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The World Monetary Order:

From Currency Globalization to Currency Geopolitics

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The world economic order began to undergo a profound shift after Russia launched its war against Ukraine on 24 February 2022, and the West imposed economic sanctions on Russia in response (BBC, 2024). Not only is the architecture of the global economy changing (Papava, 2022a), but also the global monetary system.

Even before the COVID-19 pandemic, the US-led unipolar world order was fueling the process of hyper-globalization (Rodrik, 2011, 2022). For its part, hyper-globalization has largely contributed to the maintenance of that unipolar world order, which primarily stems from the interconnectedness of globalization and world order (e.g. Amadi, 2020; Ardalan, 2012).

The unipolar world order and hyper-globalization played a central role in determining the *world monetary order*, with the US dollar commanding leadership in world trade as the primary reserve currency. By 2000, over 70% of all foreign-exchange reserves were held in US dollars, and its dominance in international trade led exporters and importers to increasingly rely on dollar-denominated borrowing (Fofack, 2024b). Based on this, the US dollar, as the world's main reserve currency, was employed to advance US interests (Fofack, 2024a).

Hyper-globalization, in turn, strengthened the position of the US dollar in the global economy. In this context, the clear dominance of the US dollar in both international trade and global foreign-exchange reserves can be characterized as *currency globalization*.

The economic sanctions imposed by the West on Russia have affected the global dominance of the US dollar. At the start of the war in Ukraine, one-fifth of Russia's foreign exchange reserves were in dollar assets, much of which were in Germany, France, Britain and Japan, which, along with other Western countries, are now working together to isolate Moscow from the global financial system (Wheatley, Smith, 2022). In the context of the US dollar's weakening position as the dominant global currency, the West's seizure of nearly $300 billion in frozen Russian assets held by the US and its allies, and the use of the proceeds to defend and rebuild Ukraine, has taken on particular significance (Boocker, Conner, Wessel, 2024).

It is important to acknowledge that over the past half-century, the dominance of the US dollar has experienced fluctuations (Arslanalp, Eichengreen, Simpson-Bell, 2024b). For instance, while the dollar's share of world currency reserves was 80% in 1970, by 1980 it had dropped to 58%, and by 1990 to 47%. However, by 2000, it had rebounded to 70%. Since then, the share of the US dollar in world currency reserves has declined again, by 2020 reaching 59% (Graham, Tran, 2024). Notably, this decline was not accompanied by significant gains for traditional reserve currencies like the euro, yen and pound sterling. Instead, the shift has been towards non-traditional reserve currencies, such as the Australian dollar, Canadian dollar, Chinese renminbi, South Korean won, Singapore dollar and the currencies of the Nordic countries (Arslanalp, Eichengreen, Simpson-Bell, 2024a).

With the start of Russia's war in Ukraine, the process of globalization entered the stage of confrontational globalization (Papava, 2022b), seeing the countries of the world divided into three groups: those supporting Western sanctions, those supporting Russia, and neutral countries (Papava, 2022a). As a result, the unipolar world order began to transform into a multipolar world order (Sachs, 2024). This could not help but influence the world monetary order that developed under hyper-globalization, when the geopolitical factor stood in the way of monetary globalization (Koosakul, Zhang, Zia, 2024).

Currency geopolitics, where geopolitical factors increasingly determine both the currencies in international trade and the formation of foreign exchange reserves, is not a new phenomenon. After the First World War, geopolitical motives played an important role in selecting international currencies for foreign exchange reserves (Eichengreen, Mehl, Chitu, 2017). While the geopolitical factor remains in the era of currency globalization (Cohen, 2003), it does not dominate the system. From this, it follows that *currency globalization and currency geopolitics do not exclude each other* *at all, but rather complement each other.* At the same time, *in certain historical periods, as a rule, one of them prevails: either currency globalization or currency geopolitics.*

It is also important to highlight that the dollar's status as a global reserve currency is declining not only due to geopolitical factors, but also due to US fiscal policy, which has resulted in central and commercial banks in China, Hong Kong, Thailand and the United Arab Emirates having less and less need for US dollars (Bleicher, Lipsky, 2024).

The geopolitically driven shift away from the US dollar in trade transactions will reduce its role as a reserve currency, although this role cannot in principle be reduced to zero (Weiss, 2022).

In the context of the significant uncertainty surrounding many aspects of the modern geopolitical landscape (Hasnain, 2024), and the geopolitical fragmentation of risks resulting from the Western sanctions on Russia, there has been a noteworthy accumulation of gold as an alternative reserve asset, and increase in the use of various currencies in international trade (den Besten, Di Casola, Habib, 2023).

The euro, while it is the second-largest reserve currency by scale of global distribution, cannot completely replace the US dollar in the global economy (Hutagalung, 2024). Despite accounting for 21% of the world's foreign exchange reserves as of 2023, the euro is not reliable as a universal reserve asset. Structural and political problems in the EU, particularly the lack of a coordinated fiscal policy among its member states (Yoshimori, 2024), undermine its stability and appeal as an alternative to the US dollar.

In 2023, both Western-sanctioned Russia and China called for the creation of a multipolar global monetary system. However, the prospect of a near-term transition from US dollar-dominance to an alternative global reserve currency appears unrealistic (Born, Krys, 2023).

BRICS+ (which includes Brazil, Russia, India, China and South Africa, as well as Iran, Egypt, Ethiopia and the United Arab Emirates) is seeking to play a significant role in challenging the dominance of the US dollar as the global reserve currency (Liu, Papa, 2022). A key aspect of this strategy is the shift towards conducting oil and gas trade in national currencies, as a result of which prices for them would not be set in US dollars (Cilliers, 2023). As a result, these countries have managed to increase the share of trade carried out between them to 65% (Dsouza, 2024).

The petrodollar system, which emerged in the 1970s to evaluate oil in dollars, significantly reinforced the position of the US dollar as the world's reserve currency. However, due to the factors noted above, such as the Western economic sanctions against Russia, many countries have started to seek alternatives to the petrodollar (Fofack, 2024b). The growing energy ties between Saudi Arabia and China (Yu, Xing, Shen, 2022) have contributed to the replacement of the petrodollar with the petro-yuan, with long-term oil trading contracts denominated in yuan (Jegarajah, 2024).

It should be noted that many developing countries had expressed a desire for an alternative to the US dollar long before Russia's invasion of Ukraine. This desire grew even stronger after the West imposed sanctions on Russia, including by cutting off many of its banks from SWIFT and freezing its $300 billion in international assets (Ghani, 2023).

Although China is increasingly using the renminbi in cross-border payments, its financial system still remains dependent not only on the US dollar, but also on the US financial system, which is likely to remain the case for the foreseeable future (Greene, 2024).

China's growing role in global trade has contributed to the yuan's rise as a global currency, although there are objective reasons (notably strict government controls on capital flows, lack of transparency in financial markets, and centralization of one-party political power) that make many countries reluctant to use it as a reserve currency (Yoshimori, 2024).

The BRICS countries intend to create a new reserve currency backed by a basket of their own national currencies, with the potential for gold-backing in addition. This initiative is expected to accelerate the de-dollarization process (Pistilli, 2024), reducing global dependence on the dollar. That said, due to the unresolved nature of many institutional, organizational and technical issues, BRICS is still far from resolving the issue of introducing a new reserve currency (Eichengreen, 2024).

The push for de-dollarization will have serious consequences for both the US and the global economy. In particular, inflationary pressures could increase for the US economy, the US position in international financial institutions may weaken, while developing countries could reduce their dollar debt and gain greater financial autonomy (Hutagalung, 2024).

Although the US dollar is likely to continue its global dominance and retain its role as the world's main reserve currency in the short and medium term (Shalal, 2024), it is fundamentally unacceptable to overlook the gradual strengthening of the currency geopolitics factor.

It should be emphasized that the relationship between cryptocurrencies and geopolitics warrants independent study (OneSafe Content Team, 2024), as do the geopolitical aspects of central bank digital currencies (Demertzis, Lipsky, 2023).

In conclusion, we can say that the new world monetary order is being formed as a combination of monetary globalization and monetary geopolitics, in which the latter plays a predominant role.

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