2021). There should be more multilateral application of financial sanctions in more transparent rule-based systems to minimize incentives towards alternative systems. Above all, the United States ought to be at the forefront in creating open and interoperable standards of the digital monetary layer. It includes the investigation of a digital dollar by the Federal Reserve and its presence in organizations like the BIS Innovation Hub (Federal Reserve Board, 2022; Gerring & O'Toole, 2022). Ceding the standard-setting power would have high strategic costs.

#### To the European Union:

The first thing to do is to finalize the institutional structure on which the euro is built. In the short term, attention should be paid to the completion of the banking union, with a common deposit insurance scheme to enhance financial stability (IMF, 2019). The digital euro must be designed to be not only retail friendly but also with cross-border functionality and interoperability as its design attributes at the very beginning (Siklos, 2024). A safe asset is still a long-term objective, but developments in this area would solidify

the position of the euro as a sustainable pillar in the region and cement its status in a multipolar system.

#### To China:

In case the goal is to attain the status of a real reserve currency, the central paradox of internationalization and control should be resolved. This entails a believable, open, and graded route to capital-account liberalization, with enhanced internal financial markets and enhanced rule-of-law safeguards (Prasad, 2021). Until then, more open reporting on gold stocking and on foreign-exchange interventions would minimize the world trust gap. The digital Yuan should be built in such a manner that promotes interoperability, such as open Application Programming Interfaces (APIs) rather than closed and segregated systems.

#### To the International Financial Institutions (IMF, BIS):

The transformation of their work should rather turn the surveillance and crisis lending into the active coordination of the developed monetary architecture. The BIS, with its Innovation Hub and mBridge, is already significantly engaged, which needs to be extended and institutionalized (Carstens, 2024). To mitigate the risks of the fragmentation of digital currency, crypto-asset markets, and reserve diversification, the IMF should establish a new surveillance framework, which would provide a systematic evaluation of risks. It must also transform the Special Drawing Right (SDR) basket and enhance practical SDR applications as a useful multilateral supplement to domestic currencies (IMF, 2016).

#### The Collaborative Governance Imperative

The period of heterogeneous multipolarity will not repeat the hierarchical order of the Bretton Woods system. It will probably be more controversial, more complicated, and more open to the risk of fragmentation. In this regard, collaborative monetary governance is not an ideal of choice but a necessity of stability in the system (Olawore *et al.*, 2025). What matters most at the moment is to ensure the fundamentals are in place so that different CBDC systems can operate together, the international institutions can be modernized, and the shocks that come with system change can be minimized. Failure to do that by the end of the decade will result in a more fragmented monetary system that will increase conflict instead of promoting stability.

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