A SYMPOSIUM OF VIEWS

Is the role of the dollar about to significantly change?

The international financial markets have been full of speculation about the de-dollarization of the world economy in favor of new currency arrangements, particularly involving the Chinese yuan. In March of this year, Chinese President Xi Jinping declared his determination to create a new world order that abandons the West's "rules-based order" based on British Common Law in favor of a Chinese-led order.

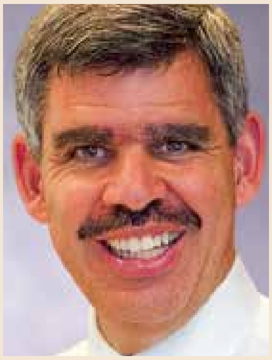
Of course, the immediate response is that a yuan-based currency system would be unworkable without Beijing relinquishing capital controls, which is unlikely to happen under the hyper-centralized control of Xi. But are there even more fundamental problems in trying to break away from the dollar as the world's reserve currency?

Under a yuan-based system, China's commercial interaction with other nations would have to be under Chinese rules. Meanwhile, Common Law, the West's defined, reliable system designed to protect property rights, would lose its traditional role in global commercial relations. As global analysts Harald Malmgren and Nicholas Glinsman argue, "Xi Jinping is essentially posing a choice for the world economy: Trade and commerce under the trust garnered for centuries from Common Law OR trade and commerce under Xi's Law, ultimately with the rule and judgment of one man."

Some analysts argue that a lack of trust in Xi's law is why Singapore is now winning over Hong Kong in the battle to become Asia's financial hub. They also point to the March 2022 nickel crisis on the Chinese-owned London Metals Exchange in which the Chinese government intervened during an epic short squeeze to protect one of its favorite companies. Many global traders now believe that a Chinese-owned or controlled market trading platform could not be trusted.

So is talk of the de-dollarization of the world more the stuff of simplistic journalistic headlines and a response to America's soaring debt and prolific use of economic sanctions? Or is the dollar's global role about to significantly change?

More than twenty prominent economic strategists offer their thoughts.



Countries will be forced to choose: collaborate more to strengthen multilateralism, or embrace economic decoupling.

MOHAMED A. EL-ERIAN

President, Queens' College, Cambridge University, and Professor, Wharton School, University of Pennsylvania

The dollar's role as the world's reserve currency is not under threat for the simple reason that you cannot replace something with nothing. There is no other single currency, physical or virtual, that can substitute for the dollar at the center of the international monetary system. Yet this reality does not mean that the dollar's global influence is not threatened. Driven by a combination of geopolitical and national security concerns, a multiplying set of small pipes are being built around the dollar at the core of the system.

The dollar's durable advantage comes from the size and dynamism of the U.S. economy, its deep and liquid financial markets, and the predictability that comes with respect for the rule of law and mature institutions.

As important as these advantages are, their influence has been challenged in recent years by a gradual erosion of trust in America's ability to responsibly manage the global system, including due to the origins of the global financial crisis. This has been compounded in the eyes of some countries by America's increasing willingness, for good reasons, to weaponize trade, investment, and payments sanctions; as well as what seems to be Russia's higher-than-expected ability to sidestep the worse effects of the sanctions, albeit in a cumbersome and costly fashion.

What is happening to the influence of the dollar is a reflection of a larger process of fragmented globalization as geopolitics and national security have increasingly sidelined economics in shaping both national and international economic and financial relations.

As we look forward, and as detailed in my recent *Financial Times* article, "Slowly and surely, countries will now be pushed towards choosing between two strikingly divergent paths: collaborate more to strengthen multilateralism and its ruled-based framework, or embrace economic decoupling as an inevitable accompaniment to greater risk mitigation by individual states."

Would a reduction in the dollar's usage be costly for the United States? The stakes are far lower than is generally understood.

JOSEPH E. GAGNON

Senior Fellow, Peterson Institute for International Economics

Do investors and traders prefer to operate under the arbitrary whims of an autocrat or the long-established rules-based system derived from British and American common law? The question answers itself.

A far more interesting question is whether a reduction in the dollar's usage in favor of another credible reserve currency would be costly for the United States. In reality, the stakes are far lower than is generally understood.

Dollar dominance rests on the large size of the U.S. economy, the global reach of U.S. firms and banks, the sound reputation of the U.S. judicial system, the U.S. commitments to capital mobility and investor protection, and historical inertia. No other currency comes close to matching the dollar's lead, with the euro in distant second place.

But if the dollar and the euro were to switch places, few people in America, Europe, or the rest of the world would even notice. International trade and investment flows would be equally fast and cheap.

The most widely cited advantage of dollar dominance for America is a low cost of borrowing in dollars, but Europeans already enjoy a lower cost of borrowing and the spread between dollar and euro interest rates would probably rise only moderately if the euro became the primary reserve currency. The flip side of the dollar's supposedly exorbitant privilege is an overly strong dollar that inflates the chronic U.S. trade deficit. A stronger euro and weaker dollar would help to narrow large European trade surpluses and U.S. trade deficits—a clear benefit for global stability.

In the Winter 2020 issue of *TIE,* I described how the International Monetary Fund, with the backing of key member states, could move the world to a more symmetric currency system based on the special drawing right that would retain independent central banks and freely floating national currencies. I continue to believe such a system is in the world's best interest.

But what about the dollar's role in financial sanctions? Dollar payments systems do provide a channel to enforce sanctions, but would-be sanctions evaders already have ways to route payments outside the dollar system. They are less convenient and bit more costly, but a small tax is not a significant deterrent for most rogue actors.

The main power of sanctions derives from the asymmetry in size of the U.S. economy versus the sanctioned entity. Cutting off trade and finance between the two imposes costs on both parties, and these are easier to bear for the larger party. This dynamic holds regardless of whether the dollar is the primary reserve currency or only a secondary reserve currency.

The effectiveness of sanctions depends far more on gaining allies to join them, thus shutting off the sanctioned entity from more of the world economy, than it depends on the dollar's share of currency usage.

The dollar reliable? Huh! China offers a reliable and law-based alternative.

JAMES K. GALBRAITH
Lloyd M. Bentsen, Jr., Chair in Government/Business Relations, LBJ School of Public Affairs, University of Texas at Austin

In 1995, in my capacity as chief technical adviser to the People's Republic of China's State Planning Commission, I recruited the late, great economist Robert Eisner of Northwestern University to a conference near Beijing on international economic policy. My strict condition was that he persuade our Chinese hosts to maintain capital controls. He succeeded. The rest is history.

The notion that "British Common Law"—or any law—underpins the "rules-based order … designed to protect property rights" is too funny. Just ask a Russian oligarch about that! And beyond the seizures of private property—without any kind of due process—there is the "freezing" of central bank reserves. These are not just Russia's but also Afghanistan's, Iran's, and potentially those of any country foolish enough to hold U.S. Treasury bonds while deviating from U.S. policies. That, of course, is precisely why de-dollarization is underway. "Reliable?" That was then.

What China offers is precisely a reliable and law-based alternative. Without that, there would be no chance of success. Of course the Chinese know this. That is why the Chinese government has a reputation, among close observers, for speaking clearly and carefully and for meaning what it says. With the British, it's the opposite and has been "for centuries." The French did not coin the phrase "perfidious Albion" for no reason.

How far will de-dollarization go? Trust is no big obstacle. Capital controls do not prevent China from issuing a global bond. The small scale, shallow depth, and somewhat weak liquidity of that market, at first, are its major disadvantages. Some skepticism is warranted on that ground.

By the way, the Chinese currency is not "the yuan." It's the Ren Min Bi (RMB)—the people's money. "Yuan" is the word one uses to count out a money sum. Better get it right.

China would be the largest loser in a de-dollarized world.

ZONGYUAN ZOE LIU
Fellow for International Political Economy, Council on Foreign Relations, and author,* Sovereign Funds: How the Communist Party of China Finances Its Global Ambitions *(2023)

The U.S. dollar's dominance extends across the realms of the real economy, funding, and investability within the existing international economic system. It is the dominant global reserve currency and enjoys the highest weight in the SDR basket. It reigns as the leading invoicing currency in international trade and the primary currency in global financial infrastructure, and wields significant power in global commodities pricing. The dollar dominates development financing, bank deposits, corporate borrowing, and equity markets. It also serves as the primary safe haven currency during economic and financial crises. A crucial aspect underlying the dollar's dominance lies in the dollar-based international monetary and financial rules, accounting standards, and dispute resolution procedures. The dollar's dominance across this broad spectrum presents structural constraints for any reactive de-dollarization initiative.

Leadership needs followers, and trading nations need counterparts. President Xi Jinping cannot lead China to unilaterally de-dollarize the existing system and impose his vision for the world on other economies. Xi's ambition to lead a non-Western world order faces international pushbacks and severe domestic challenges that limit his capacity to realize his expanding global ambitions. While Xi can attempt to broaden the use of the renminbi and expand the network of renminbi-based financial infrastructure, he cannot lead China to unilaterally pursue de-dollarization since international economic activities are exchanges that require at least two parties. In this context, coalitional de-dollarization initiatives through regional and multilateral frameworks such as the BRICS (and BRICS Plus) and the Shanghai Cooperation Organization could challenge the dollar's dominance.

Expanding the use of the renminbi in trade is easier than increasing its status as an international reserve currency. Capital controls are not necessarily a dealbreaker for the broader adoption of the renminbi in trade, as China is already a top trading partner for over 120 countries and the Chinese government is willing to facilitate export by providing trade finance using the renminbi. However, capital controls, combined with the lack of risk-free renminbi-denominated assets, the relatively closed nature of the Chinese financial market, and Xi's preference for the rule of one man instead of the rule of law and market principles further obstruct the renminbi's rise as an international reserve currency.

De-dollarization is different from dethroning the dollar. No Chinese leaders have openly expressed their intention to dethrone the dollar. China would be the largest loser in a de-dollarized world, considering that most of its over $3 trillion foreign exchange reserves are invested in U.S. Treasuries and the lion's share of Chinese sovereign funds' portfolios are tied to dollar-based Western markets. China's pursuit of an alternative financial system aims to serve as insurance and hedging, reducing the cost to the Chinese economy in the event of stringent sanctions under extreme conditions, such as a military conflict over Taiwan.

While the renminbi is unlikely to soon replace the dollar's dominance, history reminds us that the dollar's dominance is not guaranteed forever. De-dollarization is a secular trend involving the accumulation of many incremental initiatives to encourage non-dollar exchanges. Unfortunately, the combined forces of the U.S. government's excessive use of sanctions, its swelling debts, and the increase in the frequency of the debt ceiling debate accelerate, rather than discourage, the de-dollarization alignment. The process of de-dollarization is unlikely to be punctuated by sweeping policies as part of a grand de-dollarization strategy that marks a recognizable inflection point leading to the end of the dollar hegemony.

I doubt we'll see the international pecking order overturned in our lifetime.

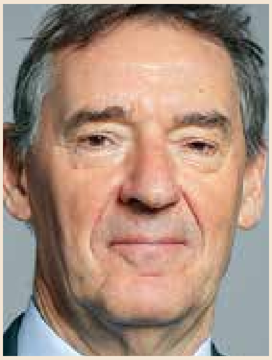
STEVEN B. KAMIN

Senior Fellow, American Enterprise Institute, and former Director, International Finance, Federal Reserve Board of Governors

Future changes in the global role of the U.S. dollar will be evolutionary, not revolutionary, and I doubt we'll see the international pecking order of currencies overturned in our lifetime. To be sure, the share of the dollar in global foreign exchange reserves has edged down over the past couple of decades, from 71 percent in 1999 to 58 percent at the end of last year. But considering the momentous changes in the global economy since that period, including the creation of the euro and the rise of China, that decline is not all that surprising. And share of the dollar in global reserves continues to outstrip that of its nearest competitors—the euro (20 percent), yen (6 percent), sterling (5 percent), and Chinese yuan (3 percent)—by huge margins. The dollar's continued predominance may in part reflect network effects. Once a currency is established as a preeminent financial vehicle, it is difficult to dislodge. But it also reflects a multitude of strengths: a large and dynamic economy; strong investor protections and the rule of law; and the world's largest, safest, and most liquid government bond market. Certainly, the political dysfunctions in Washington that led to the debt-ceiling fracas this year threaten to undermine these strengths, but so far they have failed to do so.

All that said, it seems likely that the dollar's predominance will experience further erosion in the years to come. Part of that erosion may reflect efforts by international reserves managers to optimize their portfolios, along with new financial technologies making it easier to trade a wide range of currencies. More speculatively, innovations in financial technology that reduce the cost and increase the speed of cross-border payments, possibly including the inter-operable central bank digital currencies currently being explored by the Bank for International Settlements, may reduce the need to use dollars for bilateral transactions between non-U.S. economies. This might not substantially reduce the dollar's desirability as a global store of value in the near term, but could exert downward pressure on the dollar's share of reserves over time.

Finally, widening geopolitical rifts between East and West will likely cut into the global dominance of the dollar. Governments interested in avoiding dollar-based sanctions or in building stronger ties to China may wish to reallocate some of their reserves to renminbi, supported by China's efforts to internationalize its currency, including expansion of its Cross-Border Interbank Payments System, provision of swap line arrangements, and development of the e-yuan. At an extreme, a bipolar (dollar, renminbi) or multipolar (dollar, euro, renminbi) global currency system could emerge. Even in this situation, the dollar would likely remain the single most important global currency, and there is almost no chance of its replacement by the renminbi in an apocalyptic scenario of world dominance by China. However, the United States, and the West more generally, would face an erosion of its geopolitical reach, while fragmentation of the world economic and financial system into separate blocs would likely reduce global economic growth.



Imagine a world if China encouraged India to become a near-equal partner in something like its One Belt One Road strategy.

JIM O'NEILL

Former Commercial Secretary to the Treasury, United Kingdom, and former Chairman, Asset Management, Goldman Sachs International

I guess it is rather a good thing for the dollar that China and India rarely agree on anything nor collaborate on anything of substance, and spend so much time in suspicion of the other and skirmishing on their border. If these two huge nations, more than one-third of the world's population between them, and both increasingly important for the marginal performance of global GDP, ever did truly collaborate and shared focused ambition, then the future of the dollar as the world's dominant currency would be doomed.

There are some basic facts that this question of the dollar's future ignores. History has shown that the world monetary system is ultimately dominated by the currency of its largest economy. At some point, if China takes over as the number-one in economy in the world, and especially if other large emerging economies also become a much bigger share, it is tough to see the dollar's dominance surviving.

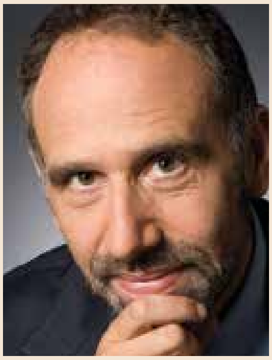
However, these are significant ifs and who knows when it may happen even if we had confidence that it will, eventually. And it is not entirely clear that just because for most of our lives we have experienced the British Common Law-based system, since the 1970s under the floating exchange system and before that the fixed exchange rate system based around the links to gold, that this will always be the case.

Several other commentators to this piece will have been in the same conferences that I have over the years where academic scholars from Asia, especially China, espouse a future monetary system where the International Momentary Fund's special drawing rights would transfer from being purely the accounting currency of the IMF to being the currency that is traded around the world, reflective of all the major economies that drive the world economy.

Were this to happen, it would on many basics seem more just, as the role of the dollar and, behind it, that of Fed policy in frequently driving the erratic cycle of many other economies' affairs, often seems somewhat unjust. This said, I have never been persuaded that a world central bank as such could be responsible for such a currency, adjusting its monetary policy for the net benefit of the interests of the most, rather than what we have now, where the central bank at least tries usually to deliver what it thinks best for the country it serves. But if some day India and China did share these kinds of ambitions, then it might be something we should take more seriously.

Indeed, imagine a world if the BRICS political group was focused beyond just symbolism and grandstanding, and behind it, China positively encouraged India to become a near-equal partner in something like its One Belt One Road strategy. It would then quite likely have a much better chance of transforming much of Asian trade and investment, indeed for the world as a whole, including all those countries that are tied into trade with them. In such circumstances, I could see this being a trigger for an end to the dominance of the dollar, just as I could if Germany ever gave in to the French-led desire—shared by others—for a true common euro-denominated bond across the whole of the eurozone. Perhaps both things are never going to happen.

Much of the talk behind why this question is asked of us is, of course, tied to the annual BRICS political leaders' summit, where there has been persistent talk of the group expanding significantly to include many other countries, including the likes of Saudi Arabia. If this were to happen, and in the unlikely event they really decided to focus on truly shared potential benefits, the talk that so many fringe journalists chatter about recently, including the beginning of the end of the dollar, might not be so fanciful. At the same time, it is obviously pretty clear that unless all of those within that group truly share some common legal principles, alongside allowing their own currencies and investments to be more freely traded, it would be tough to see other non-BRICS countries suddenly wanting to participate. And indeed, would these member countries abandon their seeming never-ending desire to own assets in the supposedly declining Western world? Just look at the United Kingdom, for example. Despite our unfortunate seeming unending ability to shoot our economic fortunes in the foot, we still are a magnet for investments from many of these nations, whether it be our leading Premier League football teams, London property, or our more stylish auto producer brands.



This is huge theater over nothing.

DEAN BAKER
Senior Economist, Center for Economic and Policy Research

For many decades now we've seen ominous stories about how the dollar was going to lose its place as the world's reserve currency. There are two main points that viewers of this theater need to keep in mind. First, it has not happened thus far, and second, it really wouldn't matter much if it did.

On the first point, we've been hearing about the world moving away from dollars since U.S. President Richard Nixon ended the tie between the dollar and gold in 1973. The rise of OPEC, and the fall of the dollar against other major currencies later in the decade, encouraged this view. But by the end of the 1970s, countries were still using the dollar for the overwhelming majority of their transactions and also as their predominant reserve currency.

The creation of the euro in the 1990s was supposed to be another threat to the dollar's preeminence. Again, we have not seen much impact. Obviously, the countries in the eurozone trade in euros rather than dollars, but not many other countries do. The euro is used to some extent as a reserve currency, but it largely displaced holdings of marks and French francs, not dollars.

Now we are supposed to believe that China's renminbi will replace the dollar as the world's reserve currency? As has been widely noted, the renminbi is not freely convertible. Perhaps China will change this in the future, but until it does, there is little risk that it will replace the dollar.

It also is important to note that this is not a zero/one story, where everyone either uses the dollar or the renminbi, or some other currency. It is entirely possible, in fact quite likely, that the renminbi will be increasingly used in international transactions and held as a reserve currency, given China's role as the world's preeminent trading nation.

But that doesn't mean that countries stop using dollars, they will just use them less frequently. Suppose the share of world trade done in dollars falls by 10–30 percentage points. How would we notice and why would we care?

It's possible that this will mean somewhat less demand for dollars and a lower value against other currencies, but would we really be panicked by the idea that the dollar might be 5–10 percent lower against the euro, the yen, and other currencies? The dollar fluctuates all the time by amounts this large and almost no one pays any attention. And, in all probability, the effect would not even be enough to move the dollar by 5–10 percent.

In short, this is huge theater over nothing. There are things that China could do with its allies that would matter a great deal to the United States. For example, they could stop honoring U.S. patents and copyrights on prescription drugs, software, and a range of other items. That would be a real hit to the U.S. economy. By contrast, the concern about the dollar losing its status is a joke.

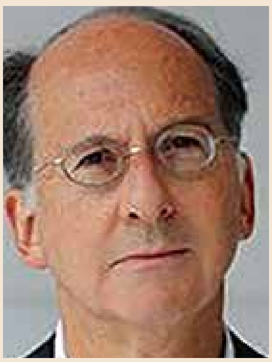
The more probable Trump's return to the U.S. presidency is regarded, the more a movement away from the global role of the dollar.

MARINA V. N. WHITMAN
Professor of Business Administration and Public Policy Emerita, University of Michigan, former member of the President's Council of Economic Advisors, and former Chief Economist and Group Vice President, General Motors

The role of the dollar in invoicing world trade has declined by some 10 percentage points, from roughly 70 percent at the turn of the century to about 60 percent today. Its position in foreign exchange reserves has followed a similar pattern, with roughly the same drop in its global percentage over the period. But what is the outlook for the future? Will the decline of the dollar continue, be reversed, or stay about the same?

To the extent that developing countries continue diversifying their holdings, the dollar's position in foreign exchange reserves will continue to decline, though probably still rather slowly, despite the persistence of short-term fluctuations in that role. But it is likely to remain the default currency in international trade and as a global unit of account or, again, continue a slow decline. Nothing that would change that role precipitously appears currently on the horizon, despite the United States' rapidly rising debt and its prolific use of economic sanctions, which it imposes more frequently than any other country.

The main development that might precipitate such a change would be continuing or increasing instability in the United States' political outlook. The more probable Donald Trump's return to the U.S. presidency is regarded, the more a movement away from the global role of the dollar is likely to be encouraged, owing to the unpredictability of President Trump's behavior. The main characteristic demanded by foreign use of the dollar is predictability, and to the extent that declines, so will the global use of the dollar.



America risks shooting itself in the foot.

MARK SOBEL

U.S. Chair, Official Monetary and Financial Institutions Forum, and former Deputy Assistant Secretary for International Monetary and Financial Policy, U.S. Treasury

The dollar will remain the world's dominant currency for the foreseeable future. That doesn't mean the dollar's role won't ease. It will still go up and down.

Many measures put the dollar's international financial role around 60 percent, including in global foreign exchange reserves (similar to the mid-1990s weight). The euro is roughly 20 percent of global reserves; sterling and yen 5 percent each; the RMB is under 3 percent. Gold purchases have risen.

Dollar dominance reflects the U.S. economy's size; the depth, liquidity, and openness of our capital markets; convertibility; and good property protections. U.S. macro policy, hardly stellar, is often less ugly than others. U.S. banks dominate globally. Financial networks use them and the dollar. Inertia reigns.

The euro area has many of these properties but the euro's role hasn't grown because of the limited market for euro assets, as distinct from national bonds. Next Generation EU is a beginning, but it's likely to remain largely a one-off, especially given German attitudes. Capital markets union is fledgling.

China is more control-oriented than in past years. The RMB isn't convertible. China will only hesitantly liberalize, fearing rapid opening would launch huge capital outflows. It seeks to build its cross-border interbank payments system, but that system is still small in global comparison. Further, it's unclear an investor receiving RMB in settlement would use them as a store of value. Oil priced other than in dollars has been discussed for decades, but the Saudi riyal is still pegged to the dollar.

An e-CNY won't change the picture. Its rationale is to take back the payments system from Alipay and Tencent. Nor does an e-CNY make China an open system.

The RMB's global role may likely rise in coming years, especially on increased China/Russia trade to circumvent sanctions, but not significantly.

Western action to block Russian central bank and oligarch assets surely got the attention of Chinese and Middle East officials and funds. Their willingness to hold dollars and euros could be diminished. But U.S. and European capital markets are too big to escape.

If the United States avoids overuse of financial sanctions, deploys them multilaterally rather than unilaterally, and steers clear of extraterritorial application, sanctions use will be less concerning to the rest of the world.

The dollar's dominant systemic role is a net benefit to the United States, but hardly an exorbitant privilege. Lower interest costs, seignorage, and U.S. agents shielded from foreign exchange risks are distinct pluses. But dominance is also associated with persistent trade deficits, currency overvaluation, and some adverse impacts on U.S. jobs and growth. Dollar dominance results from the characteristics of the U.S. economy, not a declaration from heaven. America's challenge is to preserve those characteristics.

If the United States abusively uses financial sanctions, closes itself off, runs bad macro policies, and undermines trust in America, it will shoot itself in the foot. The dollar's role—a messenger of U.S. failings in this scenario—could decline at an accelerated pace.

However, if America runs sound policies and others open up, boost domestic demand, and pursue responsible policies, dollar dominance would likely gradually decline, but the global and U.S. economies might benefit.

To the extent that dollar dominance withers, so too shall the multilateral trading system.

BENN STEIL
Director of International Economics, Council on Foreign Relations, and author,* The Marshall Plan: Dawn of the Cold War *(2018)

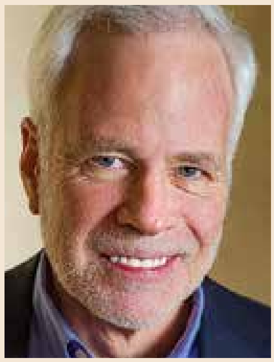
The question of whether the world is headed toward de-dollarization has heated up with recent statements from China, Russia, Brazil, Saudi Arabia, and others critical of U.S. stewardship of its currency. With the dollar having fallen to 58 percent of global reserves, down from 72 percent in 2000, the question must be taken seriously.

The biggest threat to the dollar's dominant role in the international financial system derives not from competitors, but from the U.S. government's own behavior. An obvious example is the recent debt-ceiling brinkmanship, which threatened to trigger cascading financial failures throughout the global economy. The prospect of endless replays of such reckless partisan confrontation must raise doubts about whether the "full faith and credit of the U.S. government" will continue to have meaning to investors seeking safe assets.

A second threat to the dollar derives from its ever-expanding use as a sanctions tool. Even if the track record of financial sanctions in steering the behavior of targeted entities is at best spotty, they do unquestionably inflict economic pain. The problem is that, just as an over-prescribed antibiotic fuels new bacterial strains resistant to it, overused sanctions encourage target entities, and potential targets, to avoid contact with the U.S. financial system. Avoidance may be costly, given the current paucity of safe and efficient alternatives, but such costs may pale in the face of, say, the prospect of having one's central bank reserves frozen or even confiscated—as has been threatened in the case of Russia.

What are the alternatives? The only existing currency representing a meaningful near-term surrogate for the dollar—a currency which exporters will be willing to accept and hold as a store of value—is the euro. But the euro suffers from fragmented sovereign debt markets and questions about its long-term political viability. Given China's capital controls, lack of safe asset offerings, and deteriorating legal protections, the RMB is not even a credible store of value. Its much heralded "internationalization" stalled a decade ago, when inflows based on the expectation of endless appreciation ceased.

Whereas continued dollar dominance can certainly not be taken for granted, it is important to recognize that there is simply no good alternative on the horizon. What has been called a "multi-currency" world can, as a practical matter, not be reconciled with a multilateral trading system. Countries may resort to limited barter based on gold, oil, or other commodities, but they will not willingly accumulate national currencies for which they have no practical use. And so, to the extent that dollar dominance withers, so too shall the multilateral trading system. Once countries reject stockpiling currency through current account surpluses, they must take trade-distorting steps to balance their trade relationships bilaterally. The dollar, for all its limitations as an international money, therefore represents the only viable foundation, at present, for perpetuating the post-war multilateral regime developed under the auspices of the GATT and the World Trade Organization.



China, by centralizing power in the hands of one man, has created additional headwinds for its renminbi international efforts.

BARRY EICHENGREEN
George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley

In framing this question, the editor has focused on a key determinant of international currency status. I used to put it this way when visiting China and speaking on this question (before the pandemic): Every leading international and reserve currency in history has been the currency of a political democracy or republic, starting with the dollar of course, but stretching back to the pound sterling, the Dutch florin, and the currencies of the republican city states of Genoa, Florence, and Venice. Individuals and firms engaged in cross-border transactions will hold a currency and use it for payments only when they have confidence that its issuer will adhere to the rules of the game.

Pointing to Common Law and Civil Law, as the question does, is one way of highlighting this point. But fundamentally, the issue is one of political checks and balances, investor representation in the political order, and limits on the ability of the executive (in the Chinese case the Politburo) to arbitrarily change the rules of the economic, financial, and political game.

China, by centralizing power in the hands of one man, has created additional headwinds for its renminbi international efforts. That said, renminbi internationalization is now also experiencing tailwinds, insofar as the United States has reinterpreted international law (the 2004 United Nations Convention on Jurisdictional Immunities of States and Their Property) in imposing sanctions on and freezing the reserves of the Bank of Russia. To be clear, this is not to question the appropriateness of such sanctions, given Russia's deplorable attack on Ukraine. But those sanctions come at some cost to the dollar's international currency status.

Other countries contemplating even the remote possibility that they might find themselves in U.S. crosshairs at some future date will seek to hedge their bets by exploring alternatives—by negotiating limited renminbi settlement arrangements with China, as Brazil and other countries have done, for example. But any movement away from the dollar and toward the renminbi will be slow and partial, insofar as questions about adherence to international law by the United States will continue to be dwarfed by questions about rule of law in general in the case of China.

It is questionable whether China is really a serious competitor.

MICHAEL HÜTHER

Director, German Economic Institute

The conditions for a national currency to become the world's reserve currency are, first, a large functioning internal market, second, political power and consistency, third, fiscal responsibility, and fourth, reliable institutions. The experience with the euro—which many observers expected to become the next world monetary system after its introduction in 1999—shows that the road to replacing the dollar is difficult. China does not meet all four conditions, as it has not yet fully developed its domestic market, faces a huge debt burden, and has not gained enough confidence in its institutions. Nevertheless, the current monetary system is being shaped by the increasing trend toward a multipolar world order.

The creation of a leading international monetary system is, after all, a political decision. China has few political allies who would give up their dollar reserves to depend entirely on the yuan. The dollar has been the world's reserve currency for nearly eighty years since the Bretton Woods conference, when forty-four countries agreed to adopt the dollar as the world's reserve currency. When U.S. Treasury Secretary John Connally pronounced his famous phrase in 1971, "The dollar is our currency, but it is your problem," he was pointing out the power of the dollar—and the United States—to function as a trusted institution in a strong economy and a global power. China is not expected to regain similar confidence anytime soon.

It is questionable whether China is really a serious competitor. China's zero-covid policy has failed dramatically and has shaken the confidence of global investors. The world increasingly doubts the Chinese government's ability to act in an economically rational manner, and at the same time China lacks reliable institutions to protect property rights. It appears that China's geopolitical aspirations are dominating economic rationality and causing problems in the private sector, which is facing a huge debt burden because of the geopolitical project.

Furthermore, a dominance of the yuan in international trade would lead to a trade deficit for China with many countries, which might not be in China's political interest. Moreover, it would require a functioning capital market and regulation, which China still lacks. China is not yet a fully industrialized country—it especially lacks highly specialized and state-of-the-art industrial production and has less innovative power than countries of the West. IMF forecasts predict decreasing growth rates of the Chinese economy to between 3.3 percent and 4 percent in 2025 to 2028. Therefore, it is unlikely that China will overtake the United States as the strongest global economy anytime soon.

Also, the war in Ukraine might affect China's goal of expanding its currency against the dollar: Russia reduced its dependency on the dollar as foreign currency. These changes in its portfolio might also influence Chinese currency because Russia has invested more in the yuan and less in the dollar for several years by now. Currently, Russia is handling its trade and currency exchange mainly via the yuan. On the one hand, Russia is economically relatively small to really affect the world demand for U.S. currency. On the other hand, due to the increased Russian usage of Chinese currency, China needs to hold more U.S. dollars in reserve to keep its currency stable against the dollar and if it wants to control further the yuan-dollar exchange rate in offshore banking centers.

In all, China is challenging the United States not only in terms of industrial policy and geopolitics, but also in terms of its currency. Its great influence on the raw materials and resources sector gives China global influence on the currency market. Thus, we will see a more multipolar currency order in the future, with less dominance of the U.S. dollar in international transactions. More trade with China will strengthen the yuan and eventually promote yuan-based payment systems as an alternative to systems such as SWIFT. However, as the United States will remain the world's leading economic power in the medium term, the U.S. dollar will remain the world's most-in-demand currency. This becomes even more likely the more the United States uses and strengthens the alliances of the transatlantic West.

There is a huge perception gap on this issue.

CHEN ZHAO

Founding Partner and Chief Global Strategist, Alpine Macro

The popular narrative in the Western media of late is that China is trying to undermine the rules-based world order and replace it with Beijing's rules. I have tried to find where, when, or exactly what China's leaders have said in terms of such statements or even suggestions. What I have found is that the Chinese government's official line has been consistent: Beijing wants to safeguard the post-World War II order, stick to multilateralism, and oppose unilateral changes in rules and orders that govern the UN member countries.

Clearly there is a huge perception gap on this issue. From Beijing's perspective, it is the United States that often arbitrarily and unilaterally changes the rules-based world order whenever the rules are no longer suitable to America's interests. It is the United States that has launched the trade war, cracked down on Chinese tech companies under the pretext of national security without any proven evidence, and threatened to withdraw funding to the World Health Organization at the height of the Covid-19 pandemic.

It is also Washington that snubbed the World Trade Organization's ruling that America's 2018 steel and aluminum tariffs violated America's WTO obligations. Even today, U.S. Trade Representative spokesman Adam Hodge has rejected following the World Trade Organization's ruling by saying that the United States "… will not cede decision-making over its essential security to WTO panels." If we're going to accuse Beijing of breaking rules, we need to be even-handed and fair on both sides.

From a practical viewpoint, China has been a huge beneficiary of the "rules-based order" for the past forty-five years. Why would Xi Jinping, or any Chinese leader, want to abandon that? Harvard University's Alastair Iain Johnston has shown that China not only accepts but often defends most principles of the existing order, although this does not mean that China agrees with all of them. That situation may change in the future, but even a vastly more powerful China would seek to retain the features of the present rules in order that they serve its interests, while modifying others that don't.

On de-dollarization, many regard Beijing's efforts to reduce the use of the dollar as an effort to dethrone the dollar as a global reserve currency. I don't think Beijing is that stupid. The dollar is used for over 85 percent of global trade and financial transactions, and accounts for 65–68 percent of global reserves, while China's yuan takes up a paltry 5 percent in both trade settlements and global reserves. The math does not work for China to dethrone the dollar, even if China wants to.

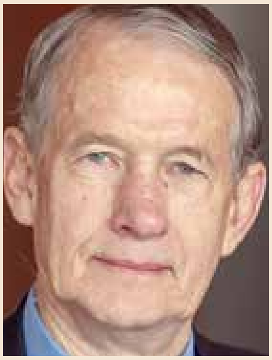
Since the Russian invasion of Ukraine, there has been heightened concern in Beijing that the United States could easily weaponize the dollar and the Western financial system against China, as the G7 has done to Russia. With close to $1 trillion in Chinese sovereign funds still parked in U.S. Treasury paper and another $1 trillion invested in other G7 markets, Beijing is very concerned that the vast amount of Chinese wealth, both sovereign and private, that is currently stashed in the West is at risk of confiscation should geopolitical tensions continue to escalate.

As a de-risking strategy, China is naturally trying to reduce the use of G7 currencies in its bilateral trade arrangements with countries that share similar concerns. Of course, such an effort may undermine the dollar's role as the global reserve currency on the margin, but it will be a long, long way to go to dethrone the dollar, if ever at all. After all, the Chinese currency is not fully convertible, and rules and regulations on the Chinese financial system are subject to arbitrary changes. This is not to mention that the Chinese economy is not a rules-based system where commercial laws and their enforcement are all questionable. All of this determines that the Chinese currency will not become a key global reserve currency at any time soon.

De-dollarization won't happen as Chinese President Xi Jinping thinks.

GENE CHANG
Emeritus Professor of Economics, University of Toledo, and former Co-editor, **China Economic Review**

De-dollarization won't happen as Chinese President Xi Jinping thinks. The dollar's role as the international reserve currency is the result of supply and demand in the international currency market, not because of the American's military or political power. The demand for dollars by international buyers is also based on their trust of America's independent central bank system, accountable financial system, and rule of law. The RMB lacks these conditions.



Perhaps by 2050, a majority of Americans will view dollar dominance as more burden than blessing.

GARY CLYDE HUFBAUER
Nonresident Senior Fellow, Peterson Institute for International Economics

The dollar will lose global dominance, if it does, through self-inflicted injuries. Let us count the ways. Invoking the antiquated 1917 debt limit statute, a future U.S. Congress could trigger a prolonged default, creating havoc in the $30 trillion Treasury market and disrupting the U.S. economy. Massive instant injury. More likely, Congress could indulge its failure to align spending and revenues, provoking higher interest rates on Treasuries and eroding federal finances. Slow long-term injury. Or Congress might retire Ben Franklin in a sanctimonious effort to inconvenience tax evaders and money launderers. Retail injury.

Not only Congress, but also the president, might undermine dollar dominance. A future president might go overboard with sanctions, sparking global doubt over the sanctity of central bank reserves and the reliability of dollars for world trade and capital transactions. Or a future president might let a bank run rip, pleasing the moral hazard crowd by devastating millions of depositors.

Individually, the likelihood of any one of these injuries is remote. Collectively, the probability of one or more injuries becomes worrisome, especially over a period of decades rather than years. In fact, the probability of self-inflicted injury is more worrisome than the probability of China making the RMB a global currency or bitcoin replacing the dollar. The longer the time horizon, the less assurance of dollar dominance. The ranks of commentators endorsing assisted suicide could grow. Perhaps by 2050, a majority of Americans will view dollar dominance, like the demands of global leadership, as more burden than blessing. Most unfortunate, but possible.

China's currency does not instill trust. But trust is the essence of money.

THOMAS MAYER
Founding Director, Flossbach von Storch Research Institute, and former Chief Economist, Deutsche Bank Group

Perhaps the first international reserve currency was the Roman silver denarius. It was introduced around 211 before Christ's birth and used for about half a millennium as a means of transaction, unit of account, and store of value in the Roman Empire that stretched over the entire western world. The denarius was attractive because of Rome's geopolitical reach, its military power, its economic strength, and its reliable legal system. When economic strength and military power weakened, the state diluted the silver content of the coin. Its purchasing power faded and its attractiveness as a reserve currency declined. And so did Rome.

In the nineteenth century, the British pound sterling ascended to the status of an international reserve currency.

The United Kingdom had already benefited from the rule of law for a long time. But with the industrial revolution and its global empire, the United Kingdom gained the additional advantages necessary for the issuer of an international reserve currency, which Rome and the Roman denarius had enjoyed. The pound became the center currency of the gold standard. And like the denarius, it lost its status as international reserve currency when World War I left Britain and the rest of Europe economically and politically emasculated. The beneficiary of the war was the United States, which ascended economically and politically in its aftermath. The U.S. dollar took over from the pound sterling.

For the dollar to follow the path of the denarius and the pound, the United States would have to lose its economic and military power, and succumb to its challenger on the global stage, China. This is unlikely. Contrary to the belief of its leadership, China is unlikely to surpass the United States in economic and military power because of its increasingly totalitarian political system. For, as Marcus Tullius Cicero recognized, the wisdom of many in a pluralistic society is far superior to the wisdom of one in a totalitarian dictatorship. Hence, if it does not make a radical political change towards a pluralistic social and political system based on the rule of law, China is unlikely to surpass the United States. It may not even catch up with it. Moreover, a totalitarian state is unlikely to attract the followers that are needed for geopolitical leadership. Like its politics (for example, in Hong Kong and towards Taiwan), its currency does not instill trust. But trust is the essence of money. Hence, as long as the United States remains a liberal state with sound finances based on the rule of law, the dollar will remain the world's preferred currency.

The United States still seems the better long-term bet.

JOHN LEE

Senior Fellow, Hudson Institute, and former Senior National Security Adviser to the Australian government

Consider the reason why the U.S. dollar retains its dominance despite the declining U.S. share of global GDP and ongoing concerns about the size of U.S.-denominated debt, not to mention the divisive politics in Washington.

For starters, the greenback is fully tradable on international foreign exchange markets. There are no capital controls restricting the purchase or sale of the dollar. With the deepest and most developed financial and debt market in the world, buying and selling the greenback is easy, efficient, and transparent.

This immediately restricts the capacity of alternatives such as the Chinese RMB to assume the role of genuine global currency, let alone the dominant one. Given its determination to capture national savings and retain central control over the country's deployment of capital, Beijing is committed to a closed capital account and cannot risk RMB fleeing the country. Paranoid about instability resulting from the ups and downs of a liberalized economy and resulting fluctuations in the value of its currency, it will not allow full convertibility of the RMB.

Nor will the Communist Party allow the unrestricted issuing of corporate bonds and other forms of private debt, preventing the emergence of deep and diverse financial markets inside China. Under these circumstances, why would one buy RMB except to trade directly with, or invest in, China?

Moreover, the dominant global reserve currency must serve as a safe store of value and as a way for governments and private entities to park and protect accumulated wealth—especially as geostrategic and economic tensions rise globally. Geopolitically, the United States will remain the leading global material power for some time. Even those who admire Beijing's model would have doubts about the long-term security of their capital. Those praising the supposed superiority of China's authoritarian political economy and predicting the RMB will become the dominant global currency would nevertheless be reluctant to park the bulk of their personal assets in China and in RMB-denominated assets. That speaks volumes.

None of this is to play down America's political and debt problems. But if the U.S. dollar is to be dethroned, what are the alternatives if not the RMB? What about the euro? The problem is that the future of the European Union is less certain than that of the United States. Will Brexit be the last time an EU member leaves the economic bloc? There are significant anti-EU movements in countries such as Sweden and the Netherlands. Even if all continental members stay put having observed the trauma that Britain is going through, the problem for the European Union remains: it is a common monetary and customs union for a motley bunch of sovereign countries with different institutions, attitudes, economic policies, and standards of living and national debt. On almost every sensible long-term risk measure, the United States (and therefore the stability and demand of its currency in the long term) still seems the better long-term bet.

The only conceivable way in which the yuan might play a significantly bigger role would be if the world trading system truly fragmented.

ANNE O. KRUEGER

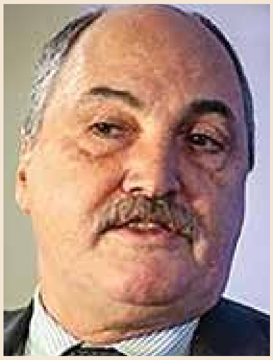
Senior Research Professor of International Economics, Johns Hopkins School of Advanced International Studies, and former First Deputy Managing Director, International Monetary Fund

When the euro was established as a currency, many analysts forecast that it would challenge the U.S. dollar as the premier international currency. Although the euro's role increased relative to the dollar by a few percentage points, it did not replace the dollar and there was no de-dollarization. The dominance of the dollar was slightly reduced, but only slightly.

The U.S. dollar is still the currency used in 43 percent of international transactions. The euro's increased use is mainly within the euro area. But the dollar is the currency in which 60 percent of reserves in the world economy are denominated; it is also the currency of choice for 60 percent of international loans that are not made in domestic currency, an equal percentage of the holdings of international reserves, and 35 percent of the forty-nine largest commodities (as measured by their value in international trade).

Chinese capital controls are obviously a barrier to any significant role for the yuan in the international economy. While removal of capital controls would be necessary, it is far from sufficient. As the experience with the euro indicates, the dollar is not easily displaced. It is hard to imagine any country with a fully open capital account decreeing that exporters would need to invoice in yuan; the switchover for exporters would entail significant costs and no obvious benefits. And importers in the country would still find the invoices they had to pay denominated in dollars. It is also difficult to imagine commodity brokers making the switch.

About the only conceivable way in which the yuan might play a significantly bigger role (after capital account opening) would be if the world trading system truly fragmented into a Chinese bloc and the rest of the world. That fragmentation would entail such high costs for each side that the costs of the yuan as a currency for the Chinese bloc would be low by comparison.



Announcements of the dollar's demise qualify as entertainment more than analysis.

JAMES A. LEWIS

Senior Vice President and Director, Strategic Technology Program, Center for Strategic and International Studies

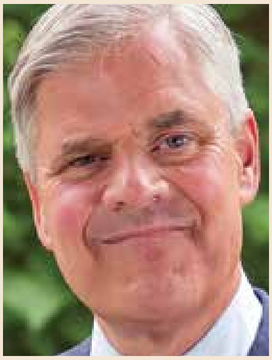
In March 2023, President Xi Jinping declared his determination to create a China-centric world order. This can best be described as naively optimistic. It exposes a central tension in China's thinking as well as a fundamental misunderstanding of the basis of American power by China.

Lee Kuan Yew, Singapore's leader for years, talked about the innate advantage the United States had over China, saying essentially anyone can become an American but one can only be born Chinese. Other factors reinforce America's appeal. China's size and wealth brings money and attention, but few immigrants. Language is a benefit, as English is easier to learn than Mandarin. The rule of law helps, something America shares with other democracies. If you don't like a decision, you can always sue and you have a fair chance of winning. No one sues the Chinese government because the outcome is a foregone conclusion and it can be dangerous if you live there. America is transparent, sometimes exasperatingly so. Its noisy debates over policy are unmatched in China, but its transparency makes it easier for the financial community to assess risk and ultimately leads to better policy. In China, financial data is a state secret, in part because Beijing tweaks the numbers to serve its interests. America's debt is impressive, but it is less than China's. All of this, plus America's size and wealth, make the dollar appealing, at least more appealing than the renminbi. Call this soft power if you wish, but people find America attractive and that is an important source of its power and the appeal of the dollar.

The dollar is a big part of any central bank's holdings (roughly half of all foreign reserves, compared to 2 percent for China), but so are the euro, the yen, the renminbi, and others. This is not a rigid gold standard where a dominant currency sets the value of others. There are advantages in diversifying currency holdings if the goal is to be a store of value. There are also advantages for international trade in using a single currency as a unit of accounting. A global currency must sit at the intersection of being a store of value and a unit of exchange if it is to win acceptance. The dollar has occupied this spot for decades but it is only *primus inter pares.*

This could change of course, but not by much. Sanctions lead countries to hedge. Shrewd CFOs have also learned to hedge their bets so as not to be caught out by currency fluctuations. The appeal of "de-dollarization" (awkward term) is political, not financial, as countries are annoyed by the U.S. penchant for sanctions and seek to undermine the wicked hegemon. Frankly, those pursuing de-dollarization are a scruffy lot and unlikely to inspire the confidence needed to be a reserve currency.

De-dollarization makes a good story, the dollar's share will shrink over time, but the mistaken trope of American decline is useful only for providing cheap drama and to satisfy wishful thinking in some capitals. That means announcements of the dollar's demise still qualify as entertainment more than analysis.



The jury is out on whether the U.S. political landscape can continue providing the necessary preconditions.

ANDREAS DOMBRET

Global Senior Advisor, Oliver Wyman, former Member of the Board, Deutsche Bundesbank, and former Member of the Supervisory Board, European Central Bank

For several decades, the U.S. dollar has enjoyed the privilege and burden of being the world's dominant reserve currency. Close to 80 percent of international trade is settled in dollars, according to the Federal Reserve. The depth and liquidity of U.S. dollar capital markets is second to none, making them a prime target for international investors. Same for sovereigns: While the share of international central bank reserves held in dollars has declined to 59 percent, it has increased in absolute terms. Some countries within geographical vicinity to the United States with less stable currencies of their own are dollarized. Resource-rich economies in the Middle East have pegged their currency to the dollar since most of the oil trade is priced and settled in dollars. The dollar's position remains strong and important, allowing the United States to benefit from a *privilège exorbitant,* as former French President Valéry Giscard d'Estaing put it.

Not only does the United States enjoy the economical benefits of this privilege, which among other things allows the country to run large deficits and debt levels. The United States also leverages the dollar dominance and the global attractiveness of its capital markets to influence international policy, including the extraterritorial application of U.S. law. Examples include the enforcement and surveillance regime introduced with the "war on terrorism," the international reach of U.S. tax policy (while taking the liberty of not joining the initiatives they started themselves, such as cross-border tax transparency), and exclusion from the U.S. financial system as a sanctions tool. In the emerging multipolar world, it is natural for those countries that do not count themselves as part of the "Western free world" to think of alternatives to reduce their dependence on the U.S. financial system, its currency, and ultimately its legal system and politics. This might be further supported by the relative decline of the United States' importance as economic power, given the rise of others, notably China.

History has shown that the dominance of a currency is nothing that lasts forever. Before the dollar, the British pound had the role of the predominant reserve currency. But the rise of the United States as an economic power and the fact that the United Kingdom was on the verge of bankruptcy due to two world wars caused the pivot to the U.S. dollar. It shows the strong link between political and economic power and the attractiveness of a country's currency. The dollar losing its predominant position would therefore come together with a pronounced decline of the United States as economic force. However, it also shows that a reserve currency is not created by decision. The prime example is the euro. While the euro has a firm spot as the second most important reserve currency (20 percent of global reserves, having declined from 28 percent in 2009) and despite the intentions of EU policymakers, it is unlikely that the euro gains more importance globally, simply given the constrained political and declining relative economic power of the European Union.

People hold the currency that allows them to access the most liquid and diversified investment universe and allows them to buy most goods and services. According to the International Institute for Management Development, the United States is ranked first in overall competitiveness and economic performance. The United States is home to the some of the world's most innovative companies that have easy access to financing. Immigrants of all skill levels see the United States as one of the most attractive destinations, with the country, despite all issues, also being able to integrate them. At the same time, those countries emerging as economic superpowers have increasing issues attracting foreign labor, if ever desired, not only because of the lack of a liberal policy environment and society within. While being under U.S. influence can at times be painful, the alternatives are not any better, as the recent experience of China's debtor countries shows. The geopolitical uncertainty in Asia also seems to push countries closer to the United States.

With great power, however, comes great responsibility. In the end it is the attractiveness of the U.S. economy as well as international and domestic policy that are the basis of the importance of the U.S. dollar. It is therefore in the hands of the United States whether they can retain their role or not. This requires stability and investment. The jury is out on whether the U.S. political landscape can continue providing the necessary preconditions.

If fiscal, trade, and geopolitical instability grow, the picture could become more uncertain.

LUDGER SCHUKNECHT

Deputy Secretary-General, Organisation for Economic Co-operation and Development, and former G20 Deputy and Chief Economist, Federal Ministry of Finance, Germany

Ten years ago, when the internationalization of the renminbi became a relevant topic, most commentators were positive about the prospect of a multipolar global currency system with a strong, if not dominant, dollar. I still believe that the diversification of currency use in trade, investment, and reserves can proceed as a broadly benign process if we avoid major policy errors and further geopolitical divisions.

The future role of the U.S. dollar will depend on a number of supply and demand factors. The dollar will continue being an attractive currency for trading, investing, and storing one's wealth if the United States remains a strong economy with sound macroeconomic and growth fundamentals, and if it maintains a predictable and open policy environment. Sustainable public finances should also be a high priority for maintaining confidence—this prerequisite for global currencies seems quite underappreciated. The safety, liquidity, and accessibility of dollar assets would underpin the attractiveness of the dollar and the insurance value of dollar reserves.

The stability of the global economy and geopolitics—and related safe-haven demand—is another important factor determining the role of the dollar. U.S. economic and institutional strength and its dominant position in global financial markets preserves the anchor role of the dollar and boosts safe haven flows in times of turmoil. It significantly reduces the risk of an abrupt shift in sentiment against the dollar, especially in a crisis-ridden world.

The future role of the dollar also depends on the strengths of its potential "competitors." There are some stable and highly regarded currencies such as the euro, pound, yen, and some others. But these currencies are not likely to play a dominant role in the future, either because the underlying economies are too small and/or the prospects for debt sustainability, finances, and the economy are too mixed. During the past decade, the renminbi has made some inroads, notably regarding international trade, and this currency will probably gain a firmer place in diversified international portfolios. However, the lack of convertibility, institutional challenges, and geopolitical uncertainty are limiting factors.

All in all, I would predict that governments and international investors will increase somewhat their relative exposure towards non-dollar currencies, including the renminbi, over the medium term. This tendency will be stronger the better the record and prospects of dollar alternatives are. Sound, open U.S. policies would counter this effect. However, in the long run, and if fiscal, trade, and geopolitical instability grow, the picture could become murkier and more uncertain.

Four factors are nibbling away at the dominance of the dollar.

HOLGER SCHMIEDING

Chief Economist, Berenberg

Money must be based on trust. China's red emperor may go to great lengths to entice or coerce his country's trading partners into ditching the U.S. dollar in favor of the renminbi for trade and commerce. Like-minded autocrats may happily go along. But as long as the United States does not debase its own currency by fiscal suicide, the greenback will remain the dominant currency for global payments and, even more so, for global reserves.

Admittedly, four factors are nibbling away at the dominance of the dollar. First, China has turned itself into the world's second-largest economy. Although the renminbi is not fully convertible, it thus plays a small but rising role on global markets. Second, the necessary pursuit of financial sanctions against brutal aggressors such as Russia has sent other potential troublemakers scrambling for alternatives to dollar-based payments. Third, digital payments systems can make it less costly to transact in smaller currencies than the U.S. dollar, especially if the U.S. Federal Reserve does not offer its own digital money. And fourth, crypto assets can take on some aspects of the role of the U.S. dollar as a convenient alternative to the bad domestic currency in countries plagued by high inflation and financial instability.

But neither any crypto currency nor the renminbi come close to the scale and depth of the dollar-based financial system, which has earned the trust of the world over many decades. Despite shedding some of its erstwhile dominance, the U.S. dollar will not lose out to the yuan. A renminbi-based system, in which one man with almost unconstrained power can set and discard the rules as he sees fit, cannot inspire the trust that emanates from the U.S. legal system, its constitution, and its Supreme Court as the ultimate arbiter of legal disputes.

In addition, China is nowhere close to overtaking the United States as the world's strongest economy and top destination for exports. China's trend growth is slowing down sharply, exacerbated by more government meddling at home, imperial overstretch abroad, and an expensive armaments drive. Whereas the working-age population is declining in China, it continues to expand in the United States. Growing old before it has become rich, China faces bigger social and fiscal problems than the United States.

The relative strength of the U.S. economy and the merits of its rules-based system will continue to underpin the role of the U.S. dollar as the pivotal currency of the world for the foreseeable future. ◆

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