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Perspectives On the Issues Shaping Policy

Is the Era of Dollar Dominance Coming to an End?

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In recent years, debates on de-dollarization have moved well beyond academic circles. They now feature prominently in discussions among central banks, finance ministries, international organizations, policymakers, and business leaders. Financial sanctions, geopolitical tensions, the expansion of BRICS, greater use of local currencies in trade, renewed gold purchases by central banks, and rapid advances in digital payment technologies have all intensified debate over the future of the international monetary system and revived an old question: is the era of US dollar dominance coming to an end?

The question is timely and important. Yet the answer is more nuanced than many headlines suggest.

There is little doubt that the international monetary system is evolving. Countries are exploring alternatives to the dollar in trade and investment. Central banks are gradually diversifying their reserve portfolios. Regional payment arrangements, local-currency settlement mechanisms, and digital payment innovations are creating additional options for cross-border transactions. These developments point towards a more diversified global monetary landscape.

However, diversification should not be mistaken for displacement.

Why the Dollar Remains Resilient

The international role of a reserve currency depends on far more than the economic size or military strength of the issuing country. It rests on a broader reserve-currency ecosystem comprising trusted and liquid financial assets, deep and efficient capital markets, strong legal and institutional foundations, reliable payment and settlement infrastructure, international confidence, and the ability to provide liquidity during periods of global financial stress. These mutually reinforcing elements evolve over decades and cannot be replicated quickly through political declarations, bilateral arrangements, or technological innovation alone.

Viewed through this reserve-currency ecosystem, the resilience of the US dollar becomes easier to understand, as does the difficulty any challenger faces in replacing it.

Although the dollar's share of officially disclosed global foreign-exchange reserves has gradually declined since the introduction of the euro, it still accounts for well over half of such reserves and remains far ahead of every competing currency. Its role extends well beyond reserve holdings. The dollar remains the principal currency for international trade invoicing, cross-border banking, international bond issuance, and the pricing of major commodities, including

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crude oil. During periods of global financial uncertainty, investors continue to regard US Treasury securities as the world's preferred safe assets.

Diversification, Not Displacement

At the same time, the international monetary landscape is becoming more diverse. The euro remains the second most important reserve currency. China has expanded the international use of the renminbi through bilateral currency swap arrangements, the Cross-Border Interbank Payment System (CIPS), and wider use of the renminbi in trade settlement. After decades of net gold sales, central banks have become significant net buyers in recent years, reflecting a renewed emphasis on reserve diversification and resilience. Meanwhile, central bank digital currencies, tokenized settlement systems, and other payment innovations are opening new possibilities for faster, cheaper, and more efficient cross-border transactions.

Nevertheless, each alternative faces important limitations. The euro lacks a fully integrated fiscal and safe-asset framework comparable to that of the United States. The renminbi remains constrained by limited capital-account convertibility, relatively restricted financial openness, and continuing concerns regarding institutional transparency, regulatory predictability, and market confidence. Gold is an important store of value but cannot perform the full range of functions required of a modern reserve currency. Digital innovations may improve payment efficiency, but they do not, by themselves, create the institutional trust, market depth, legal certainty, or crisis-liquidity capacity required for reserve-currency leadership.

For these reasons, the most plausible outlook is not the sudden replacement of the US dollar, but the gradual emergence of a more diversified international monetary system in which several currencies and reserve assets assume larger, yet complementary, roles alongside the dollar.

Policy Lessons for Pakistan

For Pakistan, the debate should not be framed as a choice between the US dollar and another currency. The real policy challenge is to reduce external vulnerability while strengthening resilience in an evolving international monetary environment.

This requires sound macroeconomic management, stronger external-sector buffers, prudent reserve management, deeper export competitiveness, and better integration with regional and global markets. Pakistan should continue exploring selective local-currency settlement arrangements with major trading partners, particularly China, the Gulf region, and other key economies, where such arrangements are commercially viable, reduce transaction costs, ease pressure on dollar liquidity, and do not create new exchange-rate, settlement, or balance-sheet risks. The objective should be practical risk reduction, not symbolic de-dollarization.

Reserve diversification should also be gradual and pragmatic. Modest increases in holdings of other reserve assets, including the euro, renminbi, and gold, may strengthen resilience and improve risk management. However, diversification should enhance resilience without compromising liquidity, market access, or financial stability. The US dollar is therefore likely to remain Pakistan's principal reserve currency for the foreseeable future because of its unmatched liquidity, global acceptance, and central role in international finance.

Pakistan should also continue modernizing its payment infrastructure and closely monitor developments in central bank digital currencies, tokenized settlement systems, and cross-border payment platforms. These innovations may improve efficiency and reduce transaction costs, but they cannot substitute for macroeconomic stability, credible institutions, competitive exports, and sustained economic reforms.

Ultimately, Pakistan's long-term economic security will depend less on predicting which currency dominates the international monetary system and more on strengthening its own economic foundations. Stable macroeconomic policies, credible institutions, competitive exports, disciplined fiscal management, and a resilient financial system remain the country's strongest safeguards against external shocks.

The international monetary system is entering a new phase. Greater diversification appears increasingly likely, but a post-dollar world does not. Reserve-currency transitions are historically slow, institutionally driven, and shaped by deep financial markets, trusted legal systems, technological innovation, and geopolitical realities working together over long periods.

For Pakistan, the real challenge is not to predict when dollar dominance will end. It is to build an economy whose stability and prosperity do not depend on the fortunes of any single international currency.