Costello College of Business
FUTURE OF FINANCE LAB
George Mason University

The Future of Dollar Dominance - Stablecoins, Autarky, and the Rise of Small Nations' Currencies *

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Abstract

Since the Bretton Woods Conference in 1944, the US dollar has been the dominant global currency. Although its influence remains significant, its future trajectory remains uncertain. Using an expansive set of macro indicators, we examine the likely outcomes of US dollar dominance in the face of stablecoin adoption around the world. In particular, we study the interaction of three factors shaping the dollar's international role: USD stablecoin use, Treasury holdings by central banks, and dollar use in cross-border payments. These three factors are often examined independently, but our report explores the interaction of such factors. We discuss viable future outcomes, including a fragmented trade/currency ecosystem and the likely stability of each outcome. Finally, we note the fall off in the soundness/governance of US institutions which back dollar strength portends a demand driven argument for the rise of well-governed, open currencies gaining a foothold in cross-border payments and foreign central bank holdings.

*We appreciate the support of the Advisory Board of the Future of Finance Lab at George Mason University. This is a rough draft. Please do not cite without permission. Corresponding author: Costello College of Business, George Mason University, 4400 University Drive, Fairfax, VA 22030; dhorstme@gmu.edu

1 Introduction

The post-World War II era has been dominated by US hegemony and an ever-expanding US dollar network. Starting with the Bretton Woods Conference, the US cemented the US dollar as the central currency of transaction for international commerce. This international dollar network was extended as the petrodollar came into existence with the 1974 cooperation agreement between the US and Saudi Arabia, and it further grew as the Eurodollar market took hold in the 1980s to early 2000s.

Yet, although the US dollar still remains the top held currency by central banks around the world, and is still the primary currency of settlement in international trade, cracks in the dollar network have begun to appear. Saudi Arabia has begun to explore alternatives to the Petrodollar system with China, new forms of money transmission in international trade (mBridge) are taking form, and the US has made significant steps back on the world stage.

Not only are these headlines in the newspaper, but market wide evidence is beginning to emerge that the US's dominant currency and debt has lost its luster. Recent papers by Caballero (2026) and Lustig (2026) highlight that the safety premium on US debt has disappeared and there is strong evidence that the US is losing its flight to safety status which has persisted for 50+ years.

Simulatenous to all of this, there are positive elements for the story of the dollar in the near future - namely the expansion of the US dollar via the proliferation of stablecoins around the globe. In this paper, we weigh the positive and negative elements against each other and examine what outcomes are most likely with respect to dollar supremacy in the near future.

We examine three dimensions in particular: the role of the US dollar in international trade, the holdings of US Treasuries, and the rise of USD stablecoins. We examine these in conjunction and conjecture on future paths the US dollar may take.

In particular, we note that the most likely outcomes are ones where the US dollar regains lost footing in the holdings abroad by central banks as stablecoins proliferate around the global, or if stablecoins fail to gain ground, the most likely outcome is a continued decline in holdings of Treasuries by foreign central banks. The least likely outcomes we note are ones where stablecoins continue to expand globally and the dollar simultaneously falls more in its share of currency transactions/foreign reserve holdings.

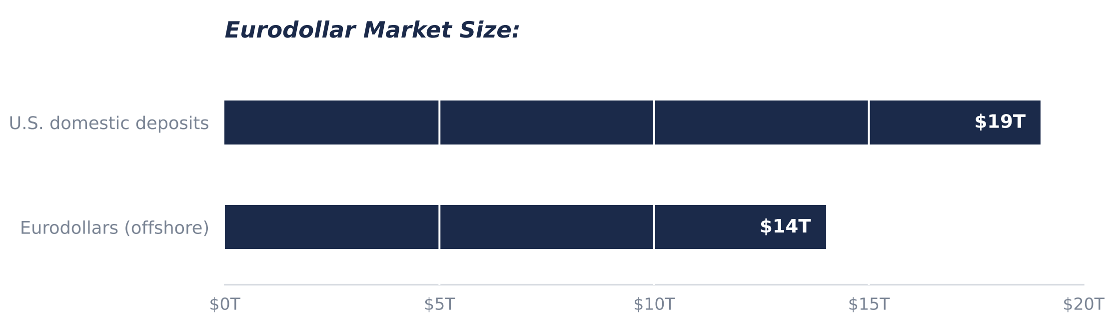
Next, we explore who may benefit in a world where the US continues to exit the world stage. Aside from the obvious second power in the world (China), we discuss how small, well governed, countries have an opening to expand their reach in the fraction of foreign central bank holdings as well as the fraction of trade. Our main argument is that if the US is stepping back from providing the world with a form of well-governed (strong institutional) debt, investors will demand another currency that is stable, non-authoritarian and open to capital flows. Further, small/well governed countries have the added bonus of not having the option to weaponize their currency. From the perspective of a user of an international currency, the feature of not having to worry about being excluded from modern day rail networks (i.e. SWIFT), as the US has done in the past to numerous aggressor/competitor countries, is a very desirable thing that smaller countries can offer in a currency that moves globally.

Past works into dollar supremacy focus on the history of the dollar and how it relates to dollar expansion (Eichengreen, 2022, Arslanalp, 2022, Kamin, 2026). We add to the existing literature on dollar supremacy by exploring the future outcomes of US dollar supremacy and how it relates to the expansion of stablecoins. Finally, we examine how certain countries may take advantage from the US' step back from the world international stage.

2 Dollar Dominance Today

Central banks, corporations, and individual consumers around the world turn to dollars for liquidity and stability. This dollar dominance is reflected in treasuries, dollar use in cross-border trade, and most recently, stablecoins.

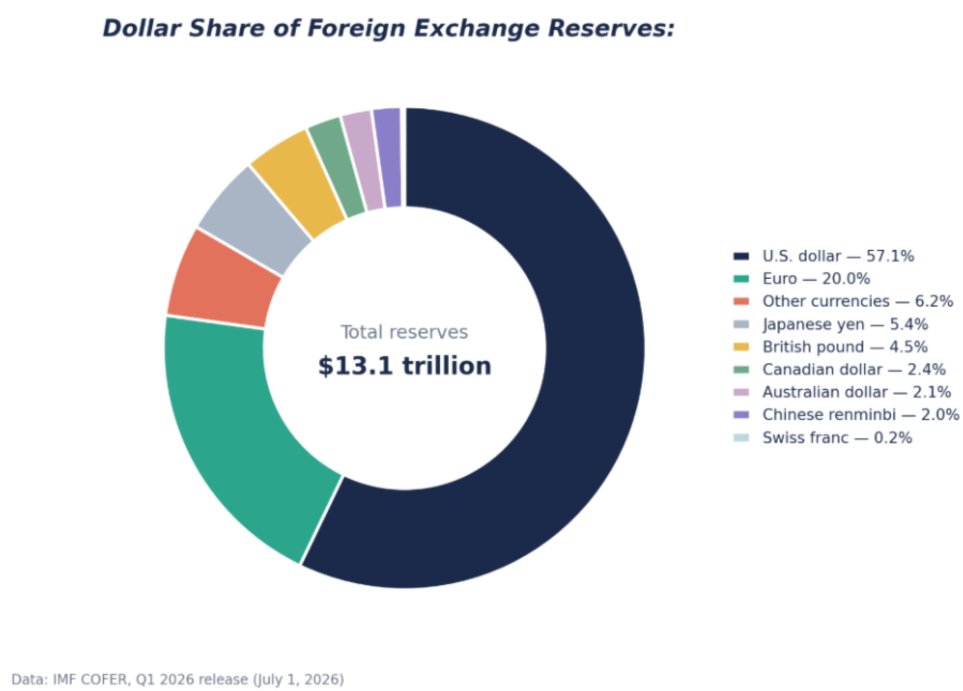
Dollar hegemony is strong and measurable. For example, almost ninety percent of foreign exchange transactions include the dollar on one side (Atlantic Council). Additionally, three-quarters as many dollars are deposited at banks overseas as domestically. These are called eurodollars, and an estimated 14 trillion of them are in circulation (Beckworth).

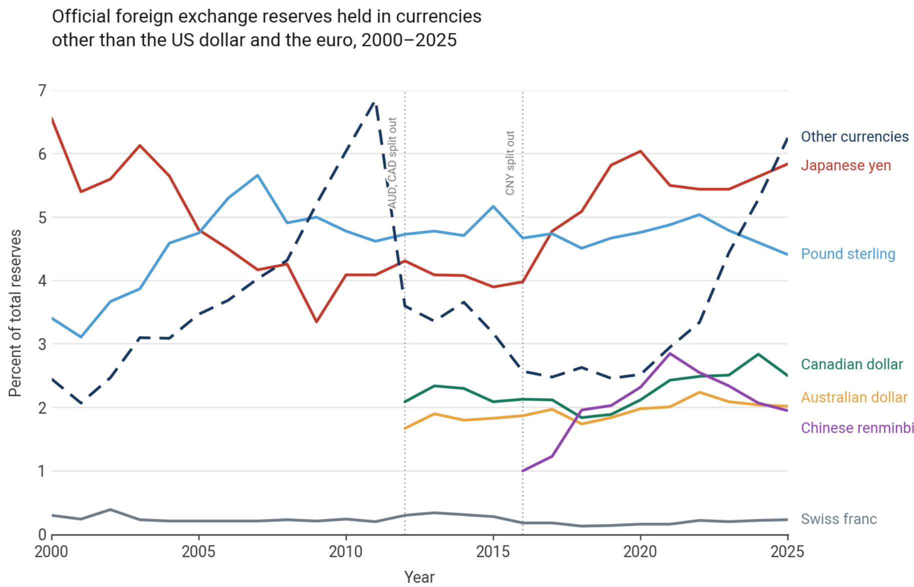


Data: Federal Reserve Bank of St. Louis (FRED series DPSACBW027SBOG); Eichengreen, Blustein, and Greeley, Macro Musings, ep. 554 (Mercatus Center, 2026).

Four factors underpin this dollar hegemony: size, stability, convenience, and lack of alternatives. First, the size of the global market creates a network effect. If other countries or companies all use dollars, international business, trade, sourcing, and partnership become hard without dollar assets. Second, exchange rate and treasury stability mean investors can hedge risk and predict steady return, even if their domestic currency is hyper-inflating. Third, dollars are convenient to use and hold. Finally, even if investors wanted to switch currencies, they lack viable alternatives. The yuan, for example, only accounts for about two percent of reserves, and China lacks checks and balances and transparency. The euro's growth, meanwhile, is limited by strict business regulation, fragmented markets, Russian threat, and over-reliance on the American military. Stablecoins, for their part, lack widespread usage, and in any case 99 percent of stablecoin is already dollar denominated (Waller, 2025). Taken together, these four reasons mean that dollar dominance is structurally embedded and likely to continue for the foreseeable future.

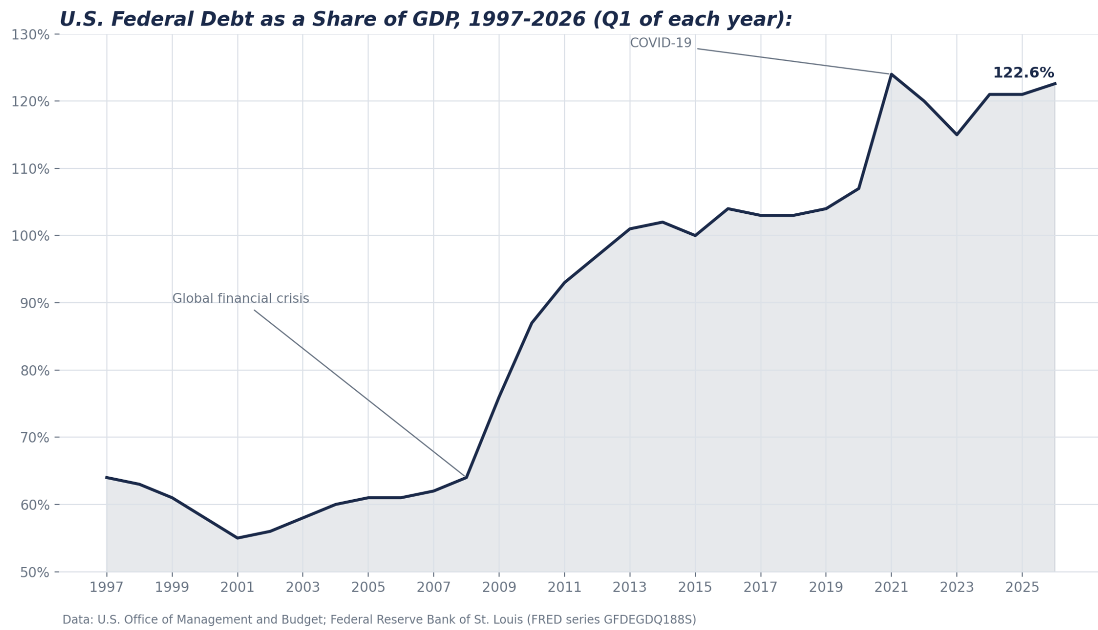
However, the dollar's share in foreign exchange reserves has been declining about 0.5 percentage points each year, from 71 percent in 1999 to roughly 57 percent now (Braun, 2026). Three quarters of this money went to nontraditional currencies (Arslanalp et al., 2022), showing investor diversification.





Source: IMF Currency Composition of Official Foreign Exchange Reserves (COFER), annual data, shares of total reserves. Australian and Canadian dollars were separately identified from 2012 and the renminbi from 2016; before those dates each is contained within "Other currencies." Series revised in December 2025 to allocate 100 percent of reserves.

These foreign exchange reserves are often held in treasuries, a market that offers steady return at a low risk. In 2025, the treasury market surpassed 30 trillion dollars (Stanton, 2025). This strong demand has enabled the US government to finance debt through treasuries at low rates. The national debt is currently 39.4 trillion dollars (Peter G. Peterson Foundation, n.d.), or over 120 percent of annual GDP (US Department of the Treasury, n.d.). As the debt continues to rise, buyers may fear default. This could raise treasury yields and increase the cost of debt service. The government also might mint new dollars, which could unleash inflation. It could even increase American trade deficits (Obstfeld, 2026). In order to finance the debt, the government might even need to raise taxes or cut spending.



Additionally, investors increasingly see treasuries as a riskier investment than they once did (Ip, 2026). This is illustrated by the fact that their rates are now comparable to AAA-corporate bonds, people no longer flock to treasuries in uncertainty, and foreign exchange managers are diversifying away from dollar denominated assets. The government, however, assumes its debt is safe, even long term bonds.

In August 2026, Treasury Secretary Scott Bessent doubled the size of Treasury's bond buyback program in just a week, temporarily knocking the 30-year yield down by its biggest single-day drop in a year, but the WSJ argues this is just "fiddling with the edges", and indeed rates reversed the next day (Mackintosh, 2026). Long term yields keep climbing on deeper pressures (large fiscal deficits, the AI investment boom soaking up capital, and geopolitical strain), with the 30-year hitting its highest level since before the 2008 crisis and a key inflation-adjusted long term yield gauge at its highest since 2009. Bessent's broader strategy, leaning on buybacks and shifting issuance toward short-term T-bills instead of selling more long dated debt, can cap long yields for now, but leaves the government more exposed if short-term rates rise, since debt has to be refinanced more often. The one upside: higher yields tend to be somewhat self-correcting, as they discourage corporate investment and cool the economy, easing rate pressure over time.

The dollar is also the dominant currency in international transactions. Indeed, many commodities, such as oil, are priced in dollars. In most regions (except for Europe, where the euro dominates), the large majority of trades are dollar denominated (Kamin, 2025). Companies, therefore, hold dollar reserves in order to participate in trade networks.

However, American adversaries (such as Russia and Iran) are shifting towards the yuan and Chinese payment infrastructure such as CIPS and mBridge (Jones et al., 2026). This transition allows them to avoid US sanctions.

More countries, such as Saudi Arabia, are joining this payment system. The Saudis have also begun Renminbi based trade. If this trend continues in the oil sector, the petrodollar could collapse, weakening the dollar and US treasury demand.

The US current account deficit is another issue, although it should not simply be blamed on the dollar. The Peterson Institute for International Economics argues that the dollar's international role is not the main reason for the American current account deficit. Instead, the deficit is connected to larger differences between US saving and investment. This means that even if the dollar became less important internationally, the US would still have to deal with its underlying economic problems (Obestfeld, 2026).

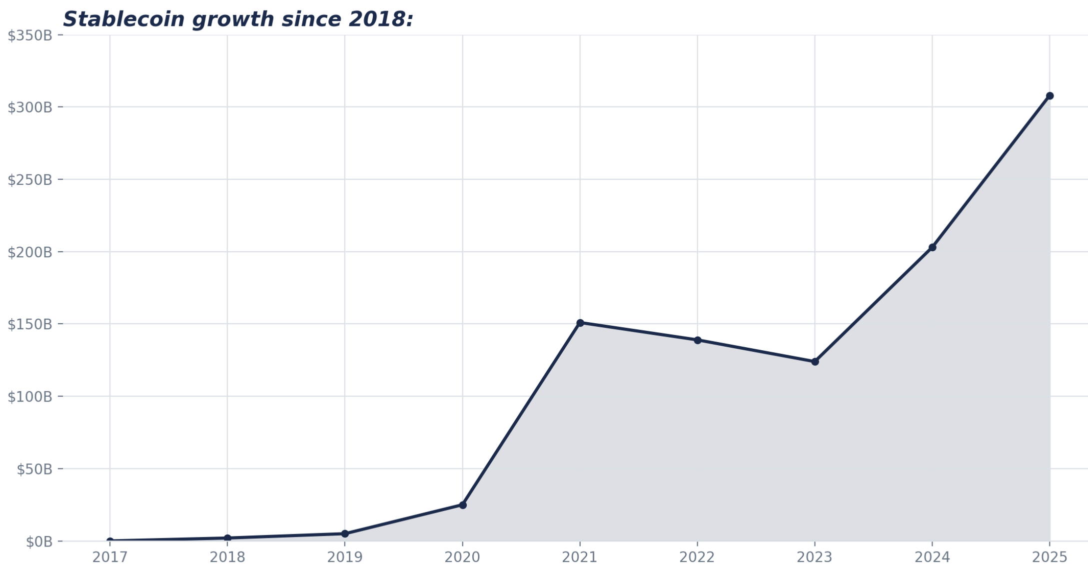
At the same time, the dollar still has important advantages. Aizenman et al. (2026) found that countries with larger dollar reserves are better protected from some of the effects of US monetary policy. This gives countries a reason to continue holding dollars even if they want to diversify their reserves.

Overall, the dollar will probably remain the world's most important currency for a long time. However, it may become less dominant as other currencies, gold, and new payment systems become more popular. The future is more likely to be a gradual change than a sudden collapse of the dollar.

2.1 USD Stablecoins

Stablecoins could also affect the future of the dollar. Most stablecoins are currently based on the US dollar, so their growth could actually increase the use of dollars around the world. However, stablecoins are still used mainly for trading and transfers rather than everyday payments. The Federal Reserve Bank of Kansas City estimated that only about 0.7 percent of stablecoin activity was being used for payments (Federal Reserve Bank of Kansas City, 2026). This means stablecoins are currently more likely to expand the use of the dollar than replace it.

The blockchain technology that stablecoins are built on creates quick, cheap transactions. The GENIUS Act, which was passed by Congress in 2025, regulates and legitimizes stablecoin, aiding further growth. This act only regulates companies offering payment stablecoins, which are redeemable for 1 dollar (as opposed to algorithmic stablecoins) (Anadu, 2026).

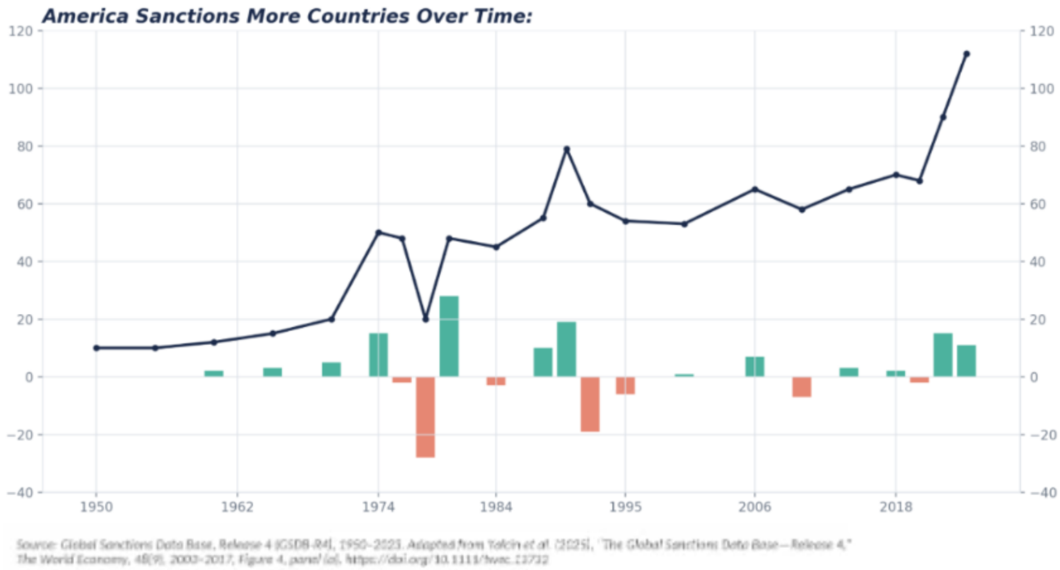


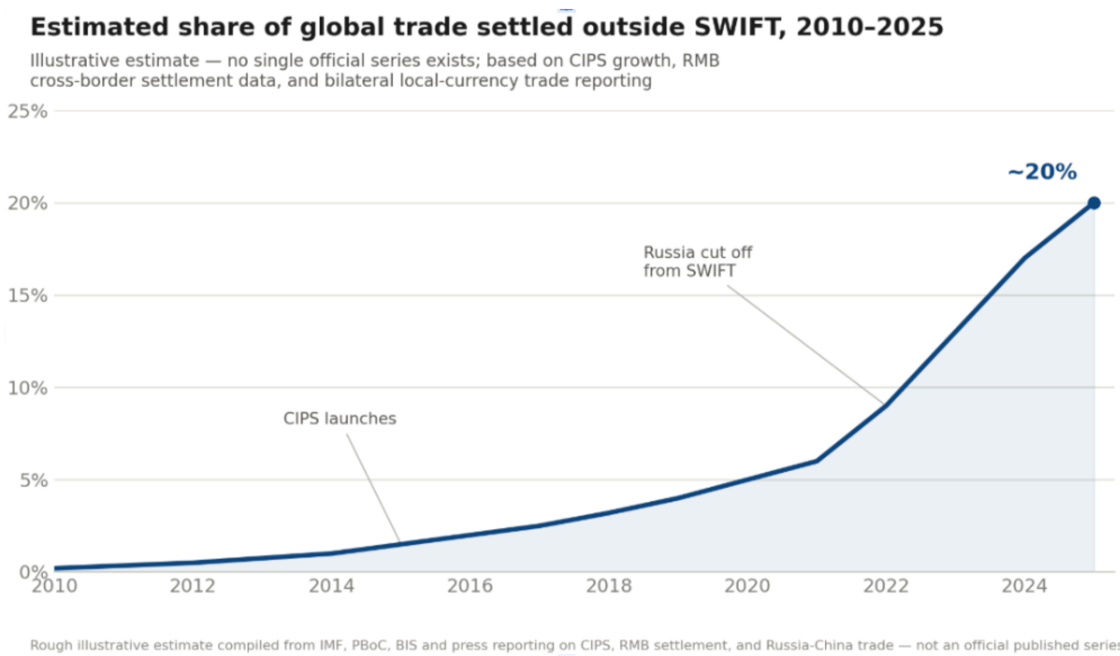
Data: Artemis Analytics; year-end values for 2017-2025 as compiled by Paxos. Figures reflect the last week of each year.

2.2 Economic Sanctions

The United States controls the world's main reserve currency, giving America a lot of influence over global trade and finance. However, its increasing use of economic sanctions has caused some countries to question their reliance on the US financial system.

The number of countries sanctioned by the United States has grown steadily since the 1950s, suggesting that the US has increasingly relied on sanctions to advance its foreign policy goals and use the dollar as a source of power. As a result, some countries have become concerned about their dependence on the US led financial system, especially when the US imposes sanctions without the support of its allies and partners.

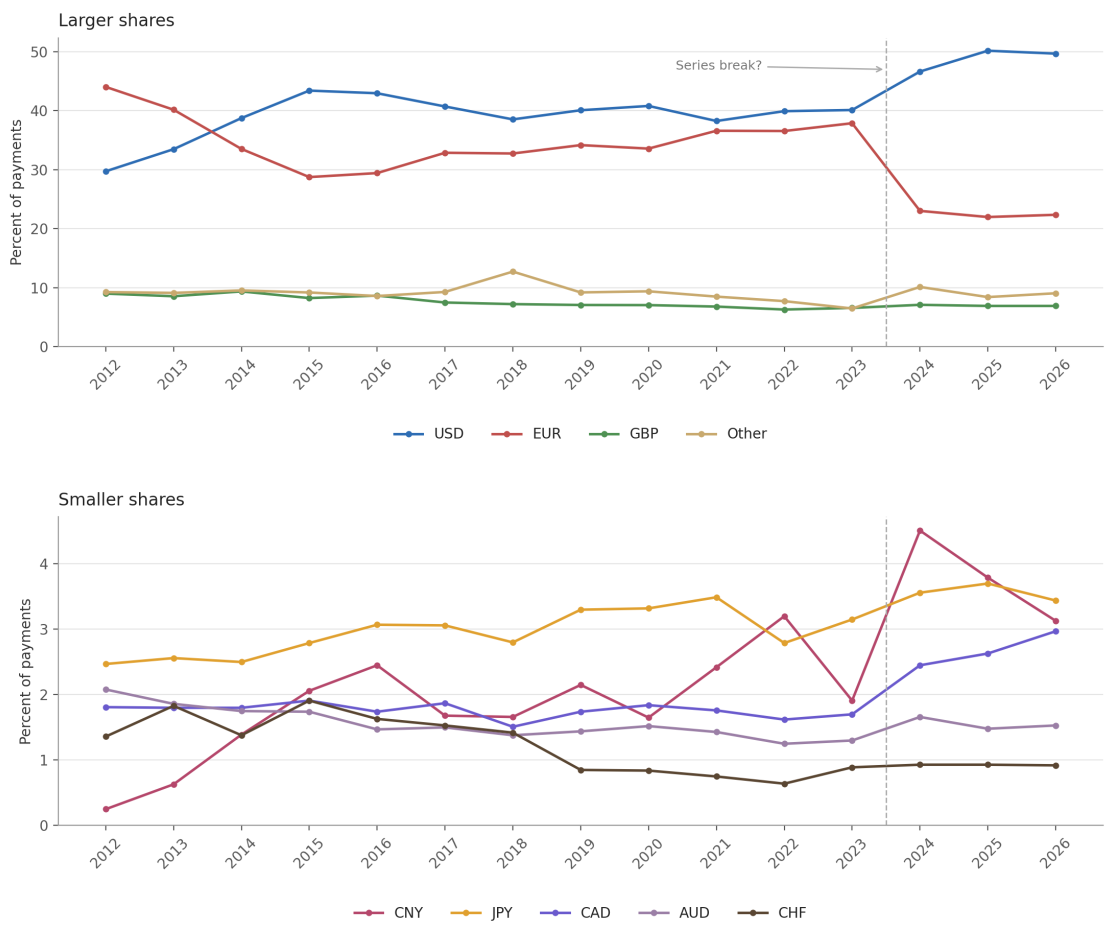




Countries like Russia, moreover, are using stablecoins to evade sanctions. Therefore, while stablecoins can expand dollar dominance, they can also lessen American political influence.

Additionally, more trade is being completed outside of the SWIFT global finance messaging system, which America and Western allies have leverage over.

World: share of international payments via SWIFT by currency
January of each year, 2012 to 2026

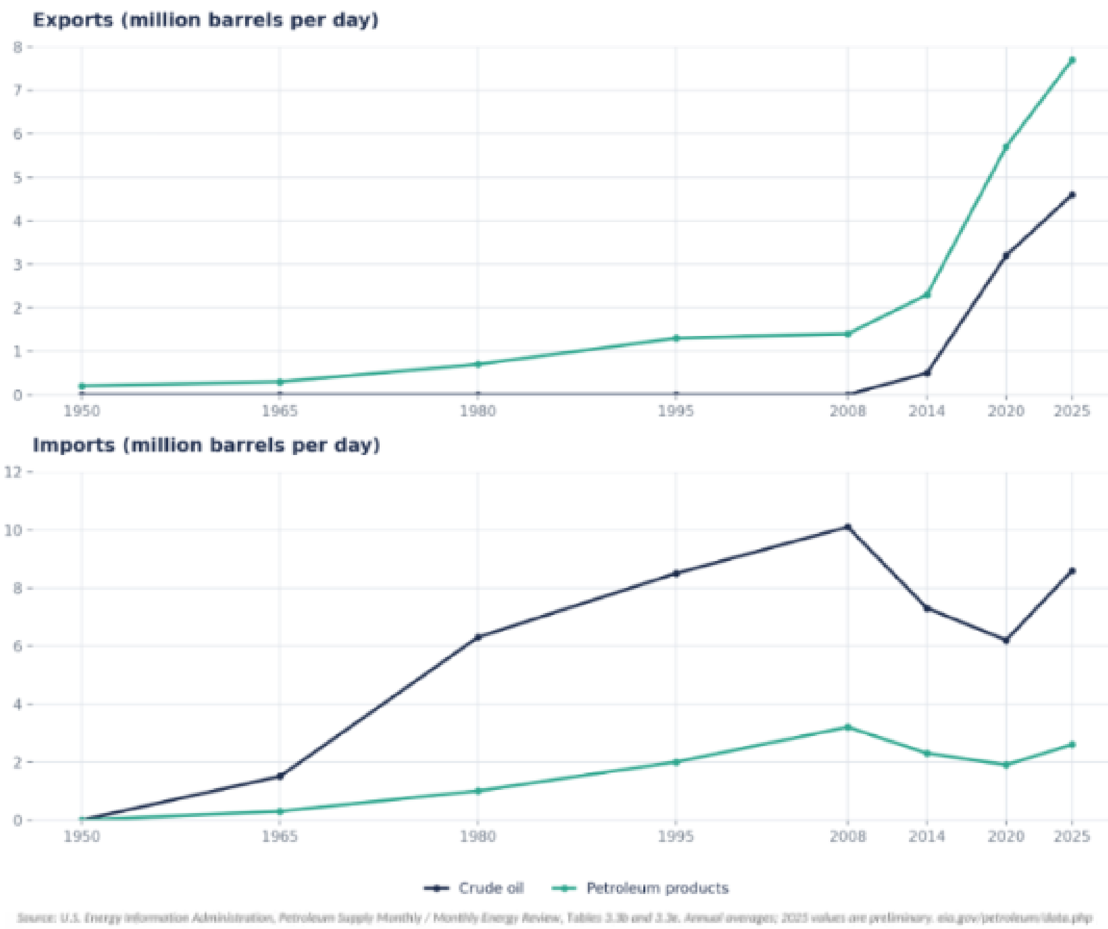


Source: MacroMicro. The dashed line marks the 2023 to 2024 step change, which likely reflects a change in what the series counts.

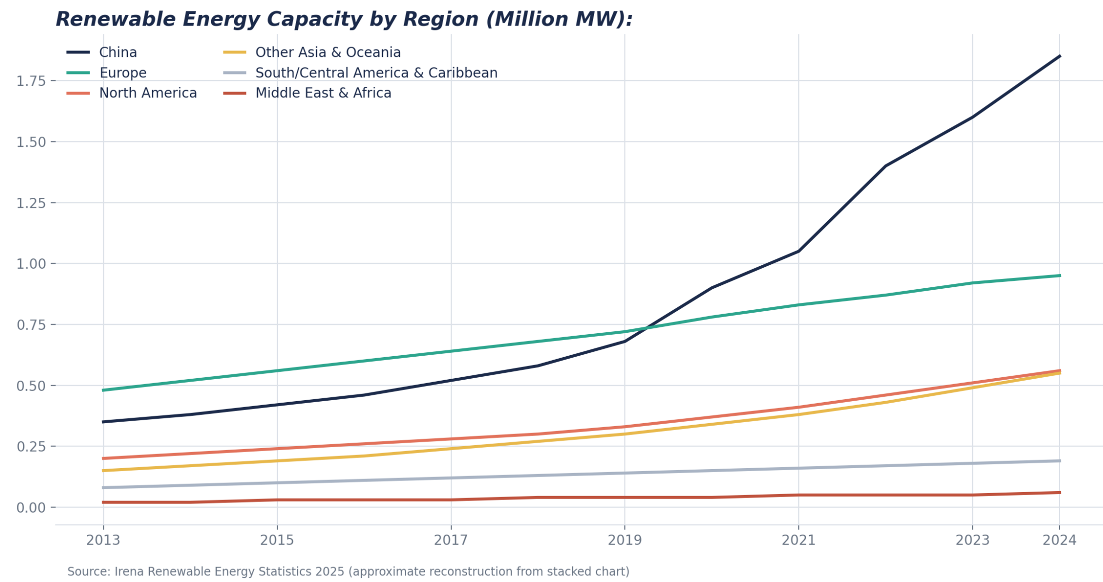
2.3 American Oil

For much of the twentieth century, oil was one of the most important sources of geopolitical power. Countries with large oil reserves held significant influence because the global economy depended heavily on petroleum for transportation, industry, and energy production. This made regions such as the Middle East strategically important, and the United States maintained strong political and military relationships in the region partly because of its dependence on foreign oil.

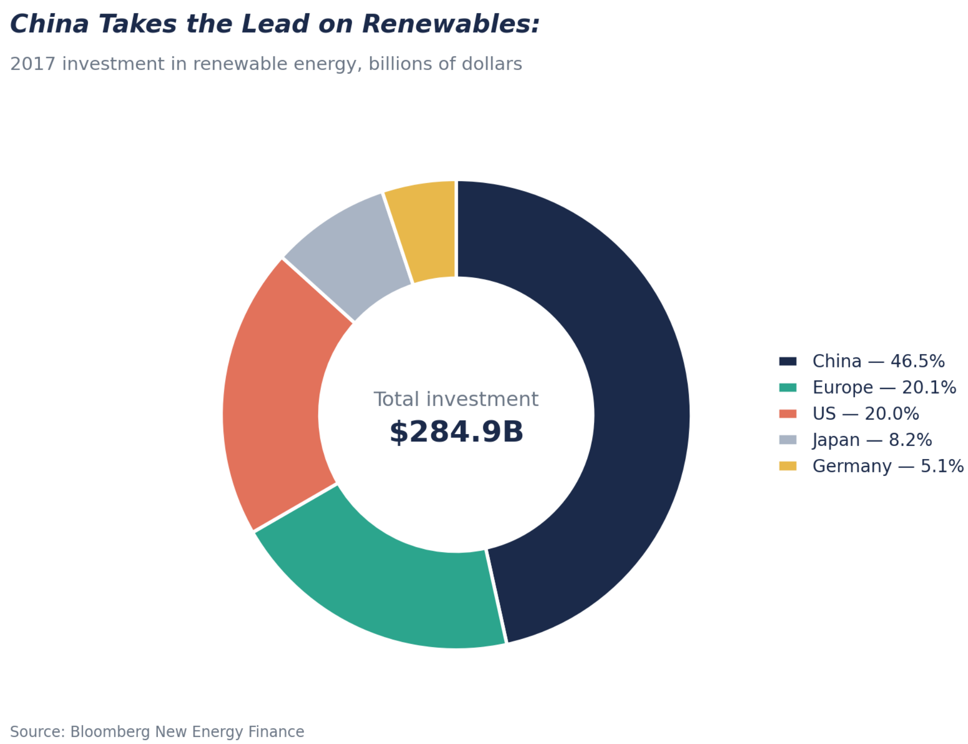
However, the position of the United States in global energy markets has changed significantly. The development of hydraulic fracturing and other drilling technologies led to a rapid increase in US oil production during the 2010s. As shown in the graph below, the United States moved from being heavily dependent on imported oil to becoming one of the world's largest oil producers and a net exporter of petroleum. According to energy historian Daniel Yergin, the shale revolution reshaped global energy markets by reducing a major strategic vulnerability for the United States. While oil remains important globally, the US is no longer as dependent on foreign energy supplies as it once was.



At the same time, the importance of energy is beginning to shift from traditional fossil fuels toward renewable technologies. Electric vehicles, solar panels, batteries, and other clean energy technologies are expanding rapidly as countries attempt to reduce dependence on fossil fuels. This transition could eventually reduce the strategic importance of oil-producing nations, but it may create new forms of competition over the technologies and resources needed for the green energy economy.



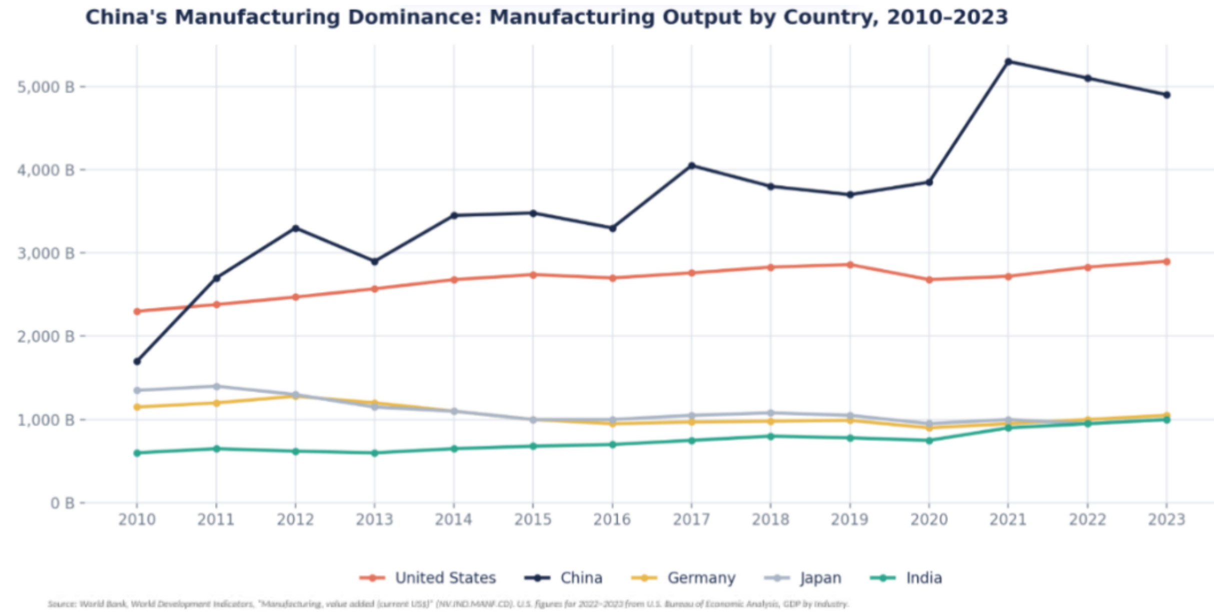
The transition to green energy also highlights the growing importance of manufacturing. While the twentieth century was heavily influenced by access to oil, future economic power may depend more on control over advanced industries, critical minerals, and supply chains. China has developed a dominant position in many clean energy industries, including solar panels and battery production. According to the International Energy Agency, China produces a majority of the world's solar panels and lithium-ion batteries, giving it significant influence over technologies that are expected to become increasingly important.



These changes do not necessarily mean that the United States will lose its global economic influence. Economist Barry Eichengreen argues that the strength of the US dollar comes from factors beyond energy, including the size of the American economy, financial markets, and institutional stability (2011). However, as the global economy transitions away from oil, the sources of geopolitical power may also change. Instead of being determined primarily by control over natural resources, influence may increasingly come from technological leadership, manufacturing capacity, and control over the industries of the future.

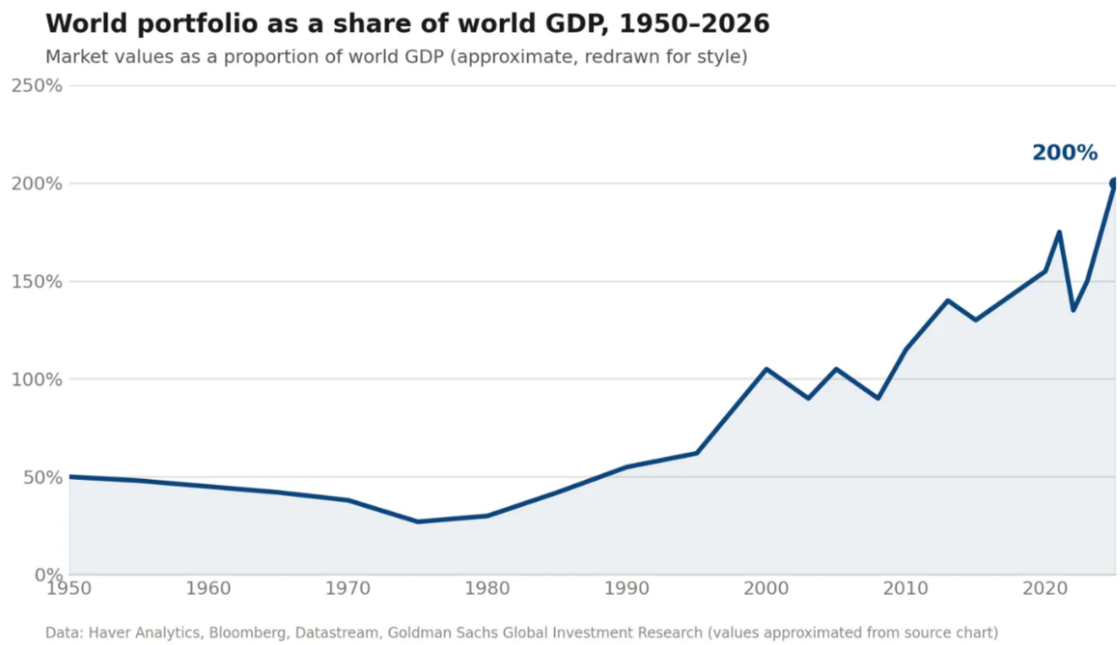
2.4 China's Manufacturing Dominance

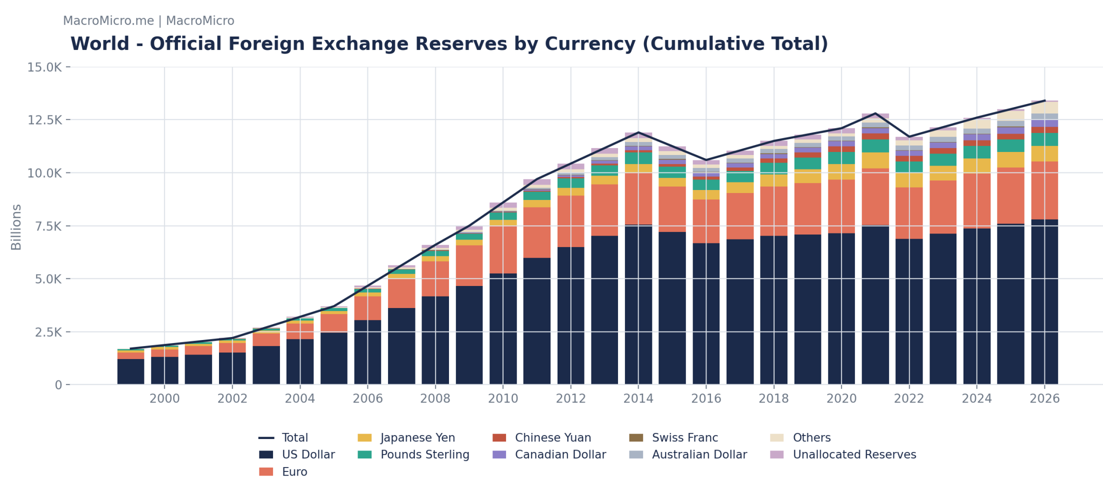
The US dominates global finance, but China has gained economic influence through manufacturing. The reaction to this information is mixed, as many countries have expressed worry about China's manufacturing dominance. For instance, the EU has shared concerns that state-supported industries in China create overcapacity (European Parliament, 2026, p. 9). According to the report, China has continued producing manufactured goods even when demand is low. This leads to significantly lower prices, putting pressure on manufacturers in other countries.



2.5 World Financial Growth

As the US and China grow, the world has too. Globalization, specialization, and technology have all fostered this change. Countries become more effiecient at producing specific types of goods such as cars or financial services. This leads to increased trade, creates dependency and grows the world economy. Additionally, even though the percent of reserves held in dollars has declined, the number of dollar reserves has risen because of global economic growth.





2.6 Markets Detaching and Autarky

As sanctions, tariffs, and weaponization of the dollar have all increased over the past 10 years, so has fragmentation in our equity markets. Below is a chart which highlights the drop in correlations of markets around the world since 2020s (Horstmeyer et al., 2024). The chart highlights how global equity market correlations have dropped considerably (especially with Russia and China) as trading partnerships have fragmented in the last five years.

	2015 to 2020	February 2020 to December 2023	January 2022 to December 2023
S&P 500	0.71	0.70	0.66
FTSE 250	0.69	0.71	0.60
DAX	0.68	0.71	0.64
CAC 40	0.68	0.69	0.62
NKX	0.62	0.63	0.56
HSI	0.56	0.35	0.22
SSE	0.42	0.35	0.16
TSX	0.70	0.73	0.65
RTS	0.57	0.42	0.10
BVP	0.65	0.68	0.63
KOSPI	0.54	0.59	0.37
SNX	0.56	0.63	0.50
IPC	0.57	0.65	0.56
AOR	0.64	0.71	0.63

Further, the war in Iran has continued to accelerate this trend. Countries that could once rely on the free flow of oil around the world, now realize there is a significant cost to depending on it. This coupled with the tariffs, has forced countries to re-think their alliances and where they will secure their energy. In a more fractured world, with less reliable trading routes, energy independence and a shift to autarky becomes more and more desirable for countries around the globe.

3 Future States of the US Dollar

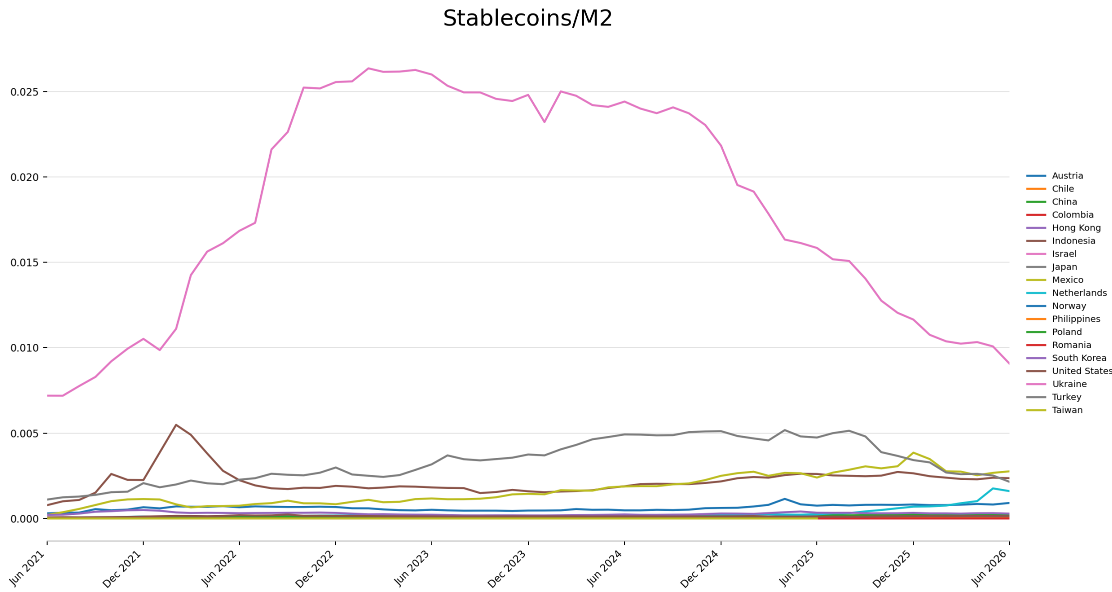
The rise of China as a manufacturing powerhouse is obviously of foremost concern to modern day US and Europe for that matter as it destabilizes local markets. But what impact if any will this have on the role of the US dollar globally? Below we explore the interaction of numerous variables that may affect dollar use in the future and be crucial to dollar dominance into the next century.

In particular, we look at the effect of Stablecoin expansion on the desirability of the US dollar. We then look at how this interacts with the expansion/contraction of the US dollar's use in international transacitons as well as holdings across the global.

Before we proceed it is important to note the role of stablecoins in the ever expanding US government debt. By some estimates the US stablecoin market could reach over a trillion in size by the end of the decade, while it currently sits at around 300 billion. (Artemis Analytics, 2026).

Why is this important? Well, as the Treasury has also become less attractive as investors demand higher returns for holding US government debt, this has made it more expensive for the US government to borrow money and could weaken one of the main reasons foreign investors hold dollars (Ip, 2026). Stablecoins offer an off-ramp. Stablecoins are able to get US Treasuries in the hands of investors around the world and compete with local currencies abroad. This will put downward pressure on the yield of US Treasuries and also offer a release valve for the US's ever ballooning national debt to be financed more cheaply.

In the graph below, we collect stablecoin holdings by country (provided by Allium). The graphs highlight the fraction of stablecoins held in various countries globally normalized by M2. It is important to note that several emerging markets and those countries that have experienced currency crises in the past sit at the top of the list of countries with stablecoins indexed to a wallet (normalized by M2). In other words, stablecoin growth has been largest in emerging markets where dollars provide a real stabilizing and competing form of currency.



3.1 Expansion of US Stablecoin Adoption Around the World

First we consider the expansion of the US stablecoin around the world and what effect it may have on the simultaneous US dollar use in cross-border payments and foreign central bank holdings of US Treasuries. The four outcomes we consider in the analysis are (UP,UP) - which denotes that increased US stablecoin adoption is followed by increases in US dollar use in cross-border payments and increased foreign central holdings of US Treasuries; (UP,Down) - which denotes that increased US stablecoin adoption is followed by increases in foreign central holdings of US Treasuries and decreases in US dollar use in cross-border payments; (Down, Up) - which denotes that increased US stablecoin adoption is followed by decreases in foreign central holdings of US Treasuries and increases in US dollar use in cross-border payments; and (Down, Down) - which denotes that increased US stablecoin adoption is followed by decreases in foreign central holdings of US Treasuries and decreases in US dollar use in cross-border payments.

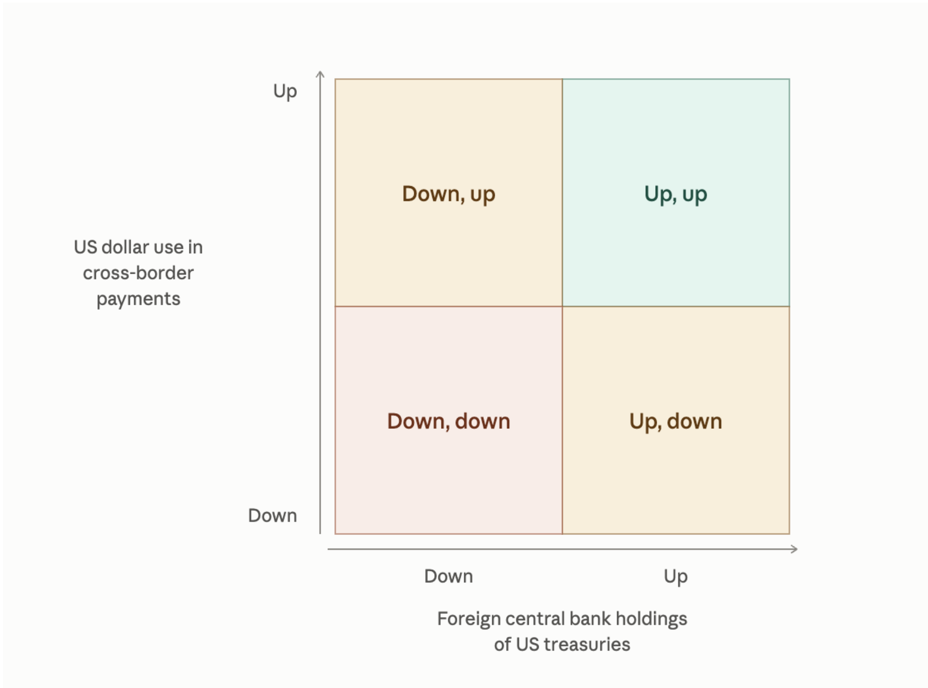


Figure 1: Expansion of US Stablecoin Adoption Around the World

We conjecture that (Up, Up) is the most likely outcome of increased US stablecoin around the world and (Down, Down) the least likely outcome. If stablecoins are going to proliferate around the world, we have already seen the evidence that emerging markets will be large demanders of these. If US dollar stablecoins are going to expand in a meaningful way, then they will have to move beyond a currency of savings and toward a currency of transaction. As US dollar stablecoins spread through emerging markets, they will have to begin to move between countries as a medium of exchange to continue their relevancy or to retain their utility to the user. For these reasons, we conjecture that if stablecoins are going to expand, then a necessary condition is that US dollar use in cross-border payments will also have to increase along with it.

As it pertains to Foreign central bank holdings of US Treasuries, we conclude again the most likely outcome is that if stablecoins are going to expand, we will also have to see an uptick in foreign central bank holdings. This is because ultimately, the end user of all of these increased Treasuries that are minted (backing stablecoins and the expanding US debt) will eventually flow internationally and most likely be held by foreign nationals or foreign central banks.

3.2 Contraction of US Stablecoin Adoption Around the World

Next we consider the contraction of the US stablecoin around the world and what effect it may have on the simultaneous US dollar use in cross-border payments and foreign central bank holdings of US Treasuries. The four outcomes we consider in the analysis are (UP, UP) - which denotes that increased US stablecoin adoption is followed by increases in US dollar use in cross-border payments and increased foreign central holdings of US Treasuries; (UP, Down) - which denotes that increased US stablecoin adoption is followed by increases in foreign central holdings of US Treasuries and decreases in US dollar use in cross-border payments; (Down, Up) - which denotes that increased US stablecoin adoption is followed by decreases in foreign central holdings of US Treasuries and increases in US dollar use in cross-border payments; and (Down, Down) - which denotes that increased US stablecoin adoption is followed by decreases in foreign central holdings of US Treasuries and decreases in US dollar use in cross-border payments.

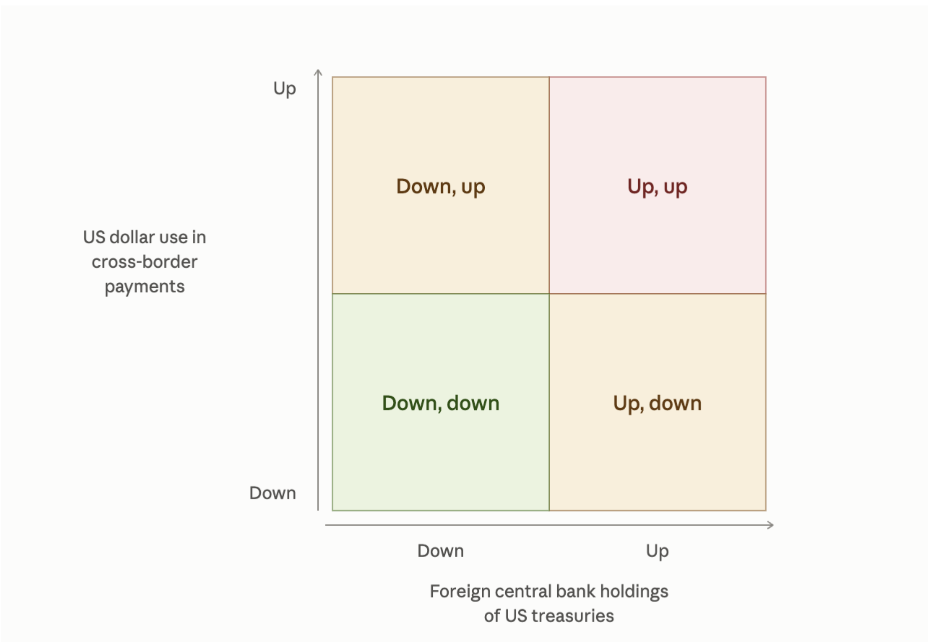


Figure 2: Contraction of US Stablecoin Adoption Around the World

We conjecture that (Down, Down) is the most likely outcome of decreased US stablecoin around the world and (Up, Up) the least likely outcome. If stablecoins are going to contract around the world, we expect this to be a major signal that even emerging market retail investors are fed up with the stability of the dollar as either as savings vehicle or a method of international trade. In either case, if US stablecoins contract around the world, and other currency backed stablecoin takes its place, this is undoubtedly a bad sign of international retail confidence in the US and most likely institutional confidence will fade along with it (i.e. international transactions in the USD will fall and holdings of US Treasuries will fall).

4 Rise of Small Nation Currencies

The move away from relying completely on the dollar does not only benefit large countries like China. Smaller countries may also start using their own currencies more in international trade. New technology and payment systems make it easier for countries to trade directly with each other without always going through the dollar.

One example is mBridge, a project that uses central bank digital currencies to make international payments. Saudi Arabia joined the project along with China, Hong Kong, Thailand, and the United Arab Emirates. This gives these countries another way to make cross-border payments without depending as much on traditional dollar-based systems (Ledger Insights, 2026).

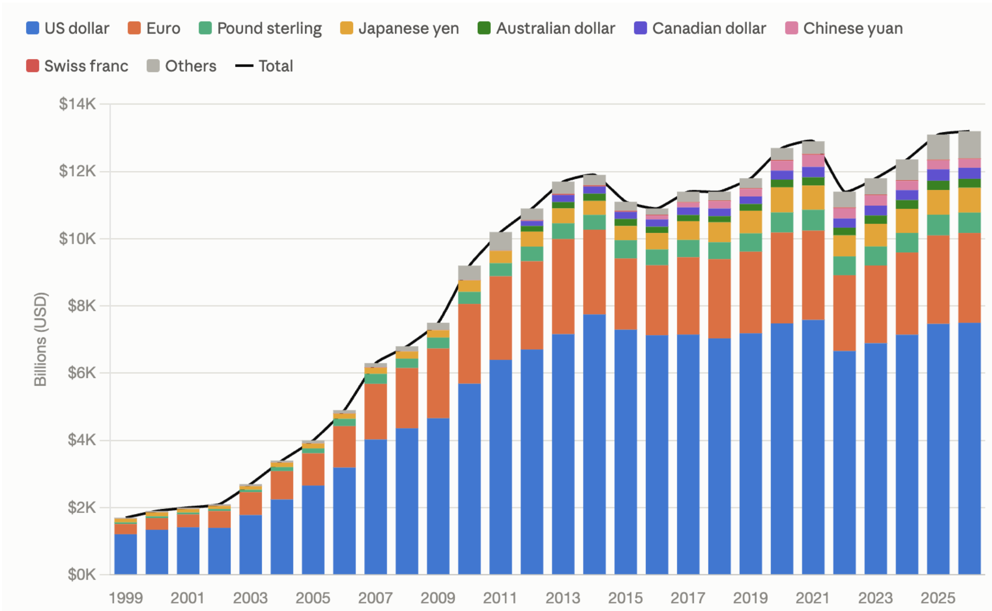
If the US does take a step back from the world stage, our contention is there still will be a demand for open currencies, that are backed by strong legal institutions and have a history of low volatility in currency values. It will be the countries that offer the same services that the US used to offer that stand to benefit the most in such a situation where the US recedes as a global power.

4.1 Governance Matters

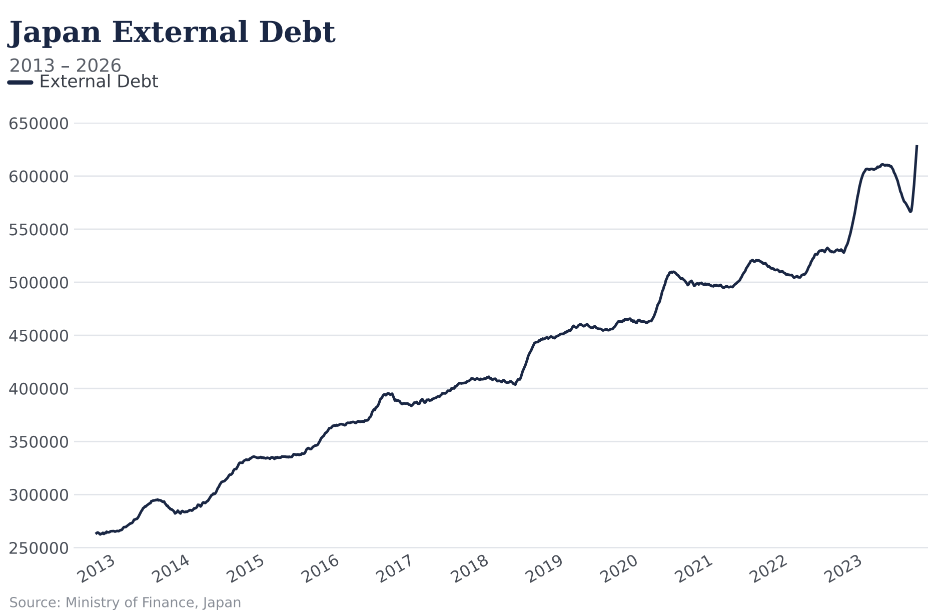
In a world where the US recedes from its role as an international stabilizer and provider of safe debt, it will be the same countries that can step in and provide what the US had provided that will benefit most.

Small countries that can commit to the following can benefit the most from a US retrenchment from its international commitments

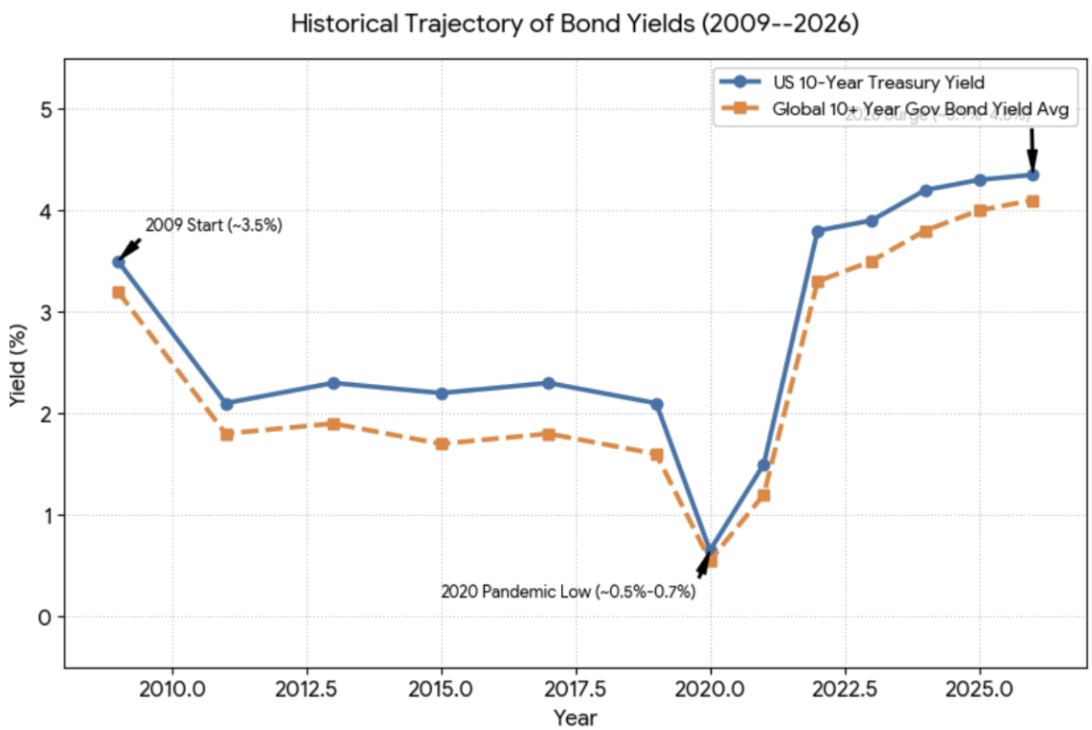
- An open currency that is not subject to capital controls
- A country with a strong rule of law, without risk of expropriation
- A legal system that manages its debt and debt to GDP is contained
- An independent central bank
- Independent judiciaries and democratic rule



To highlight how governance matters, we just need to see how much holdings of Japanese debt has shifted in one quarter as yields within Japan went up over fears of government deficits and debt. Between Q4 of 2025 and Q1 of 2026, holdings by central banks around the world of Japanese debt fell from 768B to 713B - a seven percent drop in holdings based on 0.30% shift in the 10-yr yield (1.9 to 2.2% over this time period). This can be seen in the chart above which documents Foreign Central Bank Holdings by country currency.



With global bond yields hitting a post-GFC high in 2026 (see average global 10 year sovereign bond yield below), the writing is on the wall that well governed national debt is in demand. And a country that can offer a currency/sovereign bond that is backed by well managed institutions, has an avenue to grow their share of international cross border transactions and/or securities held abroad.



4.2 Small Countries - Greatest Weakness Is Its Strength

While small, well governed countries may lack the international strength that the US brought to the table, this weakness may also be their greatest strength. By offering a currency that has all the institutional features of the USD but lacking the enforcement mechanisms that comes with it, this may be a feature that attracts investors that wish to move it cross borders.

The US understands the strength of its currency and has weaponized it in the most recent past. The US successfully was able to exclude Iraq from the international monetary order back in 2002 and recently has kicked Russia off of the SWIFT system (Kamin & Sobel, 2026). This power the US has to perform these moves has been challenged by some, but as the current global hegemon, it faces no real contender to seriously challenge such moves.

A collection of small, well governed currencies (with strong legal protections) could serve as a rough substitute for what the US dollar offers without a coordination problem that portends a weaponization of the SWIFT system or other rails network. From a currency demand perspective, this offers the user of the currency all of the benefits of a well functioning currency, without the risk of being excluded from the global transaction system.

4.3 Fragmented Trade/Currency Ecosystem

Saudi Arabia is also becoming more economically connected to China. This has led to more discussion about using the Chinese renminbi in oil and other trade. If countries continue to trade more directly with China, they may have more reasons to use the renminbi instead of dollars. However, this does not mean they will completely stop using dollars (S&P Global, 2026).

This shift is not only reflected in trade relationships but also in the payment infrastructure that supports the global financial system. There is growing evidence that the dollar-centered payment rails that have long reinforced U.S. financial dominance are becoming more fragmented. In Europe, European Central Bank President Christine Lagarde has argued that Europe should reduce its dependence on American payment networks such as Visa and Mastercard, stating that "it's important for all of us to have digital payment under our control." Meanwhile, China is expanding the international reach of Alipay and WeChat Pay while also investing in its own cross-border payment infrastructure. China's Cross-Border Interbank Payment System (CIPS), an alternative to the Belgium-based but American-dominated SWIFT network, processed a record 920 billion yuan in average daily transactions in March, roughly a 20 percent increase from the same month a year earlier. In April, CIPS reached a new all-time high of 1.2 trillion yuan in single-day transaction volume. At the same time, Europe has continued expanding the Single Euro Payments Area (SEPA), a unified set of payment rails for euro-denominated transactions that now includes 41 member countries. Together, these developments suggest that countries are increasingly building regional payment systems alongside, rather than entirely within, the traditional dollar-based financial architecture.

China is currently the strongest example of a country trying to increase the international use of its currency. Robbert et al. (2026) found that China's growing trade and financial connections with other countries have helped increase the use of the renminbi. However, the renminbi is still much smaller than the dollar in global finance.

Smaller countries face an even bigger problem because their currencies usually do not have large enough financial markets to compete with the dollar. It is difficult for a currency to become internationally important if there are not enough investments and financial products available in that currency.

Because of this, smaller currencies probably will not replace the dollar on their own. Instead, they could become more important in certain regions or between specific countries. For example, two countries that trade heavily with each other might use their own currencies instead of dollars. If enough countries do this, it could slowly reduce the dollar's overall share of international trade.

This development could lead to a world where countries use different currencies for different purposes. The dollar could still be the most important global currency, while the renminbi and other currencies become more important in specific regions and trading relationships.

5 Conclusion

The US dollar is still the most important currency in the world, and there are no clear signs that another currency will eclipse it soon. The size of the US economy, the Treasury market, and the large number of businesses and countries that already use dollars all make it difficult for another currency to take its place.

However, the dollar's position is slowly changing. Its share of global reserves has fallen, countries are becoming more interested in other currencies/gold, and investors are more concerned about the size of the US government's debt. At the same time, countries such as China and Saudi Arabia are developing stronger financial and trade relationships that do not depend completely on the dollar.

Technology could accelerate this change. Systems such as mBridge can make it easier for countries to make payments directly with each other. Stablecoins could also change how dollars are used internationally. Interestingly, stablecoins may actually strengthen the dollar because most of them are dollar based.

The most likely future is therefore not the dollar disappearing. Instead, the world could slowly move toward a system where several currencies are used alongside the dollar. China could use the renminbi more in its trade network, smaller countries could use their own currencies more often, and gold and digital currencies could become more important.

The biggest change could be the rise of small nation currencies being used to a greater extent to facilitate cross-border trade and as reserve assets as well. Well-governed and open currencies stand to benefit as the US takes a step back from providing such a currency on the international stage. Further, the weakness of these small currencies (that they face a collective action problem to sanction/kick nefarious partners off international networks) could be the greatest appeal. Such a currency that is stable, without possibility of reprisal against foreign holders, stands most to benefit in a world of US retrenchment.

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