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Impact of Dedollarization on the International Monetary System: A Case Study on Trade Invoicing, Geopolitical Alliances and Sanctions, and Remittance Systems

Ariha Shah
arihashah12109@gmail.com

ABSTRACT

The U.S. dollar is the dominant currency in the global monetary system; however, there is relatively little research on the difference between the political will to dedollarize and the actual process of dedollarizing. While existing research identifies the structure that enables dollar dominance and how it is used as a coercive tool, there is limited analysis of how it affects real-world economic mechanisms. Therefore, this paper seeks to analyse the impact of dedollarization on the international monetary system by analysing three major mechanisms: trade invoicing, geopolitical alliances and sanctions, and remittances, demonstrating how each mechanism helps maintain dollar dominance and how this ultimately influences the functioning of the international monetary system. The findings suggest that dedollarization is not impossible, but is inherently constrained and extremely slow-moving due to several issues such as coordination problems and network effects. Visible progress toward dedollarization will likely require sustained, coordinated effort from all parties involved, governments, firms, and individuals, across trade, geopolitics, and remittance systems.

Keywords: *dedollarization, dollar dominance, trade invoicing, geopolitics, remittance systems*

1 INTRODUCTION

The U.S. dollar's share of total currency reserves has remained between roughly 56% and 65% from 2012 to 2025 (International Monetary Fund [IMF], n.d.), dwarfing every other major currency. More broadly, at least three-fourths of export invoicing in all regions except Europe — over 96% in the Americas — is denominated in U.S.D. (Bertaut et al., 2025). However, a large mix of geopolitical and structural shocks, like freezing $300 billion in Russian reserves in 2022 (Moiseienko, 2025) and Saudi Arabia's use of the yuan as payment for Chinese oil purchases (Chang et al., 2024), has sped up dedollarization as a whole.

These events signalled that dollar reserves are not neutral, but rather instruments of political leverage. These tools have prompted security-driven pushes to reduce structural dependency on the dollar — a

currency that has been weaponised numerous times. Yet the extent of change varies sharply. Under the pressure of sanctions, the share of Russia's foreign trade settled in rubles and yuan rose from about 20% in early 2022 to roughly 60% by spring 2023 (Barisitz and Evdokimova, 2023). Few countries face such extreme pressure, however, and for most the gap between rhetoric and reality remains large: a nation can rhetorically commit to dedollarization while still using the dollar out of market necessity (Gopinath *et al.,* 2020).

Published literature on dollar hegemony focuses mostly on either the technical or political aspects of dollar dominance and dependency. Many researchers have shown that the dollar creates a self-reinforcing cycle of influence through trade and reserve accumulation. In turn, this creates an almost insurmountable barrier for countries to unilaterally exit from the dollar system (Bahaj and Reis, 2022; Gopinath and Stein, 2018; Boz *et al.,* 2020). Political economy research has also shown how the dollar is used as a weapon of coercion. Sanctions and financial exclusion are powerful tools that can coerce countries into wanting to accelerate their dedollarization process and leave the dollar trap (Verdier, 2025; Farrell & Newman, 2019). Comparatively, though, only some of this research lets a reader understand how dollar dependence translates into economic costs for firms and households. This paper aims to address that gap.

Academic studies, along with reports from international organisations (IMF, World Bank, IOM), were used in this study to evaluate dollar dependence through three specific mechanisms: trade invoicing, geopolitical alliances and sanctions, and remittance systems. Dollar dependence via trade invoicing is examined through the Dominant Currency Paradigm (Gopinath *et al.,* 2020), which explains how firms become locked into dollar pricing. Geopolitical aspects demonstrate how Society for Worldwide Interbank Financial Telecommunication (SWIFT) exclusions and reserve freezes increase dollar dependence, while giving governments an incentive to create alternatives (Congress.gov, 2023; Chicago Policy Review, 2025). The final mechanism is the remittance channel, which shows that millions of migrant workers rely heavily on dollar-based financial systems worldwide (IOM, 2024); together, these three mechanisms provide an integrated analysis of the commercial and household impacts of dollar dominance and dollar dependence.

Before proceeding, it is useful to define each channel and outline how it works. Trade invoicing refers to the currency in which the price of an export or import is written on the contract and in which payment is ultimately made. When a Brazilian firm buys Indonesian palm oil invoiced in dollars, neither the real nor the rupiah is used to price the goods; both parties must instead obtain, or convert into, dollars. Invoicing therefore determines which exchange rate a firm is exposed to, and it creates everyday demand for dollars among firms with no direct dealings with the United States.

Geopolitical alliances and sanctions refer to the ways in which states use, or align around, control over financial infrastructure. Sanctions are restrictions imposed by one or more governments that limit a target's access to financial services, assets, or markets. Alliances refer to the military and diplomatic relationships that influence which currencies states choose to hold. This channel works through payment infrastructure. Most cross-border bank payments are communicated through SWIFT, a Belgium-based messaging network, and dollar payments are ultimately settled through accounts held at U.S. banks.

Remittances (or transfers) are when migrant workers send money back to family members in their home country. Though each transfer is a small amount, together they form one of the largest sources of external funding for low- and middle-income countries.

The above definitions also explain why countries seek to dedollarize in the first place. Dollar dependence places economies under the control of u.s. Monetary policy decisions over which it has no influence, sanctions and transaction costs paid to foreign intermediaries. A reduction in this dependency promises greater autonomy in policymaking and lower vulnerability. However, as will be shown through the mechanisms discussed in the following sections, each channel contains its own costly mechanism(s) that make leaving the dollar difficult.

Comparative analysis of five countries: The United States, Germany, Turkey, Brazil and Russia will be used here. The choice of each was based upon their distinct position in relation to the dollar system. The u.s. Issues the dominant currency; therefore, it serves as the benchmark against which any degree of dependence on the dollar elsewhere can be measured. In contrast to other advanced economies such as the United States, Germany trades largely inside the euro area, thus representing whether a strong alternative currency and dense regional trade network can reduce reliance on the dollar. Both Turkey and Brazil are emerging market economies with contrasting geopolitical positions. Turkey is a member of NATO with deep commercial ties to the EU, while Brazil is a founding BRICS member whose leadership has publicly supported reducing reliance on the dollar. Russia represents the most heavily-sanctioned major economy and has pursued dedollarization more aggressively than all others, making it clearly the case of a state attempting to leave the dollar system under geopolitical pressure.

Together, these cases elucidate how dollar dependence operates across different points in the international monetary system. Rather than exemplifying every possible economic environment, they were not chosen to be exhaustive or statistically representative of all countries. The findings derived from them, including those examined in Section 4.3 regarding remittance flows, should therefore be read as examples of the mechanisms described above rather than generalisations about every economy.

The rest of this paper will be organised as follows. Section 2 is a comprehensive literature review that addresses international monetary economics and political economy in global finance. Section 3 lays out, through both history and evidence, the background for dollar supremacy. Section 4 contains a thorough assessment of how dollar dependence shows up in three different contexts: trade invoicing, geopolitical relationships and sanctions, and remittances and examines how these three channels connect. Lastly, Section 5 offers conclusions.

2. LITERATURE REVIEW

This section examines two main branches for a comprehensive analysis of dollar dominance. International Monetary Economics addresses why the dollar has been able to achieve and maintain such widespread dominance. Political Economy in Global Finance is concerned with examining the influence that exists through political power and geopolitical relationships on monetary policy decisions. When combined,

these two branches demonstrate how dollar dominance works internally and the background political factors that simultaneously support and undermine it.

2.1 International Monetary Economics

Historically, the U.S. dollar has dominated international trade and financing. Dollar dominance is a self-enforcing cycle. According to Gopinath and Stein (2018), because of the increasing amount of international trade being done in one currency, there is an increased need for dollar-safe assets in banking and financial transactions. Thus, dollar invoicing increases, increasing the dollar's share of all invoiced transactions globally and furthering the United States' influence as the primary currency in the global economy (Bahaj and Reis, 2022). As one of the world's two largest economies, the U.S. has an additional advantage through its role as the world's reserve currency. The United States is able to establish central bank swap lines with other countries. Swap lines are agreements made by central banks to provide liquidity by exchanging a specified amount of one central bank's currency with an equal amount of the other central bank's currency, at an already predetermined exchange rate, for a pre-agreed-upon time frame. This provides a mechanism through which a central bank can obtain cash (in its own currency) from another central bank should it need to purchase assets that are denominated in the second bank's currency during periods of economic stress. Another benefit cited by Boz *et al.* (2020) is that U.S. import values are far less affected by fluctuations in bilateral exchange rates. This illustrates that the United States' economy is protected from exchange rate shocks that can destabilise many other countries' economies.

As expected, there has been pressure for dedollarization among many countries. There is an overall slow process of dedollarisation taking place, as countries are transitioning to using more than one currency; it appears that at least 75% of the dollar's decline in use as a reserve asset has shifted from being used in other small, non-traditional currencies, such as the Australian dollar and Korean won, to larger traditional currencies, including the euro (Arslanalp *et al.,* 2022). To continue to provide needed dollar liquidity globally, when the dollar share of total global reserves falls, would require the U.S. government to sustain larger fiscal deficits over the next several years. These sustained larger fiscal deficits will lead to growing external liabilities that could potentially damage the credibility of the dollar, according to Bordo and McCauley (2018). These trends point to a possible long-run tension between U.S. domestic policy goals and the dollar’s international role.

Eichengreen and Flandreau (2008) find that the dollar surpassed sterling as the most used reserve currency in the mid-1920s, much sooner than previously argued. This suggests that network effects — the tendency for a currency to remain in widespread use simply because everyone uses it — are weaker than thought. Interestingly, the sterling regained its reserve currency status in the 1930s, showing that a country can regain it. The Dominant Currency Paradigm demonstrates why countries struggle to switch currencies. Gopinath *et al.* (2020) show how firms invoice in dollars solely based on competition, and create an environment where one business cannot unilaterally decide to change to another currency without risking financial disadvantage. This makes bilateral exchange rates irrelevant, as only the value of

the dollar determines the price at which goods are traded. Gopinath and Stein (2018) develop this by stating that dedollarization would require simultaneously unwinding both trade invoicing and bank funding; an action nearly impossible to accomplish structurally.

Arslanalp et al. (2022) note that reserve currency status is not determined by the size of a country's economy alone. They argue that new technologies, such as automated liquidity management and electronic trading platforms, have lowered the cost of transacting in smaller currencies, making it easier for central banks to diversify away from the dollar. This is further supported by Eichengreen and Flandreau (2008), who found that the dollar's rise over sterling was mainly caused by deep, liquid U.S. financial markets following the Federal Reserve Act of 1913, suggesting that both financial integration and strong monetary systems are critical requirements for achieving reserve currency status.

2.2 Political Economy in Global Finance

Beyond economic aspects, dedollarization is being propelled by international relations. Farrell and Newman (2019) describe how the U.S. dollar serves as an instrument of coercion; the U.S. uses its monopolistic position over global financial networks to both monitor and marginalise those it considers adversarial, as seen in Iran's disconnection from SWIFT in 2012 and again in 2018. The greater the degree to which the U.S. weaponises the dollar through sanctions and swap lines, the greater the incentive for targeted nations to opt out of these networks, even if doing so has significant economic implications, making dedollarization a rational security measure. This weaponisation creates a significant disincentive for nations to maintain membership in the existing financial networks, thereby pushing nations toward establishing alternative networks, increasing fragmentation in the international monetary system (Verdier, 2025). Alternatives to replace the fractured dollar-based financial networks have already been built. Russia and Turkey have increased their reliance upon gold reserves, and China created CIPS (the Cross-Border Interbank Payment System) as a substitute for SWIFT, reducing its exposure to U.S. financial pressure (Verdier, 2025). This is consistent with the hypothesis offered by Eichengreen, Mehl and Chitu (2017), stating that nations hostile to the U.S., such as Iraq, Iran and Venezuela, have adopted euro-based or oil-backed mechanisms for international trade, while other nations, including Russia and India, have shifted an increasing amount of bilateral energy trading away from dollars and into their respective currencies. This illustrates that dedollarization is creating new structures for payment systems and markets outside of the United States.

The decline in dollar usage has many implications for the United States. Widespread global use of the dollar creates greater demand for U.S. assets worldwide, allowing the U.S. to obtain foreign loans at lower interest rates and continue its current pattern of unsustainable trade deficits — benefits that would lessen alongside dedollarization (Council on Foreign Relations, 2023). In addition, a weaker dollar limits the U.S.'s power to utilise financial tools as weapons. The reasons why the dollar has maintained some degree of prominence are due in part to the alliance between the U.S. and other countries such as Japan and Australia (Eichengreen, Mehl and Chitu, 2017). If these alliances weaken, the political foundation of dollar holdings could weaken with them. Claessens *et al.* (2013) also illustrate how a weakened IMF,

whose legitimacy is linked directly to the amount of dollars lent out, will ultimately contribute to the downfall of dollar usage worldwide. Weaker nations are reliant upon the IMF as their primary means of navigating dollar dependence. This organisation functions as an emergency lender of last resort, providing crisis financing to nations that cannot acquire dollar liquidity independently (Claessens *et al.,* 2013). One key factor of IMF aid is that it can only occur if a nation agrees to adopt policy reforms to achieve macroeconomic stability while also reducing borrowing risk. This represents one possible method of survival for nations with smaller economies and financial vulnerability due to dollar dependence, without requiring them to leave the system.

The dollar system's power, however, extends far beyond passive advantages. Farrell and Newman (2019) argue that global financial networks have an asymmetrical structure. Some of its nodes are better connected than others, and a nation that has jurisdiction over one or more of those key nodes can utilise that position to coerce other nations. These coercive opportunities arise from two specific effects. The first is the panopticon effect, in which a state with jurisdiction over a central node uses it to gather information on the transactions passing through it. After the September 11 attacks, for example, the U.S. Treasury used subpoenas to obtain SWIFT transaction data under its Terrorist Finance Tracking Program, giving U.S. authorities visibility over a large share of global interbank messaging (Farrell and Newman, 2019). The second is the choke-point effect, in which a state denies, or threatens to deny, others access to the network. Iran's disconnection from SWIFT in 2012 cut most of its banks off from international payments, while the freezing of Russia's central bank reserves in 2022 showed that even a major economy's official assets could be immobilised. The choke-point effect operates through private firms as well: in 2014, the French bank BNP Paribas agreed to pay around $8.9 billion to U.S. authorities for processing dollar transactions on behalf of sanctioned countries, signalling to banks worldwide that dollar access depends on compliance with U.S. policy. In both cases, the value of the dollar network to its users is precisely what gives the U.S. its leverage over them. Verdier (2025) claims that geopolitics will restructure the current international monetary system. Many countries use secondary sanctions, asset freezes, capital controls and more as tools of national security, fully abandoning any idea of politically neutral treatment regarding the financial system. The country utilising the most aggressive forms of these techniques is the USA, primarily due to its dollar dominance. The U.S. uses three types of financial leverage: weaponised financial infrastructure through SWIFT exclusion or sanctions, limiting capital flows, and moving capital around based on only geopolitical goals (Verdier, 2025).

The U.S. has coercion power as countries are obligated to hold large amounts of dollar reserves. There are lots of interrelated reasons why countries hold foreign reserves. They do so to survive economic shocks, import goods, and maintain their currency's purchasing power (Council on Foreign Relations, 2023). This need for foreign reserves is compounded by financial stability pressures: Obstfeld *et al.* (2008) have demonstrated that a country's reserve demand increases proportionally to the size of its banking system. A country's central bank will experience extreme downward pressure on its foreign exchange assets should it face simultaneous capital flight and bank runs. Many countries cannot get loans internationally or pay for imports using their own currency, so these countries have to hold dollar reserves regardless of their geopolitical preferences (CFR, 2023), representing a structural dependency for many countries.

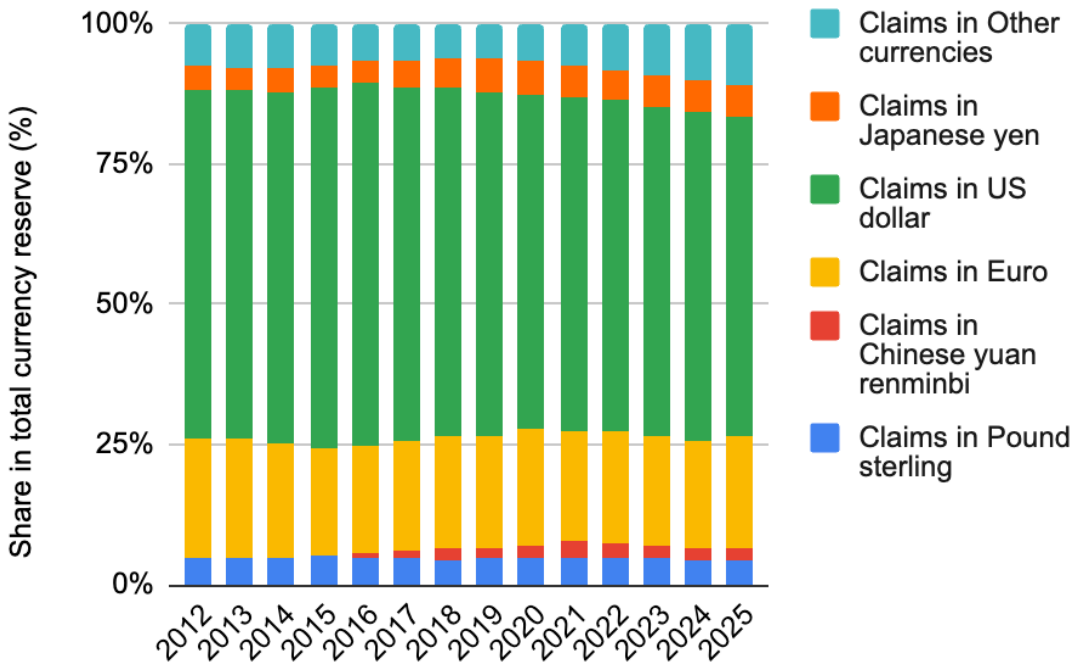
3 CONTEXT

The international monetary order, after World War II, was designed to favour U.S. dollar supremacy. At the Bretton Woods conference of 1944, it was agreed that the dollar would serve as the world's reserve currency, creating a strong foundation for US economic leadership. Although Nixon's 1971 decision to suspend gold convertibility ended the existing regime, the dollar continued to dominate due to structural factors, which were significantly enhanced when the United States and Saudi Arabia entered into an agreement in 1974, establishing the petrodollar system, under which Saudi Arabia priced its oil exports in dollars and invested surplus revenues in U.S. Treasury securities, helping make the dollar the standard currency for oil trade (Journal of Energy History, 2019). This increased international demand for dollars.

However, this historically stable state is undergoing a significant transformation. A combination of structural and geopolitical disruptions has greatly accelerated a once-fragmented process. China, already endeavouring to internationalise the renminbi, deepened bilateral trade agreements with Gulf states, signing a local-currency swap arrangement worth 50 billion yuan with Saudi Arabia (Court Cast, 2026). In 2023, Saudi Arabia began accepting yuan payments for Chinese oil purchases (Chang et al., 2024). At an infrastructure level, BRICS nations have accelerated development of alternative payment systems such as China’s CIPS and Russia’s SPFS, explicitly designed to bypass SWIFT and dollar-dominated systems.

Figure 1 examines whether political momentum has translated into actual change in how central banks hold their reserves.

Figure 1: Share of Top Currencies in COFER, 2012-2025



Source: IMF

Note: 2025 data reflects the most recently available COFER release and may represent partial-year observations rather than the full year.

The stacked bar graph shown in Figure 1 plots globally dominant currencies' share of global foreign reserves as reported by the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) database from 2012 to 2025.

In the plotted chart, the U.S. dollar's share has consistently hovered between 57% and 65% from 2012 to 2025, dwarfing every other currency. As is visible, the next three currencies combined — the euro, the yen, and sterling — do not add up to the dollar-equivalent weight.

Secondly, however, the dollar's share is slowly but visibly and persistently declining. From about 63% in 2012, it has reduced to approximately 57% in 2025, a gradual but nonetheless clear decline. The proportion of the dollar's share of allocated reserves declined to 56.32% from 57.79% in Q2 2025 as compared to Q1 2025, which is consistent with findings of Arslanalp *et al.* (2022), who reported that reserve-holding central banks have been actively diversifying their reserves away from dollars, rather than passively being affected by exchange rates.

Third, the share of foreign exchange held as renminbi has increased. Before this year, COFER did not begin identifying the Chinese yuan separately until 2016; before then, it reported all yuan under "other currencies" (MacroMicro, 2025), so the rise from zero in Figure 1 indicates rapid accumulation and changes in how countries report their holdings. However, with the exception of the renminbi, no other

currency has shown continued, steady increases in reserve holdings since 2016. Thus, while some degree of de-dollarisation appears to be underway, de-dollarisation efforts seem to be channelled far more into yuan-denominated reserves than into small or untraditional currencies.

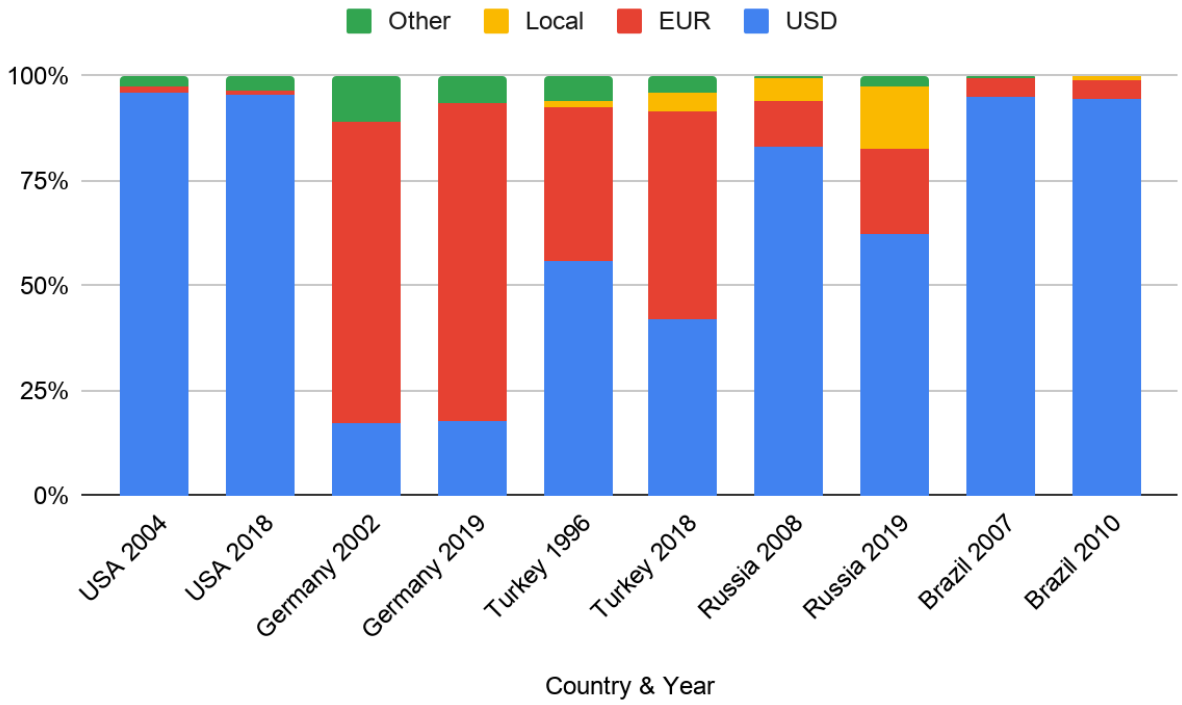
Reserve currency composition, however, represents only one dimension of total monetary power. Trade invoicing directly reveals the currency in which the real economy operates, and the denomination written onto every import and export contract. As noted in Section 1, political commitment does not automatically change the currency in which trade is invoiced.

Gopinath *et al.* (2020) establish that most global trade transactions are invoiced in only a few currencies — most often the U.S. dollar — regardless of the countries involved in the trade. American import and export price data confirm that dollar dominance for international businesses is displayed across all trade: dollar transactions averaged 96.2% of exports and 95.2% of imports between 2016 and 2024 worldwide (BLS, 2025).

However, geopolitics has begun fracturing this long-standing pattern. Following sanctions against Russia in 2022, about 60% of Russian foreign trade was settled in rubles and yuan by spring 2023, as compared to 20% in early 2022 (Barisitz and Evdokimova, 2023). Similarly, Argentina's 2023 dollar shortage led to a sharp increase in renminbi-denominated imports from China, from nearly zero to 50% (CEPR, 2024). These cases elucidate how invoicing currency can shift under specific geopolitical and economic conditions.

Even so, most economies still rely heavily on the dollar (Boz *et al.*, 2020). Figure 2 examines this at a country level, comparing the earliest and latest available export invoicing data across five major economies: the United States, Germany, Turkey, Russia, and Brazil. Because these data end in 2018–2019, they capture long-run structural patterns but not the shifts that followed the 2022 sanctions on Russia.

Figure 2: Export Invoice Currency by Country (Earliest vs Latest)



Source: IMF

As shown, Figure 2 plots the share of export invoicing denominated in USD, EUR, the local currency, and other currencies across the five nations.

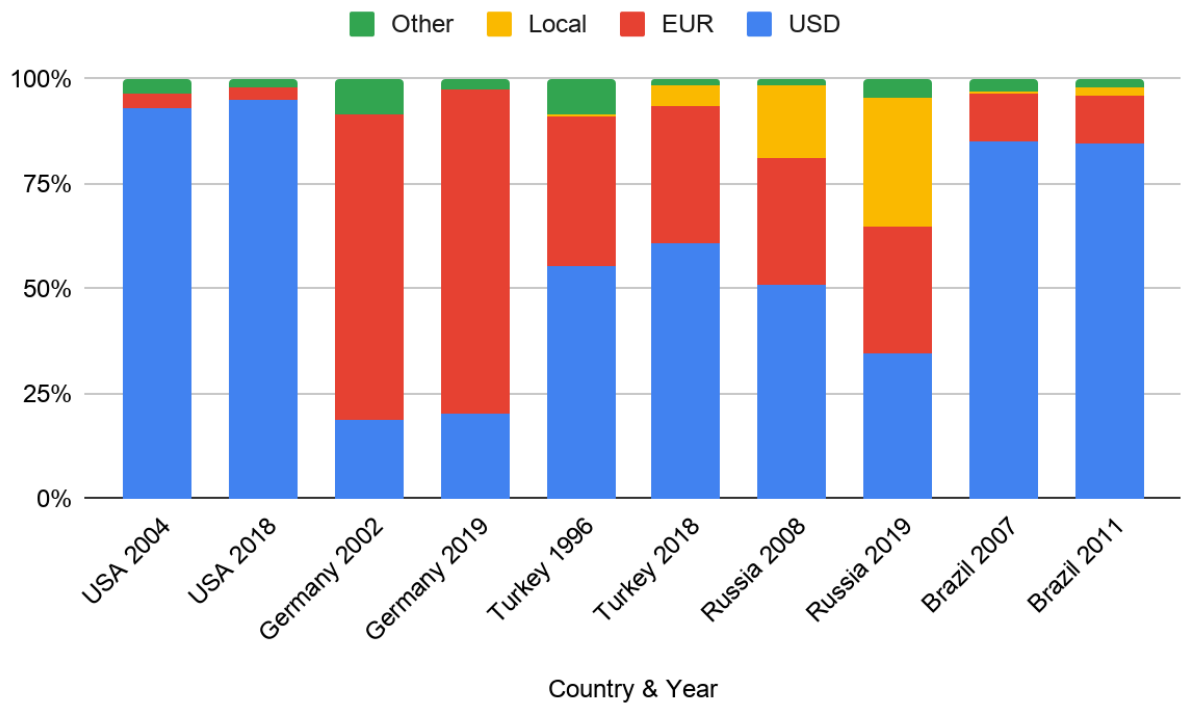
Firstly, dollar dominance in export invoicing is remarkably widespread and long-standing. Unsurprisingly, the USA invoices about 95% of its exports across both data points in the dollar. More telling, however, is Brazil, which, despite being a BRICS member with a strong political incentive to dedollarize, maintains USD invoicing above 90% in both 2007 and 2010. Turkey presents a different picture: the dollar's share of its export invoicing fell from roughly 56% in 1996 to about 42% in 2018, while the euro's share rose to around half, reflecting the importance of EU markets for Turkish exports. As documented by Boz *et al.* (2020), dollar invoicing has become more concentrated in recent decades, even as the U.S.'s share of global trade declines.

Secondly, Russia displayed the most visible movement away from USD for export invoice payments among the dataset countries. Within the 11-year span between 2008 and 2019, the dollar's share of Russian export invoicing fell from about 83% to about 62%, while the euro's share rose to roughly 20% and the ruble's to roughly 15%. The second aspect of interest concerning Russia's movement away from foreign exchange invoicing is that it is not simply a clean dollar-to-euro substitution. Rather, because the percentage of Russian invoicing occurring in rubles has increased, the evidence further indicates that Russia is making efforts to reduce its dependence on foreign exchange.

Third, Germany clearly stands out from all others: EUR massively dominates USD at both data points, and this pattern is consistent between 2002 and 2019. Institutional structures likely explain why. In particular, Germany has a long history of exporting mostly to other EU countries, which have historically traded with one another using the euro. This reinforces that dedollarization of export trade can be accomplished, but primarily in those nations where historical trade networks and intra-regional density exist.

Figure 3 compares their import invoice currency compositions across the same five economies, comparing the earliest and latest available data points.

Figure 3: Import Invoice Currency by Country (Earliest vs Latest)



Source: IMF

First, the dollar's influence in imports versus exports is a notable difference; nevertheless, it remains strong. Consistent with the U.S.' export trends, the United States invoices over 90% of its imports in dollars in both years. Similar to the U.S., Brazil also exhibits an over 80% USD share in imports for both 2007 and 2011. Notably, however, is Turkey. The percentage of total imports denominated in USD increases from about 54% in 1996 to over 60% in 2018, while the percentage of total imports denominated in euros decreases. This trend is contrary to what would be expected, based on Turkey's geographic proximity and commercial relationships with the EU. Thus, it appears that

commodity-specific trade influences are more significant than any EU-based influence, as Turkish businesses shift their invoicing toward the dollar.

Second, Russia's import-side dedollarization is also highly significant. Between 2008 and 2019, the dollar's share of Russian import invoicing fell by around 16 percentage points, from about 51% to about 35%, while the ruble's share rose from about 17% to almost 30%, the highest local-currency share of any country in Figure 3. This is striking because the invoicing currency is usually chosen by the exporter, who generally prefers to be paid in its own currency or in dollars. A rising ruble share on Russia's import side therefore suggests that foreign suppliers were increasingly willing, or compelled, to accept rubles.

Thirdly, import currency invoicing in Germany much more clearly establishes it as an "outlier". At both measurement points, the U.S. dollar accounted for less than 20% of German imports, while the euro accounted for more than 70% of all invoices. Even more importantly, this structure has been largely consistent over almost two decades.

Figures 1-3 show how even though new currencies are developing in some countries, the dollar still has an overwhelming position in both foreign reserves and trade. The data above provides a basis to examine how a self-reinforcing cycle of dollar domination develops at various stages of the international monetary system.

4. ANALYSIS

The objective of this section is to assess the actual effects of dollar dominance. It investigates how dedollarization affects the International Monetary System through three dimensions: trade invoicing, geopolitical alliances and sanctions, and remittances. Collectively, the above-mentioned mechanisms will illustrate why there is such an extensive disconnect between politically stated goals of "dedollarization" and the practical development of that goal. Section 4.4 then considers how the three channels connect to one another.

This analysis illustrates the pattern of dollar dependence through market coordination in trade, the use of coercion in geopolitics, and structural dependency in remittances.

Section 4.1 Trade Invoicing

In the constant debate about dedollarization, the primary conflict is not whether countries want to reduce their reliance on dollars, but rather how quickly they can do so at the pace discussed politically. Trade invoicing clearly illustrates the reason for the slow process of dedollarization, despite increasing global interest. The continued use of dollar invoicing reflects the self-reinforcing nature of the network cycle and spillovers.

The dollar's dominance in most international commerce has developed through an internalised cycle of coordination. The "Dominant Currency Paradigm" illustrates this perfectly, as companies price in dollars due to competition from other companies pricing in dollars, thereby creating a coordination lock with no apparent way out (Gopinath *et al.,* 2020).

The reason a single firm cannot easily break this lock lies in how prices respond to exchange rates. Suppose a Turkish exporter competes with exporters from other countries who all price in dollars. If the Turkish firm instead prices in lira, its price in the buyer's currency will change every time the lira moves against the dollar, while its competitors' prices remain stable. When the lira appreciates, the firm's goods suddenly become more expensive than its rivals', and it loses customers. Pricing in dollars removes this risk. Dollar invoicing is also reinforced on the cost side: many firms buy imported inputs, such as fuel or components, that are themselves priced in dollars, so earning revenue in dollars matches their costs. Finally, dollar trade credit and hedging instruments are cheaper and more widely available than those in other currencies (Gopinath and Stein, 2018). Each of these advantages depends on everyone else also using the dollar, which is what makes the choice collective rather than individual. In order to transition away from using dollars, there needs to be an economy-wide shift in two areas: trade invoicing and international banking (Gopinath and Stein, 2018).

Approximately 40-50% of global trade is invoiced using U.S.D, including trades between nations that have zero economic ties to the U.S. (Boz *et al.,* 2020). This is a very large margin as compared to the approximate 11% share of global goods exports in 2023 attributed to the U.S. (WTO 2024). The size of this margin illustrates the quantifiable nature of the self-reinforcing cycle of the dollar's dominance: firms do not continue to use US dollars as an invoice currency simply due to economic relationships, but rather as a default invoice currency for international commerce, which creates a barrier to entry for the first firm to stop using US dollars, making it difficult for subsequent firms to abandon the dollar. In addition, bilateral exchange rates also lose relevance once foreign exchange invoices are denominated in USD. This also changes how exchange rate movements affect an economy. In standard models, a depreciation makes a country's exports cheaper abroad and its imports more expensive, helping to rebalance trade. Within dollar invoicing, however, export prices are fixed in USD in the short run, so a depreciation against the dollar does little to boost foreign demand for a country's exports. Meanwhile, import prices, also fixed in dollars, rise immediately in local-currency terms (Gopinath et al., 2020). Countries therefore bear the costs of a weaker currency without receiving the usual benefits. While dollar invoicing does provide insulation for the American economy from exchange rate risk, it increases exchange rate volatility for all other economies (Boz *et al.,* 2020), generating spillover effects.

When USD appreciates, which happened during 2022 when the U.S. Dollar Index rose to a 20-year high at 107 (CNBC, 2022), imported costs for countries invoiced in USD increase greatly for all countries, regardless of their bilateral trade relationship with the U.S. Developing economies suffer the greatest impact since very large portions of their import baskets are made up of dollar-priced commodities, including food, fuel, and industrial supplies. Exposures are extremely great: roughly 83% of the global population (UNCTAD, 2025) live in developing economies and therefore are directly impacted by price increases of imports due to the dollar. A 10% appreciation of the U.S. dollar causes an estimated 1.9% decline in developing countries' economies over the course of 2.5 years, primarily through trade and finance linkages (IMF, 2022). The World Bank reports (2024) that it is estimated the combined shock of the COVID-19 pandemic, rising prices and volatile commodity prices has caused about 75-95 million individuals to fall into extreme poverty. Additionally, the appreciation of the dollar in 2022 exacerbated

pressure upon these economies by increasing the cost of importing dollar-priced commodities such as food and fuel.

All politically driven dedollarization initiatives have thus far been limited to bilateral, or even narrow agreements for trade settlement in currencies other than US dollars, like when Russia and India agreed to settle their energy trades in rupees after 2022 (Verdier, 2025) — and therefore represent no evidence of the dollar's eventual replacement. The "network effects" and the effects of exchange rates also support this view; thus, dedollarization in trade invoicing should be viewed as a slow fragmentation of existing systems rather than a true shift away from the dollar in the global monetary order.

Section 4.2 Geopolitical Alliances & Sanctions

Unlike trade invoicing, whereby the dollar's position has emerged through commercial momentum, the United States' control over the global monetary system (through mechanisms such as SWIFT and the potential to freeze internationally held reserves) gives the U.S. government the capability to turn what would otherwise be a currency into a mechanism for exercising power.

The sanctions placed on Russia in 2022, post Ukraine invastion, depict an important example. The U.S. and its allies froze approximately $300 billion in Russian central bank reserves, and the EU, in coordination with the U.S., removed seven major Russian banks from SWIFT (Congress.gov, 2023). The immediate shock caused the ruble to fall by around 30% against the dollar and led the Bank of Russia to more than double its policy rate, to 20%. Additionally, the removal of access to reserves increased Russia's potential for defaulting on approximately $100 billion of foreign debt (LegalClarity, 2025) and was likely one reason why other countries such as China and India are considering using alternative currencies instead of the dollar.

This leverage works because of how dollar payments are processed. When two non-U.S. firms settle a trade in dollars, the dollars do not move directly between them. The payment instruction is usually sent via SWIFT. The funds are then transferred between dollar accounts held at U.S. banks, or at foreign banks with U.S. correspondent accounts, and cleared through U.S. systems such as CHIPS. Because nearly every dollar payment touches the U.S. financial system at some point, U.S. authorities can see it and, if they choose, block it. A bank cut off from SWIFT or from U.S. correspondent accounts therefore loses the ability to make or receive dollar payments, which for most banks means losing access to international trade altogether. This fear of exclusion is itself a source of entrenchment: states and banks remain in the dollar system not only because it is efficient, but because being excluded from it is too costly. As a result, policymakers and banks in non-Western countries must weigh the risk of U.S. sanctions whenever they make major financial decisions (Quintana, 2025).

This coercive strategy, thereafter, has given greater incentive to states to build alternative financial infrastructure. BRICS countries, for example, have accelerated their aspiration for financial substitutes, following Russia's removal from SWIFT and China-US trade tensions (Chicago Policy Review, 2025). In 2024, China's Cross-Border Interbank Payment System (CIPS), which clears and settles international

payments in renminbi, processed 8.2 million transactions totalling 175.49 trillion renminbi (approximately $24.47 trillion), representing a 24% increase in transaction value (FXC Intelligence, 2025). Meanwhile, by 2024, Russia expanded its own System for Transfer of Financial Messages (SPFS), a Bank of Russia alternative to SWIFT messaging, by connecting to over 550 organisations across 20 countries, including China, Kazakhstan, and Kyrgyzstan (Atlantic Council, 2026).

The effectiveness of these alternatives, however, remains limited. Despite rapid growth of CIPS, the yuan accounted for only 3% of global SWIFT payments as of mid-2025, compared to about 48% for USD. CHIPS (the Clearing House Interbank Payments System), the main private U.S. system for settling large dollar payments, processed around 40 times as many transactions as CIPS and has 10 times as many participants globally. (CSIS, 2022). This shows how alternative infrastructure is growing steadily, but cannot compete with the depth and connectivity, and sheer liquidity of the dollar.

Political constraints are important as well in order to understand. Within the BRICS nations, there is pressure from China to create a global acceptance of the yuan, but India and Brazil have been hesitant to accept dollar substitutes due to their long-standing history of working with Western financial institutions (Chicago Policy Review, 2025). These divisions limit the bloc's ability to coordinate a move away from the dollar. Nations generally wish to utilise dollars and other alternatives at the same time. Building an alternative to SWIFT requires both political agreement and commitment among member countries.

The consequences of this entrenchment on general society are severe too. In countries with sanctioned economies, such as North Korea and Russia, people have limited options for accessing international finances and commerce; the cost of these restrictions falls on the citizens because of the decision-making actions taken by either the local or the U.S. government (AnalystPrep, 2026).

The "self-reinforcing cycle" of geopolitics surrounding dollar dependence has a paradoxical nature: the greater the degree to which the U.S. uses the dollar to exert political influence, the more likely other countries are to be motivated to create alternative systems. However, building a full alternative remains unlikely in the near term because of high coordination costs, conflicting state objectives and unbalanced power among countries.

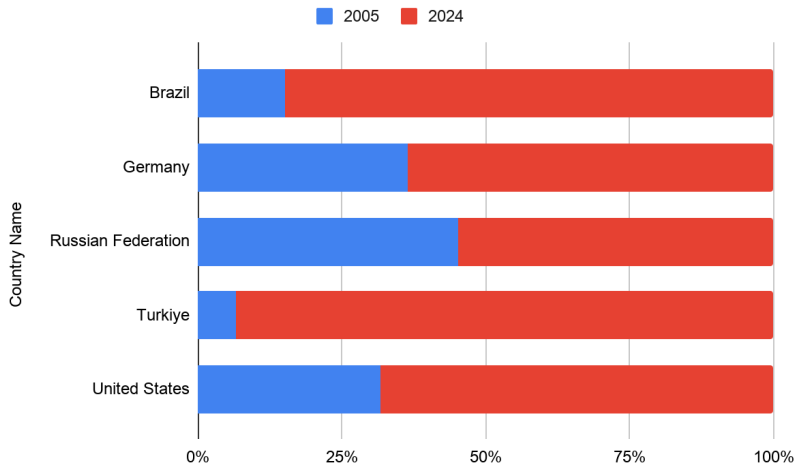
Section 4.3 Remittance

Remittance systems show how the dollar dominance embeds itself beyond nations and firms into ordinary, everyday financial transactions. Remittances rely on the daily accumulation of millions of people who have no choice in which currency to use and thus constitute one of the most important conduits of dollar dependence. Estimates show that flows of global remittances rose from $865 billion in 2023 to $905 billion in 2024, quickly becoming the largest source of external finance for lower-income countries (except China) since 2015 (Migration Data Portal, 2024). These funds, which are lifelines for families in South Asia, Sub-Saharan Africa and Latin America, flow almost exclusively through infrastructure dominated by dollars.

This is because of how cross-border transfers are routed. A migrant worker will usually pay cash or make a bank transfer to a money transfer operator or bank, which must then deliver the funds to a bank in the recipient's country. Unless the two institutions have a direct relationship, the payment passes through one or more correspondent banks, each holding accounts with the next, with instructions usually sent via SWIFT. Where the sending and receiving currencies are rarely traded directly, the funds are often converted first into dollars and then into the recipient's currency, because each currency's market against the dollar is deeper and cheaper than the direct market between them. Every step in this chain, including each correspondent bank and each currency conversion, adds a fee or an exchange rate margin. Migrant workers have little control over this routing; they must use whatever system their bank or transfer operator relies on.

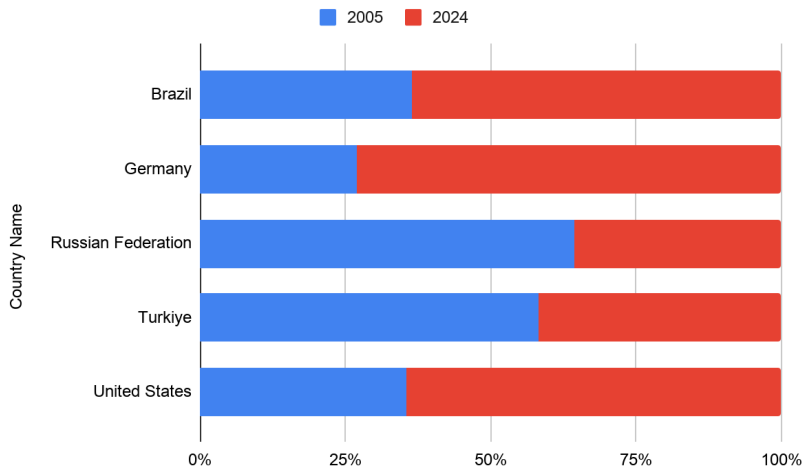
The burden of this lies almost exclusively with people who have little to no resources or income. The expense of this money transfer is particularly large. Globally, in Q2 of 2024, the average expense was approximately 6.65% per a $200 transaction. While the 6% appears to be very small as a percentage, it is quite large when the size of the amount is taken into consideration. Low- and middle-income countries received nearly $656 billion in remittances in 2023 alone. In 60+ countries, remittances account for atleast 3% of GDP. As such, the "drag fee" associated with the transfer of funds via U.S. dollar-based systems on third-world countries constitutes an "invisible tax" on those same countries (World Bank, 2022). Additionally, when SWIFT transactions go through multiple banks, there is generally $15-$30 processing fee charged by each bank. These fees add up to billions annually (Sofi Learn, 2026). For example, in Tajikistan, where remittances account for more than 50% of its GDP (World Bank, 2022), it is detrimental because these fees do not go to the families that they were intended to support, but instead are paid to banks in developed countries.

Figure 4: Personal Remittances Paid in US$



Source: World Bank

Figure 5: Personal Remittances Received in US$



Source: World Bank

Figures 4 and 5 compare personal remittances paid and received in USD in 2005 and 2024 across 5 nations: Brazil, Germany, Russia, Turkey, and the United States of America. As shown in Figure 4, on the remittances paid side, the 2024 volume (red) largely dominates the 2005 volume (blue) for every country. Turkey and Brazil show the largest proportional growth, with their 2024 totals far surpassing their 2005 totals, consistent with both countries' growing roles as destinations for migrants, including refugees from Syria in Turkey and from Venezuela in Brazil. While remittance data is reported in USD by the World Bank, these statistics are not necessarily indicative of the currency in which the transfers occur. So in truth, the data is best interpreted as evidence of increasing remittances, rather than direct proof of increasing dollar domination.

The patterns for the recieving side of money transfers (Figure 5) are somewhat different from those for receiving. The total amount sent to Brazil, Germany and the U.S. increased by at least two times between 2005 and 2024. This increase is indicative of higher immigration rates during these years. In contrast, the amounts sent to Russia and Turkey were lower in 2024 compared to 2005. It is probable that the major contributing factor to the decrease in Russia was the interruption of transfer routes due to the disruptions caused by the sanctioning and exclusion from SWIFT after February 2022. The probable cause for the lower volume in Turkey is ongoing volatility with its currency.

Promising new corridors being built are meant to bypass correspondent banks directly (ChainLink, 2026). Dollar-backed stablecoins are increasingly used for household remittances, especially along the U.S-Mexico corridor, where over $6.5 billion of remittances were processed via this very infrastructure in 2024, and fees fell below 2%, compared to the industry average of around 6% (CryptoTimes, 2026). But a key issue is that dominant stablecoins themselves are reliant on USD. So, even though corridors have reduced fees collected, reliance on dollars has, in reality, not been reduced (IDB, 2026). Building corridors for remittances requires coordination among many countries, and this makes scaling very difficult.

There are 200 million migrant workers stuck in this dollar-domination cycle because there is no viable alternative with scale, legitimacy and reach. Since 2000, remittances have grown by 650% according to IOM data, and with this growth, dollar entrenchment becomes deeper and harms millions who have no power to change this debilitating system.

4.4 The Intersection of these 3 Channels

Although trade invoicing, geopolitical influences, and remittances operate differently through several aspects like market coordination, state coercion, and structural dependency, they have the same base: the payment infrastructure through which dollars flow. The correspondent banking network and SWIFT messaging that allow businesses to settle dollar-invoiced transactions are the same networks migrant workers use to send money home, and the same networks the United States can restrict through sanctions. Because of this common payment infrastructure, the channels enhance one another. Dollar-based invoicing is widespread across countries, making it essential for businesses to access dollar-based payment systems; as a result, excluding them becomes expensive, increasing the coercive potential of sanctions. It is this very same highly connected payment infrastructure that makes the dollar route the most readily available option for sending remittances with high transaction costs.

In addition to having the same barriers to change as each other, the channels also have a common barrier to change. Any individual player will incur high costs if they choose to leave the dollar. A business that stops issuing invoices in dollars will lose a competitive advantage. If a country tries to create an alternate payment system, it will likely gain no benefit unless all its trading partners also adopt it. Migrant workers cannot utilise corridors supported by neither their banks nor recipients. When Russia was sanctioned in 2022, there was a quick transition in trade settlements

to ruble and yuan while at the same time impacting routes through which migrant workers sent money back home through western financial networks. Therefore, progress in one channel depends on progress in others; this is why dedollarization has taken so long.

5 CONCLUSION

Dedollarization has become one of the most debated questions about the international monetary system since the end of Bretton Woods, yet the dollar's continued dominance casts doubt on how far and how fast it can proceed. The dollar still represents 57% of international reserves (International Monetary Fund [IMF], n.d.) and nearly half of all global trade invoices are denominated in dollars (Boz *et al.,* 2020). Therefore, while some researchers have shown that dollar dominance continues to be entrenched in economies (Bahaj and Reis, 2022; Gopinath and Stein, 2018; Arslanalp *et al.,* 2022), they pay less attention to how it works through specific channels and how those channels affect society. This paper addresses this important gap by examining three channels: trade invoicing, geopolitical alliances and sanctions, and remittances, as together, they create a picture of the macroeconomic, political, and human dimensions of dollar dependence.

Dollar dependence affects the three different channels in unique ways, with varying depth, breadth, and consequences. Trade invoicing is arguably the most ingrained in the international monetary system: the Dominant Currency Paradigm (Gopinath *et al.*, 2020) traps each firm in every economy, because a firm that abandons the dollar while its competitors do not faces unstable prices relative to its rivals and loses market share. Its spillover effects — including the 1.9% reduction in output in emerging economies per 10% USD appreciation (IMF, 2022) — affect all of society, making it the largest in scale and harm caused. Geopolitical coercion impacts targeted states, as demonstrated by the freezing of $300 billion of Russia's reserves (Congress.gov, 2023). Remittances are the harshest on commoners, as they extract a 6.65% fee (World Bank, 2022) from 200 million migrant workers (IOM, 2024). All three channels share the same structural barrier, and the disadvantages of leaving the dollar stem from specific causes rather than from a simple inability to switch. In trade, beyond the price instability noted above, dollar-priced inputs and cheaper dollar credit and hedging reward firms for staying in dollars, and each of these advantages exists only because other firms also use the dollar. Similarly, in geopolitical terms, nearly every dollar payment for goods and services clears through United States banks. So when states are excluded, they are cut off from international trade itself. Alternatives like CIPS and SPFS do not add much value until partner nations join. In remittances, the dollar currently represents the least expensive way to move between thinly traded currency pairs; therefore, transfer operators continue to move funds through it and migrant workers have to absorb these fees. The three channels rely on correspondent banking and SWIFT (Section 4.4); whoever begins the process of changing currencies bears all the costs. Conversely, the benefits of changing currencies will only begin to manifest themselves when other parties have followed suit. This is why progress in one channel depends on progress in the others.

Governments must demonstrate commitment towards this cause. For example, for the countries in BRICS, ambitions became misaligned, largely undermined by unclear objectives between China, India,

and Brazil (Chicago Policy Review, 2025), illustrating how political feuds stall even well-defined alternatives like CIPS (FXC Intelligence, 2025). Firms need to coordinate with one another as well; a coordinated effort by all firms in a particular industry is required in order to mitigate dollar dominance. Migrant worker populations have the least power, so they may be able to opt into low-cost alternatives such as stablecoin corridors, which processed over $6.5 billion along the U.S.–Mexico corridor in 2024 (CryptoTimes, 2026), although because most stablecoins are dollar-backed, these lower costs without reducing dollar reliance; however, there needs to be cooperative regulation across multiple international borders for these options to be scaled.

In future studies, it would be helpful for researchers to examine how these channels actually interact more deeply, ideally using quantitative data. An important example of this phenomenon is how geopolitical sanctions applied on countries disrupt trade and interfere with remittance flows, while concurrently coercing nations, as demonstrated by Russia's post-2022 trajectory (Verdier, 2025; Congress.gov, 2023). Another limitation of this paper is that it does not investigate the role of international institutions. IMF conditional lending structure (Claessens *et al*., 2013) and stablecoin regulation (IDB, 2026) both determine the feasibility of alternatives in ways this paper has left unexplored: this means constraints against dedollarization could be even stricter than suggested. Furthermore, this paper only looks at five economies, and this limits generalisation globally. In addition, the invoicing data used here end in 2018–2019 and therefore do not capture changes since the 2022 sanctions. Although several constraints limit complete dedollarization, this study shows that no single country can do it. The main issue is how other countries' networks will route transactions through current U.S.-linked infrastructure,, and the cost the first mover incurs when it tries to convert away from the USD. Therefore, dismantling dollar-based global economic leadership would require coordination among at least three separate systems: trade, geopolitical interests, and the international monetary system.

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