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De-Dollarization: The Harbinger of a New Globalization Architecture?

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Abstract

Western countries' imposition of economic sanctions on Russia, as a result of the Russia-Ukraine conflict, and the imposition of sanctions on China, has unleashed a number of unexpected economic and geopolitical outcomes for the global economy. It has fostered the creation of a new economic and geopolitical multipolar global architecture, creating the "perfect global economic and geopolitical storms", such as the renewed effort to dethrone the U.S. dollar as the world's leading reserve currency. This paper discusses the main implications of a new global economic and political architecture, one in which the U.S. dollar will be playing a lesser role in global economic and financial markets.

Keywords

De-Dollarization, BRICS, Multipolar, Inflection Point

1. Introduction

In 2023, the global economy is going through a fragmentation process, deeply challenging and restructuring the current globalization process. The increasing economic might and geopolitical influence of the so-called emerging economies is challenging the global economic status-quo. The recent 2023 G7 Summit showcased the group's increasing concern with the rapid economic growth and increasing global geopolitical clout of China, and the ongoing Russian-Ukraine conflict (Golubkova & Irish, 2023; Martin, 2023).

One dimension of this mosaic of unexpected economic and geopolitical outcome of sanctions on Russia has been the increasing call for a lesser role of the U.S. dollar in global trade and financial transactions, i.e., the de-dollarization of the global economy (Brooks & Wohlforth, 2023; Earle, 2023).

Thus, the imposition of economic sanctions on Russia, as a result of the Russia-Ukraine conflict, has unleashed a number of unexpected economic and geopolitical outcomes, such as the increasing collaboration of Russia and China, and the fragmentation of global economic alliances, where a number of countries have refused to go along with Western countries in imposing economic sanctions on Russia. For instance, China's and Russia's "no limits" relationship has increased since the Russia-Ukraine conflict. In 2023, it is expected that bilateral trade between Russia and China will reach US$ 200 billion in 2023, up from US$ 147 billion in 2021. In 2023, Russia has become China's fastest-growing trading partner (Hawkins, 2023; He, 2022; Wang, 2023).

However, a number of countries have not supported the sanctions against Russia. For instance, countries like India, Pakistan, Sri Lanka, South Africa, Brazil, United Arab Emirates, and Mexico are some of the countries that kept normal trade relations with Russia. A new geoeconomics and geopolitical map of alliances has been drawn, showcasing the gradual decline of Western countries' political and economic leadership in many continents around the globe (Adams & Solomon, 2022; Baxter, 2023; Bedford, 2022; European Council, 2023; Mason, 2023; Metzel, 2023).

This paper will explore and discuss trends and implications for a lesser role of the U.S. dollar in the global economy.

2. The De-Dollarization Trend

The U.S. dollar has been used as one of the world's reserves currency since 1921. After the Bretton Woods Agreement and System of 1947, the U.S. became the world's premier global currency reserve, reinforced by the creation of the "Petrodollar" in 1973, when the agreement between OPEC, Saudi Arabia and the United States came into effect to sell oil exclusively in U.S. dollars. This agreement further solidified and expanded the ubiquity of global trade and global financial transactions using the U.S. dollar. In the last decades, the U.S. dollar hegemony, dominance, and control of financial channels such as SWIFT further solidified the hegemonic role of the U.S. dollar. This pervasive presence of the U.S. dollar in global trade and financial markets further enhanced the role of the U.S. dollar. Offering the U.S. economy a number of unparallel benefits, the so-called "exorbitant privilege" (Arslanalp, Eichengreen, & Simpson, 2022; Blinder, 1996; Cem, 2015; Corso & Sangiacomo, 2023).

In 2023, the U.S. dollar still carries a substantial lead over other currencies when comes to the Global Currency Reserve Quadruple Helix. Clearly, any currency that intends to displace the U.S. dollar will have to have these four dimensions and impacts on the global economy: 1) global financial markets, 2) international trade payments and receipts, 3) public foreign exchange, and 4) private foreign exchange (Giustra, 2023; Hirst & Tokatlian, 2023).

For instance, the U.S. dollar still plays a key role in global financial and trade markets (Baxter, 2023; Nelson & Sutter, 2021). For instance:

1) In 2023 the U.S. dollar is the world's dominant means for international trade transactions. The U.S. dollar plays a key role in the SWIFT global payment system. Close to 42% of all payments are in U.S. dollar denominated, while the Chinese currency only accounted for 2.4% of SWIFT payments.

2) The U.S. dollar is also the world's leading invoicing currency, accounting for more than 90% in the Americas, and close to 75% in the Asia-Pacific region, and close to 79% for the rest of the globe.

3) The U.S. is still perceived as a safe haven, inducing a number of Central Banks to use it in their foreign reserves, and close to 65 countries peg their currencies to the U.S. dollar perpetuating the U.S. global dominance.

4) The U.S. Fed has also undertaken the cost of supporting the global financial system, as it was the case during the COVID-19 pandemic when it provided U.S. dollar liquidity, stabilizing global markets.

The displacement of Western Economies as the epicenter of the global economy, the growing economic and geopolitical influence of BRICS countries and other emerging economies, are gradually threatening the U.S. dollar supremacy. In 2023, the U.S. dollar is still the world's leading currency, however, the global economy has become more complex, multipolar in nature, leading to a natural competition between emerging currencies, such as the Chinese Renminbi, and the U.S. dollar. Moreover, the arrival of Central Bank digital currencies and new creative financial systems and pathways creates a more challenging global environment for the U.S. continuous hegemonic stature (Hirst & Tokatlian, 2023).

It is also important to mentioned that from a historical perspective, the decreasing importance of the U.S. dollar in the global economy is not a new development. For instance, the British Pound was the world's leading currency between 1815 and 1920, with France's Franc playing a similar role between 1720 and 1815. Thus, it is clear that reserve currencies have had a shelf life. The British Pound ruled the global economy for 105 years, the French Franc for 95 years, and the Dutch Guilder for 80 years. The U.S. dollar has been the world's leading reserve currency for about 86 years now (Payne, 2023).

Is the U.S. approaching the end of its "shelf life"? Clearly, the de-dollarization process will not happen overnight. Several countries, including some of the BRICS countries, still have strong ties to the U.S. and have a large amount of dollars in their bank reserves. On the real economy side, we have advantages for the U.S. dollar over other currencies, such as: 1) being the preferred reserve currency in international trade transactions for the invoicing and pricing setting of goods and services, and 2) on the funding side the U.S. dollar is largely used in finance and in bank deposits for instance, and 3) investors also see the U.S dollar as a safe haven (Liu & Papa, 2022).

The global "inertia" for having the dollar as the hegemonic global currency, however, is coming to an end. The increasing weaponization of the U.S. dollar is one the reasons behind countries de-dollarizing trend. For instance, the share of the U.S. dollar has fallen from 73% in 2001 to 55% in 2020, and since 2022 its share has been reduced to 47%. Clearly, the de-dollarization is happening at much faster rates than in the previous decade (Tayeb, 2023).

The U.S. has its own share of blames in creating a new momentum for the de-dollarization global trend. The 2008 sub-prime loan crisis leading to a global financial crisis, the Federal Reserve stimulus packages of the COVID-19 pandemic and the subsequent financial tightening have all led to an increasing global mistrust on U.S. dollar. Moreover, countries like China have replaced the U.S. as the leading trade and investor in many countries such as Latin America, Africa, and Asia. Moreover, the relative share of the U.S. economy in the global GDP is currently smaller than it used to be a few decades ago (Richter, 2023; Shen & Liu, 2023).

The emerging trend to de-dollarize is becoming mainstream, with even France stating that it will lower its reliance on the U.S. economy. A number of recent initiatives by the U.S. are reinforcing this trend: 1) the U.S.' use of economic sanctions and global reach jurisdiction that excludes countries, companies, and individuals from the global financial system, 2) the freezing and seizing of foreign assets without due process and 3) prohibiting a number of countries such as Russia, from utilizing SWIFT, is further alienating a number of countries afraid that they could be the next target of the U.S. and other Western countries.

Are statements regarding the de-dollarization premature? Are countries more interested in reforming the current system or in creating a parallel system? It is clear, that the different pathways towards de-dollarization have different impacts and different time-lines as well (Luft, 2023).

Are we unleashing a Bretton Woods 2.0 system? One in which, the U.S. dollar no longer plays the role of the global hegemonic reserve currency?

It is clear, that the share of the U.S. economy in relation to the global GDP has diminished in the past two decades. And it is also a question of the U.S. dollar's shelf life length. As countries move away from the U.S. dollar, the U.S. economy will feel the impact, domestically and globally. Trying to "cling on" and defying historical currency hegemony cycles will not be feasible for the U.S. How the U.S. will react to a smaller role in the global economy will define and shape the next rounds of globalization and the further fragmentation of the global economy (Telle Report, 2023; Don, 2023).

The U.S. dollar may be joined by a number of currencies in global markets, following the multipolarity nature of today's global economy. In other words, we may be entering in a world of "currency multipolarity" or a "multi-reserve currency regime", where the U.S. dollar will be part of a group of floating currencies. In this scenario, we could envision the global economy fragmenting along the lines of regional currencies. This new currency regionalization process could potentially create a new trend towards currency protectionism, where regional economic powers will enforce the use of their own currencies over the U.S. dollar, thus benefiting from the financial privileges enjoyed by the U.S. economy today. This time, instead of the U.S. being the hegemonic reserve currency, reaping the monopoly rents as a result of its dominant role in international trade and international financial transaction, a group of new regional currencies would join in. Thus, the U.S. dollar would play a regional role, as other currencies would, such as the Chinese RMB in Asian, African and Latin American markets. And the Euro plays a leading role in the European markets and in African markets. Other emerging currencies such as the Ruble and the Rupee are also bound to play larger roles in their own respective regional markets (Demarais & Dollar, 2023; Earle, 2023).

This gradual decline in the global role of the U.S. dollar will solidify the multipolar nature of the global economy and the global financial system. It is expected that trade and settlement operations and transactions with the U.S. dollar will be the first dimension of the U.S. dollar hegemonic status will be felt, with gradually low levels of demand for the U.S. dollar. If the U.S. dollar is no longer the world's leading reserve currency, can China's RMB become the next contender in a multipolarity currency fashion? (Giustra, 2023).

China, however, lacks a sophisticated financial infrastructure and the pressures deriving from China's domestic interest rates and its exchange rate policy could lead to financial market's instabilities in China. Thus, capital inflows and outflows could have severe impacts on the appreciation or depreciation of the Chinese currency, amongst other risks. Chinese financial institutions still have a very low exposure to global financial markets limiting the use of China's currency as a potential global reserve currency. Moreover, China was able to avoid the 2009 global financial contagion as a result of its capital control policies. In 2023, the global economy is facing a number of macroeconomic instabilities that could potentially affect China's economy and to its financial markets. The full conversion of China's currency faces additional barriers such as trade protectionism, capital controls, and a lack of sophisticated domestic financial markets (Shen & Liu, 2023; Liu & Papa, 2022).

Recent efforts by China and by its trading partners such as Russia, Brazil, Saudi Arabia amongst others, to engage in currency swap agreements faces the reality that these countries participations in China's overall trade are still small, compared to countries such as the U.S., EU, and Japan. The U.S., the EU, and Japan account for more than 30% of China's total exports in 2022. This high share of Western countries in China's total exports impose limitations on China's quest for de-coupling from Western economies, and inducing China to still rely on the U.S. dollar and Euros for a substantial share of its total trade (Norton & Hudson, 2023; Luft, 2023).

Moreover, in 2020 China's currency accounted for only 2.2% of SWIFT's, compared to 41.8% for the U.S. dollar, and 36.3% for the Euro, respectively. The same small share for the Chinese currency is present in Central Bank's foreign reserves. For instance, the Chinese currency accounts for approximately 2.7% of Central Bank's foreign reserves, compared to the U.S. dollar's 58.3% and the Euro's 20.7%. China would have to stop pegging its currency to dollar and would have to allow its currency to "float" against other currencies, including the dollar, and eliminate capital controls, if the RMB is to become one of the global reserve currencies (Shen & Liu, 2023).

3. Western Countries' Sanctions on Russia and on China

One of the main drivers of the de-globalization trend is related to the imposition of economic sanctions on both Russia and on China. The weaponization of the U.S. dollar and the Euro has made countries around the globe rethink their dependency on the U.S. currency.

Russia has been the object of massive Western Countries' economic sanctions since the 2014 invasion of Ukraine. The 2022 Russia-Ukraine conflict generated a new round of economic sanctions by Western countries on Russia. The 2023 G7 Summit reinforced and expanded the reach and depth of Western countries sanctions against Russia. Western countries sanctioned close to 44 billion Euros in exports to Russia and have sanctioned close to 91 billion Euros in imports from Russia (Atlantic Council, 2023; Hass & Denmark, 2020; Mark & Robert, 2023; Nolsoe & Pop, 2022).

More recently, there has been a drive to use confiscated Russian assets to pay for the rebuild of Ukraine. Still, under international law the transfer of assets from a country or its citizens is not legal, and state immunity is a well-established principle of international law. The seizure and forfeiture of Russian assets have taken different forms and approaches, from freezing of assets to the confiscation of Russian assets and taking permanent title of these assets (Nolsoe & Pop, 2022; Atlantic Council, 2023, European Council, 2023; Peegel, 2023; Golubkova & Irish, 2023; U.S. Department of the Treasury, 2023a).

Here is a list of economic sanctions imposed on Russia by Western countries:

1) Financial sanctions: a) Western countries have frozen Russian Central Bank assets in Western European countries, in the range of 300 billion Euros, b) A number of Russian banks have been removed from the SWIFT system of payments, c) Russian banks and Russian firms have had their assets frozen, in the range of 21.5 billion Euros.

2) Coal, Oil and Gas, and Diamonds: a) The European Union stopped buying Russian coal, oil, and gas imports; b) Germany stopped the opening of the Nordstream 2 gas pipeline, c) Western countries imposed a price cap on Russian crude oil exports, and d) The Nordstream 2 gas pipeline was severely damaged and disrupted.

3) Export Controls: Industrial Machinery, tools, and Technology useful to Russia's conflict with Ukraine will be the object of export controls by Western countries.

4) Targeting Russian Individuals and Oligarchs: Close to one thousand business people and businesses have been the object of economic sanctions by Western countries. Their assets in Western countries have been seized, and visa agreements and privileges between Russia and Western countries have been suspended or revoked.

5) Western Multinationals Suspended Operations in Russia: A number of Western multinationals have suspended operations in Russia, a number of dual-use goods and technologies exports have been banned from the Russian market.

6) Flights Banned from Russia and to Russia from Western Countries: A ban on Russian airlines flights to Western Countries.

The main target of Western countries sanctions on Russia was related to Russia's major exports: natural gas and oil. For instance, in 2020 the European Union sourced close to 40% of its natural gas from Russia and close to 23% of its oil imports from Russia. By the end of 2022, the share of Russian gas imports as a share of total European natural gas and oil imports had fallen to 15% and oil imports to 14%, respectively. UK's fossil fuel imports from Russia were close to 4.5 billion pounds in 2021, by January 2023 it was down to 1.3 billion pounds. (Metzel, 2023; The Spectator, 2023; Telle Report, 2023).

The increasing rise of China's economic and geopolitical power has also sent shockwaves throughout the global economy. Western Countries, especially the U.S., have introduced policies and sanctions aimed at slowing down China's quest to become the world's leading economy (Demarais & Dollar, 2023; Dinar Recaps, 2023; Hass & Denmark, 2020).

For the past decade the U.S. has intensified its economic sanctions against China. In 2023, the increasing U.S. support for Taiwan region has escalated tensions between the two countries. Moreover, the Chinese support for Russia, side stepping Western countries economic sanctions against Russia have aggravated the diplomatic and economic climate between the two countries (Reuters, 2022; Schuman, 2022).

Economic sanctions against China have become more frequent after 2018. The Trump administration accused China of "unfair trading, initiating a "trade war" with China. Since 2018, the U.S. has intensified its sanctions against China. For instance: 1) The Trump administration banned Huawei equipment, systems, and services from being sold to U.S. governmental agencies, 2) The Trump administration sanctioned Chinese officials as a result of distorted rumors, 3) The Trump's administration also interfered in Hong Kong's internal affairs and also imposed additional sanctions, and 4) The Trump administration also imposed restriction of on U.S. companies doing business with Chinese companies related to the Chinese military companies (Hass & Denmark, 2020; Tellez, 2023; U.S. Department of the Treasury, 2023b; Zhang, 2018).

After the Russian invasion of Ukraine, the Biden administration imposed sanctions on Chinese companies supplying Russia with military grade equipment, systems, and services such as satellite imagery. Companies such as the Chinese company "Sinno Electronics and 'Spacety'" were targeted by the U.S. sanctions (Tellez, 2023).

In 2022, the Biden administration initiated a new round of sanctions including export controls on the sales of chips and chip-making technology semiconductors to China and also imposed sanctions on U.S. sales to the Chinese company "Huawei." Moreover, the Biden administration also imposed controls policy on AI related technologies to China. The sanctions followed the Biden's Administration CHIPS and Science Act aiming to promote the production of semiconductors in the U.S. and slowing the development of China's cutting-edge chips (Mark & Roberts, 2023; Schuman, 2022).

4. Russia's and China's Response to Western Sanctions

Both Russia and China have devised policies and strategies to counter-act these actions and attempts to isolate these economies from the global economy. The increasing imposition of economic sanctions on both Russia and China by Western economies is leading these two countries to devise a number of economic and political strategies to counter-weight Western economies economic sanctions.

Western countries' cancelation of natural gas and oil imports from Russia, have however not achieved its main objective: to drastically affect Russia's economy. And despite this dramatic fall in exports of fossil fuels to Western Europe, the Russian economy in 2023 is growing again, returning to be ranked 8th in 2023, back amongst the top 10 economies in the world, since 2014. In other words, the economic war against Russia did not succeed. Western countries overplayed their hand, thinking that the large majority of countries would adhere to the economic sanctions imposed on Russia, what did not materialize. Russia's economy has been reconfigured towards the East and South, instead of West (Demarais & Dollar, 2023; Erkul, 2023; Metzel, 2023).

Since 2014, Russia has engaged in detaching itself from the U.S. dollar, in a clear de-dollarization strategy. The U.S. imposition of economic sanction on Russia in 2014 after its first incursion into Ukraine, led Russia to accelerate its efforts to shield its economy from U.S. dollar centric economic and financial sanctions. Russia has addressed its de-dollarization efforts along three major lines of action: 1) The Russian Central Bank lowered its holdings of U.S. dollars, mostly in its sovereign wealth fund dollar denominated assets, 2) Russia has moved away from trading using U.S. dollars. Russia has emphasized the use of its own currency in bilateral trade transactions as well as using the Euro, RMB, and national currencies with a number of countries, 3) Russia has also developed its own alternative to SWIFT, the "System for Transfer of Financial Messages (SPFS), its own Russian based electronic payments system the "Mir". Russia, like China, is also exploring the development of digital currency, lowering Russia's exposure to the Western controlled payments systems and infrastructure. Russia's MIR is now used in a number of countries outside of Russia such as Türkiye, and the SPFS are now connected to more than 20 banks overseas. Moreover, Russia has banned exports of Western goods to its domestic market, has also banned interest payments on Russian government bonds held by Western investors (Fukutomi, 2023; Goschenko, 2023; The Spectator, 2023).

Like Russia, China has also started its own de-dollarization efforts for more than a decade. China has traditionally pressed its trading partners to use its currency the RMB. It has set up RMB trading centers in Europe and in Asia. It has also been able to add the RMB to the IMF's portfolio of international currencies. Moreover, China is also working with the Belgium based SWIFT in partnership with its own People's Bank of China (PBOC) aiming at expanding the role of the RMB in the global payment system and infrastructure. China is also introducing a digital currency. China's People's Bank of China—PBOC is developing a digital currency. China is also developing cross-border trade with UAE and Thailand. In the future, China through its increasing trade and investment alliances, including BRI partners, will be able to increase the reach of its cross- border digital transactions. China intends to make its Central Bank the world's first Central Bank to issue a digital currency, the digital RMB (Liu & Papa, 2022; Nelson & Sutter, 2021; Vakulenko, 2023; Vall & Soldatkin, 2023; Norton, 2023).

In another development, the BRICS' New Development Bank is also gradually moving away from issuing U.S. dollar denominated loans. The New Development Bank is planning to issue 30% of its loans in the local currencies of its clients and members (Norton, 2023).

5. New Trade Routes Bypassing Western Sanctions

Russia has been actively pursuing new buyers for its oil, oil products, and natural gas. For instance, Russia has found new buyers for its oil in both China and India. Russia's major exports of oil go, close to 91% of its exports go to both China and India. Moreover, Russia's oil exports have also increased to markets in the Middle East, North Africa, Asia, and Latin America. All these markets have increased their purchases of Russian oil, compared to the onset of the Russia-Ukraine conflict (Erkul, 2023).

Russia and Iran are also developing a new trade route, as an alternative route to the Suez Canal, the "Rash-Astara" railway. This new railway will connect Iran to Russia, crossing Iran, Russia, and Azerbaijan. This new route, like the gas pipelines to China would allow Russia to bypass Western Countries economic sanctions. This new route, the International North-South Transport Corridor (INSTC) will reduce shipping costs by 30% and lower transit time to about half the time if going through the Suez Canal. This railway signals the creation of an emerging India-Iran-Russia axis of trade. This new trade route will allow Russia to expand its trade to Central and South-Asia, bypassing traditional routes through Europe. For India, the new trade route would open new markets in Central Asia as well (Pandita, 2022; Fukutomi, 2023).

In another development, after 163 years, Russia has opened the port of Vladivostok to China. The port is Russia's largest on the Pacific Ocean, and home to its Pacific fleet. China will be able to enhance its domestic production of goods to China's northeast region. Vladivostok port will be added to China's list of transit ports, also allowing the Northeast region of China to have access to the

Pacific Ocean, fostering the Jilin and Heilongjiang's regions economic growth and development. Moreover, Russia's Easter Gas Pipeline route ends in Vladivostok as well further reinforcing the synergies between Russia and China (Fong, 2023).

In another development demonstrating the increasing economic partnership between Russia and China, a new gas pipeline the gas pipeline is being built, connecting Russia's Chayanda field to Beijing. The Power of Siberia 1 gas pipeline should be supplying China with 38 billion cubic meters by 2025. The Power of Siberia 2 gas pipeline is planned to export Russian natural gas from the Yamal region to Western Siberia in China. The Power of Siberia 2 gas pipeline has a planned annual capacity of 50 billion cubic meters. Russia will also be supplying close to 10 billion cubic meters of gas from the island of Sakhalin to China. Altogether, Russia has the potential to supply China with 98 billion cubic meters of natural in the next few years, fully replacing Western European markets (Vall & Soldatkin, 2023; Vakulenko, 2023).

China has also invested in creating the "Middle Corridor", or the China-Central Asia-West Asia Corridor, connecting China to the markets of East Asia, and with the countries of Georgia, Türkiye, and Western European markets, bringing the old "Silk Road" into the 21st century. It would expedite shipment of goods between East Asia and European markets, saving shipping time and shipping costs. Türkiye also sees the economic and strategic potential of the "Middle Corridor" as a way to penetrate East Asian markets (Chang, 2023).

6. Reforming the Current System or Creating a Parallel System?

Countries pursuing de-dollarization strategies are working on reforming the current global financial system and, at the same time creating a parallel system. Reforming the system is a mid- to long-term proposition, however, the creation of a parallel currency and monetary systems are happening at a very fast pace.

The U.S. has benefited from a financial protectionism system established after the Bretton Woods 1947 agreement, and the 1974 creation of the "U.S. Petrodollar." The "Petrodollar" allowed the U.S. to reap renting benefits by keeping other countries' currencies from the mainstream of the global trade and financial system. Moreover, the U.S. dollar permeated the large majority of trade and financial transactions at the global level, giving the U.S. the ability to even accrue tremendous benefits from having the global currency reserve, helping to create a form of financial protectionism, by which most of the global economy uses the U.S. dollar for international trade and financial transactions (Blinder, 1996; Arslanalp, Eichengreen, & Simpson, 2022).

BRICS countries are taking the leadership in challenging the U.S. dollar. Altogether, BRICS GDP as a share of the global GDP was at 31.6% in 2022, against the G7 GDP's share of 30.4%. If the "BRICS Plus" concept materializes, we may have more countries joining in the bandwagon to challenge the U.S' dollar hegemony in global financial markets. Figure 1 illustrates the declining share of G7 countries vis-à-vis the increasing share of BRICS countries in the period 2001-2022. We are seeing a declining share of Western economies as a percentage of the global GDP (IMF, 2023).

And the leading European economies are experience low rates of economic growth such as France and Italy, and even a recession, such as is the case of the German economy. Germany is the EU's largest economy and the EU's economic engine; an economic recession in Germany will have a very strong negative spill—over effect all over the EU economy, further reducing the G7 share in the global economy. In 2023, the IMF expects that Germany's economy will contract by 0.1%. Figure 2, illustrates the declining share of the European Union countries on the global GDP between 2000-2022 (Arnold, 2023; Chandrakanth, 2023; Earle, 2023; Euronews, 2023; InvestifyHQ, 2023; Wilkes & Randow, 2023).

So far, the BRICS countries have worked on creating a parallel system one in which will be harder for Western countries to impose economic sanctions on the likes of Russia and China. For instance, the establishment of the New Development Bank (NDB), the "Yuan oil futures Contracts", the creation of digital currencies such as eYuan, and the "BRICS Coin" further reinforce and give the de-globalization trend momentum (Ashworth, 2023; New Development Bank, 2023; Li, 2023).

Clearly, the de-dollarization process will not happen overnight. Several countries, including some of the BRICS countries still have strong ties to the U.S.

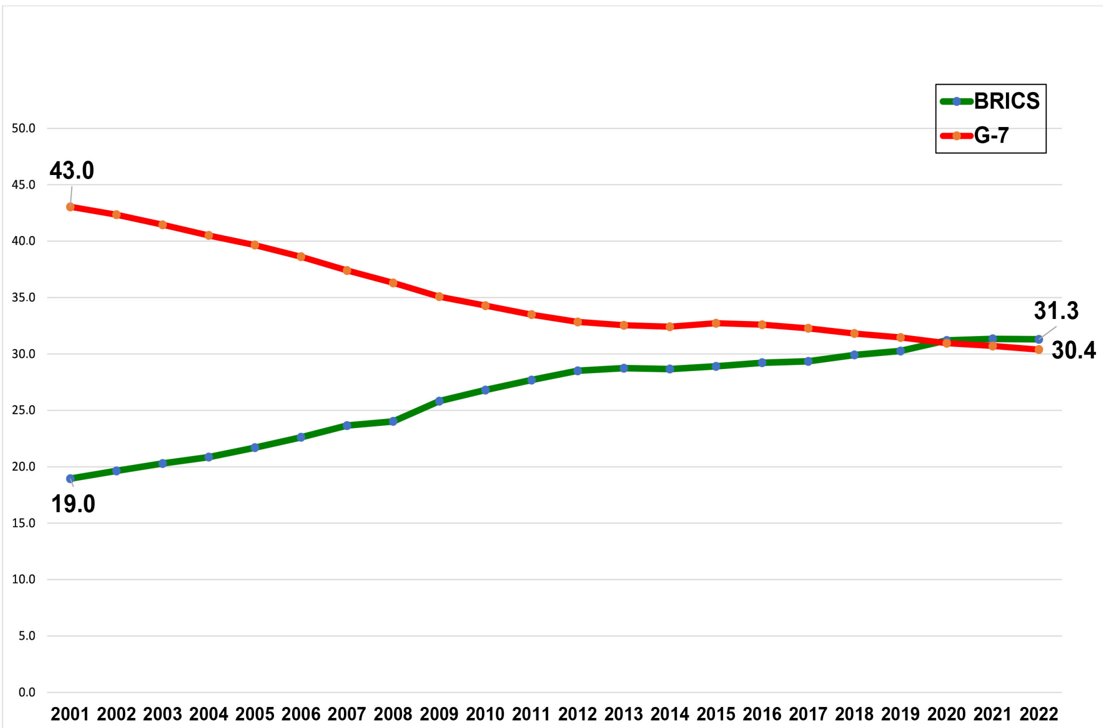

Figure 1. BRICS countries and G-7 countries. Evolving Share as a Percentage of Global GDP, 2001-2022. Source: IMF (2023), Authors' elaboration.

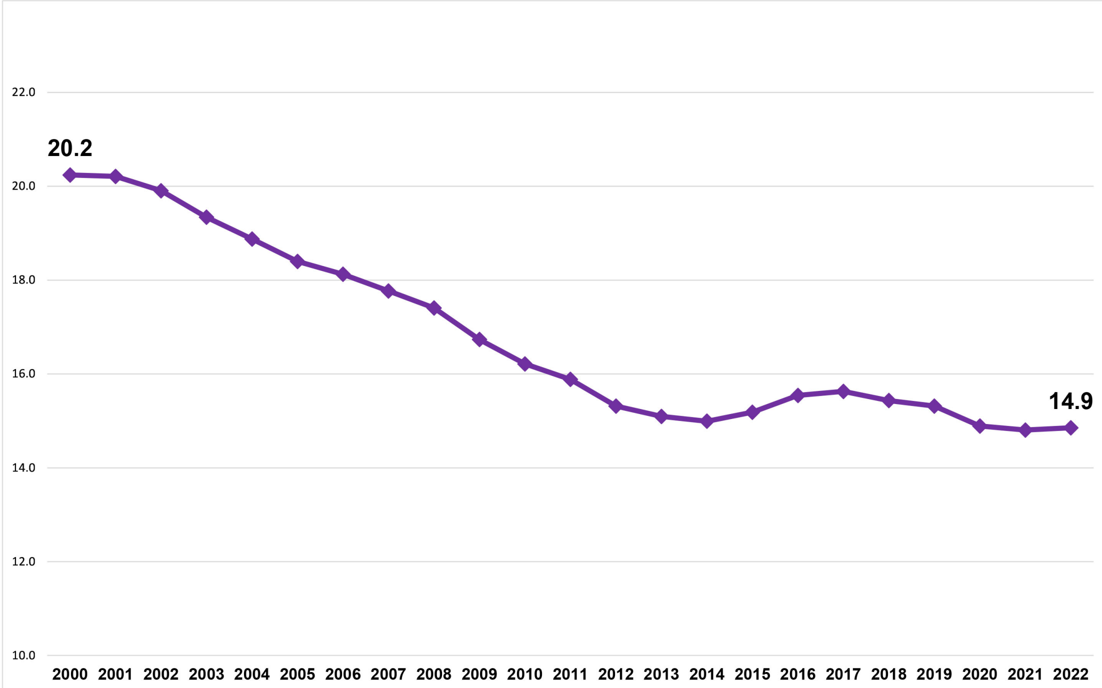

Figure 2. Share of european union in the world GDP. Source: IMF (2023), Authors' elaboration.

economy, and have a large amount of U.S. dollars in their central bank reserves. Still, the U.S. dollar may be replaced by a number of currencies, the so-called "currency multipolarity", or a "multi-currency-regime" where the U.S. dollar will part of a group of currencies. Countries that do not impose capital flow restrictions and have unpegged currencies are more likely to be members of this new currency club (Earle, 2023; Rosen, 2023).

As part of this de-dollarization trend, Trade in Local currencies (LCT), or Local Currency Cross Border Trade, is gaining ground and popularity around the globe. For instance, close to 60 countries from around the globe are currently resorting to Yuan, instead of U.S. dollars. Here are some examples of TLC being implemented (Perez-Saiz, Zhang, & Iyer, 2023; Medina, 2023; Malhotra, 2023):

1) Russia is demanding that unfriendly countries pay for its oil and natural gas in rubles. Russia and Iran have started to use their own currencies in bilateral trade transactions and other business transactions (Al-monitor, 2022; Cohen, 2022).

2) Brazil and China announced a program to trade in their own local currencies (Ellis, 2023; TRT, 2023).

3) Saudi Arabia in 2023 has begun to accept Yuan in oil trade and other GCC countries are also considering accepting the Yuan (Siddiqui, 2023; Helms, 2023).

4) President Xi has offered Saudi Arabia and Gulf Cooperation Council (GCC) the use of its "Shanghai Petroleum and Natural Gas Exchange" to perform its trade in RMB. Saudi Arabia is converting its Yuan oil revenues in gold at the Shanghai exchange (Chaziza, 2022; The Institute for Peace & Diplomacy, 2023; Zhang, 2023).

5) China has also expanded its bilateral swap Lines network fostering the

de-dollarization process. China has established more than 40 swap lines with countries from around the globe (Perks, Rao, Shin, & Tokuoka, 2021; Tran, 2022).

6) India is also moving towards using its own currency, the Indian rupee, in order to promote a global trade growth. Rupee trade settlements are also helping India to foster its trade with Russia and other countries facing economic sanctions from Western Economies such as Iran (Huleppa, 2023; Pasricha, 2023; Anyanzwa, 2023).

7) And the de-dollarization trend is bound to infiltrate the Mercosur trading block as well. Countries like Argentina are already considering using the Yuan in its bilateral trade with China. South American countries in its large majority have developed closer economic and ideological ties with China than with the U.S. Brazil and China agreement have agreed to use their own currencies in trade and financial transactions between the two countries (Moreira, 2023).

7. Final Remarks

In 2023, the global economy is going through an inflection point. The fragmentation of the global economy has solidified the multipolar nature of the new unfolding globalization architecture. The fracture between Western economies and non-Western economies continues to expand. The Russia-Ukraine conflict and the economic sanctions imposed by Western economies were the catalyst of a new globalization architecture, one that is dramatically challenging the current globalization establishment. BRICS countries have been strong advocates for a new globalization architecture. BRICS countries are poised to become one of the global economy's leading driving forces, shaping this new globalization process in the coming decades.

The de-dollarization trend is the canary in the current globalization architecture, the harbinger pointing to the beginning of a new globalization architecture, one in which the U.S. dollar will be increasingly challenged as the global economy hegemonic reserve currency. In the next decades, the U.S. dollar will face more competition from regional currencies such as China's RMB that will aspire to replace the U.S. dollar. These emerging currencies, however, will face a number of challenges in order to have a global reserve currency status. Thus, the process of de-dollarization will be gradual. However, it is clear that the fragmentation of the global economy is in course, pointing to the gradual decline and importance of Western economies and Western currencies, such as the U.S. dollar.

Thus, more than ever, Western economies and non-western economies must start to design and develop strategies for cooperation and "soft landing" strategies that will benefit the whole global economy as this new globalization architecture unfolds.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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