

Global (Dis)Order
international policy programme

Coercion and currency de-risking as drivers of economic disorder

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The Global (Dis)Order international policy programme

Today's international system is in flux with the need to navigate competing power aspirations and nodes of order. To generate fresh insights and creative thinking for policymakers and practitioners in this contested environment the British Academy and the Carnegie Endowment for International Peace have begun a new joint international policy programme on Global (Dis) Order. The programme is centred around four main themes: illuminating dynamics of and within international order, diagnosing and rethinking a changing world economy, governing transnational and planetary challenges, and managing violence and (in)security.

The programme is focused on shedding light on the history, current nature, and potential future trajectories of global orders, while acknowledging that these understandings are diverse and often contested. It also provides an opportunity to think in broader, longer-range ways, drawing in a breadth of disciplines and expertise from policy, practice and research that is both historical and future-oriented. This requires us to marshal diverse perspectives and visions from around the world, as well as expertise that bridges the worlds of research, policy, and practice. It also requires us to take a long view, to better understand the historical antecedents and precedents for contemporary geopolitical, economic, political, societal, technological, ecological, and other trends.

To achieve this goal we will analyse potential pathways and trajectories for global (dis)order and propose strategies and approaches to collectively manage shared geopolitical, economic, transnational, planetary and security challenges and dilemmas. To this end, the British Academy and Carnegie Endowment for International Peace have commissioned a series of policy discussion papers to prompt engagement and debate among policy audiences, by posing challenging questions and highlighting gaps and opportunities for policy.

Preface

US economic influence and dollar centrality have underpinned the global economy since the Bretton Woods conference of 1944. This system, and its later evolutions, have placed the US dollar in a unique position as the world's main reserve and trading currency. But as the adage goes, with great power comes great responsibility, and the overexercise of such power has the capacity to set into motion a swell of resistance that precipitates collapse from within. The costs of a wholesale transformation of the international financial and monetary payments system would be significant. Whilst it is impossible to predict the scale and frequency of

short-term shocks that would likely ensue, the move by financial institutions to adapt to and participate in parallel rather than unified transaction systems could introduce longer-term inefficiencies, multiplying costs and creating serious headwinds for cross-currency and therefore cross-border transactions in goods and services.

Global economic fragmentation, disruption and slowdown would have critical implications for the geopolitical strategies and decisions that global powers and coalitions adopt in the coming century. Such trends would change the calculus of actors, as they seek to assuage domestic and international pressures. Effectively diagnosing and preparing for this scenario is an urgent task for policymakers. With this objective in mind, the British Academy and Carnegie Endowment for International Peace commissioned this focused couplet of papers to examine the dynamics and trajectories of the dollar in the world economy.

In our first paper, Evans traces the emerging phenomenon of de-risking from the US dollar and the development of alternative payment structures. He identifies the September 11 attacks of 2001 as a crucial watershed in the US use of instruments of financial coercion to achieve security objectives, paving the way for wider and more comprehensive strategic deployment of such instruments which have shifted dollar centrality away from its liberal economic foundations. Evans outlines the breadth of the de-risking mechanisms that have emerged as countries seek alternative, non-dollar payments arrangements to evade exposure to US political control, led not simply by China and Russia, but with significant buy-in from wider BRICS, ASEAN and Gulf states. Evans reviews the implications of this trend, invites us to consider the pace of this transition, and proposes steps policymakers can take to prevent systemic shocks and allow for sufficient adaptation and evolution within any new configuration that emerges.

In our second paper, Farrell and Davies focus in more explicitly on the destabilising dynamics of these shift on the financial system, describing how a U.S. dollar strategy initially intended to stabilise the global economy has wound up being a source of disorder, one reinforced by positive feedback loops and phenomena such as 'viral governance'. Their historical narrative, which aligns with Evans', identifies growing risks that could have runaway effects, particularly in the context of growing global reliance on digital currencies. They identify a paradox in the current US administration's relationship to cryptocurrency regulation, which is moving in an increasingly liberal direction. This threatens to create an awkward inconsistency, whereby illicit activity becomes more likely to evade sanction and coercive instruments, whereas traditional mainstream activity may be subject to ever increasing demands for control. Farrell and Davies also highlight a potential upcoming clash between the US and the EU on use of digital currencies to undergird alternative payment and clearing systems that could have significant global implications.

Whilst the dollar is not likely to lose its primacy overnight, or even in the near future, it is essential to understand the implications of current trends now to develop a strategic response to the coming reconfiguration. The dedollarisation of the world economy may seem slow today, but has the potential to accelerate unexpectedly and with significant momentum. These two papers provide a sobering warning of what might unfold if today's policymakers fail to appreciate, account for, and mitigate the potential medium- and longer-term unintended consequences of contemporary decision-making. We sincerely hope that these papers will be of significant resource in that endeavour.

The hollow dollar?

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Abstract

This paper explores whether the US dollar's dominance in global finance – long a pillar of American geopolitical influence – is being quietly eroded. While the dollar remains the world's primary reserve currency, its centrality in international payments is increasingly contested. The weaponisation of the dollar, particularly through sanctions and the extraterritorial reach of the New York banking licence, has prompted strategic responses from states such as China, Russia, and India. These strategic responses include the development of alternative payment systems, local currency trade settlements, and digital infrastructure. The paper argues that a 'hollowing' of the dollar's infrastructural dominance is underway – (perhaps very) gradual, partial, but geopolitically significant. This shift may not end dollar supremacy, but it could fragment the global financial system, weaken US sanctions leverage, and diminish the centrality of New York and London as financial hubs. The implications for global order are subtle but potentially profound. A less dollar-dependent system may facilitate a more multipolar world yet diminish liberal democratic power.

The quiet architecture of global power

The international payments infrastructure is not the most obvious starting point for a discussion on shifting international orders. Geopolitical analysts invoke Metternich more than Mastercard. Yet there is good reason to begin with infrastructure. Just as the telegraph once served as a hidden scaffold for British imperial power (Kennedy 1971), today's international payments systems help underpin the projection of American influence. This paper focuses on the quiet architecture that enables visible displays of power. At its core is the US dollar-based payments system, a structure that has long served as both a conduit for commerce and a lever of geopolitical control (Prasad 2024). But that architecture is beginning to hollow. The implications of this shift, though subtle at first, may prove profound.

London, underpinned by the might of the British Empire and sterling's convertibility to gold, became the world's financial capital by the 19th century (Berend 2012, Ferguson 2001). This dominance began to wane after the First World War, as Britain's economic clout diminished and the US emerged as the world's largest creditor. The baton passed definitively after the Second World War, when the 1944 Bretton Woods agreement enshrined the US dollar as the linchpin of the global monetary system. With deep capital markets, a stable political system, and the Federal Reserve's global reach, the US built a dollar-based infrastructure that persists to this day, even if challenges to it are now rising (Eichengreen 2011).

The spotlight rarely falls onto the backstage machinery of infrastructure. This is a mistake. International infrastructure, and control or influence over it, is an aspect of power. Great powers that grasp infrastructural power can work to extend their power and influence, as China has done through the Belt and Road Initiative (Ho 2020). Yet analysts often overlook these foundations when it comes to the sub-reserve currency level of international financial architecture (Fishman 2025). Why? Because financial infrastructure is usually gradual, deeply technical, and does not make headlines unless it fails catastrophically. This neglect has consequences. When analysts ignore these systems, they miss how power is exercised. In a world increasingly defined by systemic interdependence – even (and perhaps especially)

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given the world of renewed tariffs and trade barriers under the second Trump administration – understanding financial infrastructure is essential.

Economic power is the foundation of political and military influence in the international system. It has long been viewed by scholars as the bedrock of great power status. Paul Kennedy, in *The Rise and Fall of the Great Powers*, wrote that ‘the strength of a nation’s economy provides the foundation for its military and political power’ (Kennedy 1987) and warned of the dangers of ‘imperial overstretch’ when military commitments outpace economic capacity. Susan Strange, in *States and Markets*, emphasised the structural power of states to shape global economic rules, arguing that control over finance and production is as crucial as military might (Strange 1988). Barry Buzan, in *The United States and the Great Powers*, explained how economic resilience underpins sustained geopolitical leadership (Buzan 2004). These works underscore a consensus that economic strength is not merely a component of power but its enduring core. International order and power may not reduce to economics, but they do depend on it.

Since 2010, both Vladimir Putin and Xi Jinping have increasingly framed the global financial system – particularly the dominance of the US dollar, the SWIFT network, and Western sanctions – as tools of geopolitical coercion. Their rhetoric has intensified since Russia’s 2022 invasion of Ukraine, which triggered sweeping sanctions and the exclusion of major Russian banks from SWIFT. Putin has described these measures as ‘illegitimate’ and aimed at ‘containing Russia’s development’, vowing to strengthen Russia’s economic sovereignty in response (BBC News, 27 February 2022). He has long warned that cutting Russia off from SWIFT would be tantamount to a declaration of war, and since 2014 Moscow has accelerated the development of its own financial messaging system, SPFS, as a hedge against Western pressure.

Xi Jinping has echoed these concerns, particularly in the context of China’s own vulnerability to US financial dominance. In response to the sanctions regime against Russia, Xi offered what was described as an ‘energy lifeline’, accelerating bilateral trade in yuan and supporting the use of China’s Cross-Border Interbank Payment System (CIPS), a yuan-based alternative to SWIFT (Bicker 2024). Xi has repeatedly called for a ‘fairer and more equitable’ international financial system and has encouraged the use of local currencies in trade and investment, particularly among BRICS and Belt and Road partner countries. Both leaders have emphasised the need to ‘resolutely oppose external interference’ and to ‘cultivate new momentum for cooperation’, underscoring their shared ambition to build a multipolar financial order less dependent on Western institutions (Newsweek, February 8 2024). Domestic politics and the challenge of BRICS unity may play a part in slowing this ambition – as seen in Brazil when BRICS went from being ‘one of the most important instruments in Dilma [Rousseff]’s diplomacy’ to becoming more contingent after the 2016 political crisis (Silva 2022).

The powerful dollar

The US dollar’s rise to global dominance began in 1944, when 44 Allied nations met at Bretton Woods and agreed to peg their currencies to the dollar, itself convertible to gold at \$35 per ounce (Bordo et al 2019, Cesarano 2006). This made the dollar the anchor of the post-war financial system. America’s post-Second World War economic strength, bolstered by its intact industrial base and vast gold reserves, reinforced this role. Even after the dollar’s convertibility to gold ended in 1971, confidence in the US economy and a lack of alternatives sustained its supremacy. In the 1970s, a deal with Saudi Arabia and OPEC to price oil in dollars – the ‘petrodollar’ system – further entrenched global demand. The depth and liquidity of US

financial markets, especially the Treasury market, have since made the dollar a preferred safe haven for investors and central banks.

Today, more than 60 per cent of global foreign exchange reserves are held in dollars, the world's primary reserve currency (International Monetary Fund, April 2025). The dollar's reach extends beyond reserves. It dominates global trade invoicing, even in transactions where the United States is not a party (Boz et al, 2020). The 'dominant currency paradigm' explains why the US dollar remains the primary invoicing currency in global trade, driven by pricing inertia and supply chain complementarities (Gopinath et al, 2020). From 2015 to 2025, the dollar's invoicing share stayed above 50 per cent globally, with even higher dominance in most regions. Commodities such as oil, gold, and wheat are routinely priced in dollars. These offshore dollars retain their utility precisely because they ultimately rely on US-based settlement infrastructure. The invoicing share of the US dollar is the marker to watch for changing trends in global payments. As tariffs rise and global supply chains potentially regionalise more, this could change. But a persistently dominant dollar may not be able to exercise the same coercive power through sanctions if viable non-US dollar payment alternatives grow.

The New York banking licence

It is a curious feature of the current global order that one ingredient underpinning it is a state – not even federal – licence issued by the state of New York.

The New York banking licence has become one of the most powerful tools in global finance, thanks to the central role of the US, and New York in particular, in international markets (Schenk & Mourlon-Druol 2016). Its influence stems from regulatory authority and the structural dominance of the US dollar (Amariles & Winkler 2018). This is especially evident in clearing, correspondent banking, and sanctions enforcement. New York rose as a financial hub in the 20th century when the US economy became the world's largest. The Federal Reserve Bank of New York plays a key role in managing dollar liquidity. Any bank operating in dollars at scale must access this system. Most dollar transactions clear through US institutions, particularly those with a New York licence. CHIPS and Fedwire, both based in New York, handle large-value payments (Gorton & Metrick 2013). Access is typically granted via a licence or a correspondent relationship. Correspondent banking allows foreign banks to maintain dollar liquidity through New York-based accounts, giving licensed banks significant leverage over global flows. The Federal Reserve Bank of New York maintains over 550 accounts for foreign central banks held by some 200 account holders and processes \$4.3 trillion daily through Fedwire. The Clearing House Interbank Payments System (CHIPS) handles another \$1.8 trillion daily in international dollar transactions.

The US Treasury, through the Office of Foreign Assets Control (OFAC), enforces sanctions. Because nearly all dollar transactions pass through New York, the US can assert jurisdiction even over non-US parties. This makes the licence a potent geopolitical instrument, as seen in high-profile enforcement cases. Holding a New York licence signals strong compliance with anti-money laundering, cybersecurity, and capital standards. It is a gateway to the global financial system, central to dollar clearing, correspondent banking, and US legal reach.

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The weaponised dollar

The United States has long used economic sanctions as a tool of foreign policy, but the central role of the New York banking licence has elevated these measures into one of the most powerful instruments of global financial control (McDowell 2023). It grants access to the US financial system, including CHIPS and Fedwire, which are critical for settling large-value dollar transactions. This access also subjects banks to US laws and regulations, including sanctions enforcement. This influence is made manifest by regulatory power, particularly OFAC (Drezner 2015; Özdamar & Shahin 2021).

The US has asserted that any transaction involving the US financial system, even momentarily, falls under its jurisdiction. This extraterritorial application of US law means that foreign banks can be penalised for processing dollar transactions that violate US sanctions, even if the transaction occurs entirely outside the US. This legal theory has been upheld in numerous enforcement actions. For example, if a European bank processes a payment for an Iranian entity and that payment clears through a New York bank, the US can impose penalties, even if the bank is not American and the transaction occurred abroad.

The September 11, 2001 terrorist attacks marked a turning point in US sanctions policy. The USA PATRIOT Act expanded the Department of the Treasury's powers to combat terrorism financing (Andreas 2005). OFAC's role grew significantly, and the US began using financial sanctions not just for geopolitical purposes but also to target terrorist networks, proliferators of weapons of mass destruction, and cybercriminals. The post-9/11 era also saw the rise of 'smart sanctions', targeted measures against individuals, companies, and sectors rather than entire countries. These sanctions often rely on the ability to freeze assets and block transactions through the US financial system, making access to New York's banking infrastructure a critical vulnerability for foreign actors.

High-profile cases illustrate the power of the New York banking licence and the extraterritorial reach of US sanctions (Rosenberg et al, 2016):

- BNP Paribas (2014): The French bank paid \$8.9 billion in fines for processing transactions with Sudan, Iran, and Cuba in violation of US sanctions.
- Standard Chartered (2012, 2019): The UK-based bank was fined over \$1.7 billion across multiple settlements for violating sanctions against Iran and other countries. The New York State Department of Financial Services (NYDFS) played a key role, threatening to revoke the bank's New York licence.
- Commerzbank (2015): The German bank paid \$1.45 billion for sanctions violations and failures in anti-money laundering controls. The case highlighted how even indirect involvement in prohibited transactions could trigger US enforcement.
- Binance (2023): The cryptocurrency exchange settled for \$4.3 billion with US authorities, including OFAC, for facilitating transactions with sanctioned entities and failing to implement adequate compliance controls (Ostroff 2024).

These cases demonstrate how the US uses access to the dollar and the New York banking system as leverage to enforce its foreign policy objectives globally.

Sanctions have become a central pillar of US foreign policy, used to pressure adversaries such as Iran, North Korea, Russia, and Venezuela. The ability to freeze assets, block transactions, and isolate entities from the global financial system gives the US immense influence. The

Russia sanctions following the 2022 invasion of Ukraine are a prime example. The US, in coordination with allies, imposed sweeping sanctions on Russian banks, oligarchs, and the central bank (Chachko & Heath 2022). These measures were effective largely because of the centrality of the dollar and the threat of losing access to the US financial system. The aggressive use of sanctions has led to a global compliance industry, with banks investing heavily in sanctions screening and transaction monitoring. Many institutions now 'over-comply' with US sanctions to avoid the risk of enforcement (Harrison 2019).

However, this has also sparked push-back. The European Union has criticised the extraterritorial application of US sanctions, particularly in cases like the Iran nuclear deal, where European companies were penalised for complying with EU policy.

The hollow dollar?

Recent geopolitical shifts, especially sanctions on Russia after its 2022 invasion of Ukraine, have accelerated a trend toward de-dollarisation. Countries such as China, India, and Russia are increasingly building alternative payment systems that bypass US financial infrastructure.

The West's response to the invasion marked a turning point. The US and allies froze over \$300 billion of Russia's central bank reserves, cut major banks off from SWIFT, and blocked access to dollar clearing (Orru & Norman 2022). These actions showcased the dollar's reach – but also exposed how reliant non-Western states remain on US-centric systems. For Russia, it was a catalyst. What began after Crimea in 2014 became a full-scale effort to reduce dollar dependence and deepen ties with non-Western partners. By 2020, non-dollar currencies accounted for a growing share of global trade invoicing, particularly in regional trade, even as the US dollar remained the dominant invoicing currency overall with some 53% of global invoicing (Boz et al. 2020; Gopinath, Casas & Mehl 2020; European Central Bank 2021; Prasad 2024).

The move to non-dollar-denominated trade may prove consequential. This is the result of more non-US-anchored trade and services, as for example between China and India or the UAE and Russia. This is also happening in part because of the evident reach – even if it is imperfect – of US-led economic sanctions. There is a logic for Beijing, Moscow, and those that seek more economic autonomy to foster plural international payments systems (Falarti & Naqvi 2024).

China's Cross-Border Interbank Payment System (CIPS), launched in 2015, aims to internationalise the renminbi and reduce reliance on SWIFT (South China Morning Post, 2 May 2025). Unlike SWIFT, CIPS handles both messaging and clearing for cross-border RMB transactions. It has grown rapidly and by early 2025 had 170 direct and nearly 1,500 indirect participants across 119 countries, processing over RMB 175 trillion in 2024 (People's Bank of China, 2025). Though smaller than SWIFT, CIPS is increasingly integrated with global banks and uses ISO 20022 standards, making it a credible technical alternative for countries seeking to hedge (Bank for International Settlements, 2023a).

Russia's SPFS, developed in 2014, mimics SWIFT's core functions but operates independently. Initially limited and costly, it has matured. By 2018, it had over 400 participants, mostly domestic (Reuters, 17 March 2022). It now supports ISO 20022 and allows foreign banks to connect via service bureaus (Bank for International Settlements, 2023b). Though smaller in volume, SPFS is vital for maintaining financial links under sanctions and is used for trade with

China, India, and Iran (Reuters, 17 March 2022). It enables sanctioned Russian banks to bypass SWIFT and trade with sympathetic partners. As sanctions deepen, SPFS may become more vital to Russia.

Following the 2022 sanctions, Russia pushed harder to shield its economy from dollar dominance. It required 'unfriendly' countries to pay for gas in rubles, forcing European buyers to open ruble accounts with Gazprombank. This marked a real shift in energy trade architecture. At the same time, Russia expanded trade in yuan, rupees, and lira with China, India, and Türkiye.

China, seizing the moment, advanced its long-standing goal of renminbi internationalisation. CIPS adoption grew, especially among countries wary of US sanctions. China signed bilateral deals with Russia, Brazil, and Argentina to settle trade in yuan (South China Morning Post, 14 May 2025, Wong 2023). It also encouraged oil exporters such as Saudi Arabia and Iran to accept yuan, including via the Shanghai Petroleum and Natural Gas Exchange (Chen 2025). While the yuan still faces convertibility and capital market limitations, its role in regional trade is expanding.

India, traditionally dollar-reliant, has also diversified. In 2022, it introduced a rupee trade mechanism for countries under sanctions or facing dollar shortages (IMF 2024). This was evident in oil trade with Russia, where payments were made in rupees, held in Indian banks or converted. India also signed local currency settlement deals with the UAE (Government of India 2024) and Southeast Asian nations (South China Morning Post, 15 May 2024).

Together, these efforts reflect a shift toward currency multipolarity. BRICS is exploring a common settlement currency, while ASEAN and Gulf states are piloting non-dollar trade frameworks and digital currencies (The Economist, 24 August 2023).

The implications are significant. Jack Lew, then secretary of the US Treasury, presciently warned about this in March 2016 (Lew 2016). Systems like SPFS and CIPS, though still limited, are challenging SWIFT's dominance. Local clearing hubs for yuan, rupees, and rubles are emerging. Blockchain platforms and central bank digital currencies (CBDCs) are being tested for cross-border settlement, potentially bypassing traditional banking networks. If these innovations scale, they could fragment the global clearing system and reduce the centrality of financial hubs such as New York and London.

Yet, despite this momentum, the dollar (so far) remains entrenched. The US Treasury market is unmatched in depth and liquidity, and the dollar benefits from powerful network effects. Alternatives face hurdles: capital controls, political risk, and limited convertibility. De-dollarisation is real, but gradual and partial, and not a wholesale replacement.

The weaponisation of the dollar after Russia's invasion of Ukraine has accelerated financial fragmentation. Countries such as Russia, China, and India are building parallel systems to reduce exposure to US sanctions. While the dollar's dominance is unlikely to vanish soon, its unchallenged supremacy is eroding. The future likely belongs not to a single replacement currency but to a multipolar system where trade and finance are increasingly conducted in regional currencies, supported by alternative clearing systems and digital infrastructure, as well as the US dollar. This shift reflects both economic pragmatism and a broader geopolitical realignment.

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Unintended consequences: risks for New York (and the City of London)

A weakening of the dollar's role in global payments could significantly affect New York – and, by extension, London – as financial centres. Both cities have long thrived not just on capital markets but on their centrality to the global payments infrastructure. If that system fragments, their dominance may no longer be assured. In 2023, Argentina expanded a currency swap line with China that led to a rapid surge of RMB invoicing to some 50 per cent, displacing the dollar at speed. This illustrates how fast changing trade invoicing could happen, particularly if stimulated by domestic or international crises (Benguria & Novy 2025).

New York's financial strength rests on the dollar's status as the world's reserve and transaction currency. It hosts the Federal Reserve Bank of New York, CHIPS, and most dollar-clearing institutions, making it vital to cross-border finance. But if more trade is settled in yuan, rupees, or euros, and if systems like China's CIPS or Russia's SPFS expand, fewer transactions will pass through New York. That means reduced demand for dollar liquidity, fewer correspondent relationships, and a diminished role for US banks.

London, as the dollar's offshore hub, also benefits from this system. It leads in dollar-denominated FX trading and clearing (The Economist, 5 October 2023). But if the dollar's pull weakens, London's transatlantic role may fade.

Regulatory overreach could hasten this. Aggressive sanctions and compliance demands tied to the New York licence have made foreign institutions wary. Some are already restructuring to reduce US exposure (McDowell 2024, Tooze 2022). If alternatives grow, New York may be bypassed. This outcome is not inevitable. The dollar remains dominant, and New York's ecosystem is deep. But if it loses its anchor role in global payments, New York itself will likely be affected as a financial centre.

Summary and implications

Countries such as China, India, and Russia have accelerated efforts to build alternative payment systems. Even allies have grown wary of the dollar's political strings. The result is a slow but steady weakening of the US grip on the plumbing of global finance.

The US dollar remains the beating heart of the global financial system. It is the currency of choice for trade, reserves, and debt issuance. Yet, its coercive power – the ability of the United States to weaponise the dollar through sanctions, control over payment systems, and the New York banking licence – is showing signs of erosion. And this is before any potential impact of blockchain or cryptocurrencies. This is not the end of dollar dominance, but it may be the beginning of a subtler, more plural financial order. The implications for the international system are profound.

For decades, the dollar's supremacy has allowed the US to project power far beyond its borders. The mere fact that most cross-border payments touch the US financial system has enabled Washington to enforce sanctions with extraterritorial reach. Banks and companies around the world have complied, not out of loyalty but out of necessity: to be cut off from the dollar is to be cut off from global commerce. The New York banking licence and access to dollar clearing became instruments of geopolitical leverage.

But this architecture is no longer unassailable. The sanctions imposed on Russia after its 2022 invasion of Ukraine – unprecedented in scope and coordination – have served as both a demonstration of US financial power and a warning to others. Countries such as China, India,

and Russia have accelerated efforts to build alternative payment systems. Even allies have grown wary of the dollar's political strings. The result is a slow but steady weakening of the US grip on the plumbing of global finance. This shift does not mean the dollar is in decline. It remains the most trusted, liquid, and widely used currency in the world. But its role is becoming more transactional and less hegemonic. The threat of being cut off from the dollar is less terrifying when alternatives exist.

This has several implications. First, it loosens the ties of obligation that have long bound countries and companies to the US-led order. Sanctions will still bite but not disable firms from operating. This may embolden states to pursue policies that diverge from US preferences, knowing that the costs of defiance are lower (although the Trump Administration's coercive use of tariffs may off-set this). It also gives rise to a more fragmented global economy, where parallel systems coexist and compete, rather than converge.

Second, it marks a drift toward a more plural world. The US may remain the most powerful single actor, but it will increasingly operate in a system where power is distributed across multiple nodes. China's financial infrastructure, India's rupee trade mechanisms, and Russia's SPFS are not yet rivals to the dollar system – but they are functional alternatives. As these systems mature, they will offer countries a choice, and with choice comes leverage.

Third, it changes the calculus for multinational firms. For decades, global companies have structured their compliance, risk, and treasury operations around the dollar. Now, they must navigate a more complex landscape. The need to 'de-risk' from US sanctions is no longer just a concern for rogue states – it is a strategic consideration for firms operating in contested regions or sectors. This may lead to the rise of financial 'non-alignment', where companies hedge their exposure to any one jurisdiction's rules.

In short, the world is not de-dollarising in the sense of abandoning the greenback. But it is de-risking from it. The infrastructure of global finance is becoming more diversified, more regional, and more politically insulated. This is not a revolution but an evolution reflecting the realities of multipolarity. The dollar will remain first among currencies, but no longer the only one that matters. And that has real consequences for the broader global system.

Orders tend to evolve gradually – until they do not. The shift to a 'hollow dollar' system is already in motion. This transformation is unlikely to dethrone the dollar as the world's principal reserve currency, though other forces – not least America's chronic reliance on fiscal excess – may have a negative effect. The immediate risk lies in the erosion of dollar-based payments and the global dependence on US-centric financial infrastructure. If this trend is sustained, it could have broader consequences: a diminished role for New York as a global financial hub, potential reverberations for the City of London, and a weakening of Washington's ability to wield financial regulation as a tool of geopolitical influence. While choices made in India and China matter, Europe may prove key. If in the future Europeans decide to de-risk from dollarised payments systems, the network effects of a shift could accelerate.

So what?

Apex policymakers frequently focus on the immediate utility of their decisions, rarely pausing to consider the long-term or unintended consequences (Evans 2024). Nowhere is this more evident than in the weaponisation of the US dollar. Sanctions multiplied, and the dollar's centrality to global finance gave them reach. Yet the scale of this reach has sown the seeds of a strategic backlash.

Rather than triggering wholesale economic decoupling – China, for instance, remains deeply enmeshed in trade with the United States – sanctions have prompted a subtler shift: a de-risking from the US-led financial infrastructure. Countries targeted or threatened by sanctions are seeking alternatives to SWIFT, the dollar, and the Western-dominated clearing systems. The result is a slow but discernible erosion of the dollar's infrastructural dominance. Optionality for other states undermines US power, even if alternative options remain under-utilised.

This raises four pressing questions for Washington and close partners:

Can this trend be halted or slowed?

Outright reversal seems improbable. But mitigation may be possible: greater restraint in the use of sanctions. The overuse of economic coercion risks diminishing its potency and encouraging the very fragmentation it seeks to prevent. Deploying sanctions more selectively, and with greater multilateral backing, might preserve their strategic utility while slowing the drift toward alternative systems. Meanwhile the use of alternative forms of US economic coercion – tariffs and trade access, as the Trump administration is doing – may in the short-term shore up American dominance. However, similar risks of excessive coercion triggering further medium-term mitigations by other states – not just rivals – may apply.

How might this shift accelerate and at what cost?

If emerging payment infrastructures, particularly those built on digital rails, prove cheaper and more efficient, the exodus from Western systems could quicken. This would threaten the revenues of US and British financial institutions that dominate global clearing and settlement. A decline in payment flows through New York and London could, in turn, reduce their gravitational pull in global capital markets, potentially leading to a more fragmented and regionalised financial order.

What does this mean for the future of the dollar in a deglobalising world?

As globalisation retreats and protectionism rises, the world may coalesce into competing financial blocs. A 'hollow dollar' scenario, where the currency remains widely used but less relied upon in payments infrastructure, could emerge. In such a world, Chinese, Indian, Russian, and European systems may anchor distinct spheres of influence, each with its own rules, risks, and (in time) reserve assets.

Has the 'golden' age of sanctions already passed?

The period from 2001 to 2025 may come to be seen as the high-water mark of economic sanctions. As alternatives proliferate and the costs of compliance rise, the deterrent power of sanctions could wane. Even multilateral regimes, such as those under the UN, may struggle to exert the same influence in a world where financial flows are no longer routed through a single dominant system overseen by a permanent member of the Security Council. It remains to be seen whether the use of tariffs and market access as a foreign policy tool will have the same effect.

The dollar is not about to be dethroned. But its grip is loosening. As rivals build parallel infrastructures and settle trade in alternative currencies, the architecture of American financial power is being quietly reconfigured. The question for the 2030s is not whether the dollar still leads, but whether others must still follow. A hollow dollar may not end US dominance, but it could mark the end of its monopoly on financial leverage. And if the world no longer clears through New York, Washington may find that influence, like liquidity, is harder to summon on demand.

The dollar is not about to be dethroned. But its grip is loosening.

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The US dollar system as a source of international disorder

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Abstract

This paper explains how dollar centrality was weaponised by the U.S. to help maintain order but is now plausibly undermining it, thanks to the lack of a regulatory subsystem governing its use and the development of perverse incentives. We trace how weaponization has disrupted the feedback loops which support the global dollar payment system. The introduction of US-backed cryptocurrency to an already unstable system has made the problem urgent for many global partners. Now, as the US ratchets up pressure, other countries will look to escape dollar power, likely provoking the US to double down in response. The more that other countries look to escape US financial coercion, the more the US will scale it up to pin them into place. This dynamic will likely be exacerbated by the forthcoming launch of the digital Euro, which has been explicitly framed as a measure to reduce Europe's strategic dependence. The feedback loop has become destabilising rather than regulatory; the global dollar system may now be a source of instability rather than stability.

Introduction

When international relations scholars and practitioners talk about the 'liberal international order', they are unwittingly invoking feedback loops. The original argument for the liberal international order involves a positive feedback loop between domestic and international liberalism (Deudney & Ikenberry 1999): the more that national societies become liberal, the more the international order is liberalised, and vice versa (Farrell & Newman, 2021). People who think about complexity might be surprised by the notion that positive feedback loops can create order, as very often they are associated with runaway phenomena such as the greenhouse effect. Occasional efforts to incorporate feedback loops and complex phenomena into the study of international relations haven't yet taken off (Jervis 1998; arguably Strange 1996; Rosenau 1999; Oatley 2019; Winston 2023).

In this paper, we discuss how feedback loops can also contribute to global disorder. Dynamically stable orders are characterised by homeostasis (Wiener 2019, 156), able to maintain stability in the face of perturbations and unexpected environmental changes. In order for any system to do this, there needs to be some regulatory subsystem that provides negative, stabilising feedback that counteracts change (Ashby 1956, 210).

Classical international relations theory invokes many such feedback mechanisms. For example, Waltz's (2010) arguments about 'balancing' suggest that weaker states will defect from alliances with states that threaten to become hegemonic to join an opposing coalition. Here, the (possible) ambitions of one state for system change are counteracted by the reactions of others – that is, negative feedback. In cybernetic terms, collective judgements, incentives, and expectations form a regulatory subsystem. However, where positive feedback loops develop and spread, changes are amplified and existing orders will be often weakened and perhaps even collapse.

Just such a feedback loop is developing between (a) US efforts to exploit dollar centrality for strategic purposes and (b) the actions of others to evade or circumvent US power. This paper traces how dollar centrality was originally weaponised to help maintain global order but was hastily designed, with no regulatory subsystem governing its use and little consideration of how a powerful bureaucratic weapon of first resort might create perverse incentives. Now, as the US ratchets up pressure, other countries will look to escape dollar power, provoking the US, in turn,

to double down. The more that other countries look to escape US financial coercion, the more the US will scale it up to pin them into place.

Hence, US efforts to exploit dollar centrality (Katzenstein 2015) for purposes of national security are increasingly counterproductive. The US initially began to exploit the dollar to mitigate the security risks of globalisation, as terrorists could easily use an open international financial system to hurt America. It deployed designation and coercion to reimpose order on the global system, moving from trade-based to financial sanctions that were initially much more effective (Farrell & Newman 2019).

This provoked counter-reactions, as targeted actors began to find alternative ways to make payments. This was unsurprising, as the history of trade sanctions has shown that no international regime is ever watertight. Furthermore, the very ubiquity of the dollar network can itself be a constraint on its use, as shown by the US's need to structure recent sanctions against Russia around the need to keep payments flowing for natural gas to Europe.

That sanctions are not fully effective does not mean they are useless. Lack of access to dollar banking has helped isolate North Korea, forcing it to take unpalatable measures to bring money in. And targeted sanctions on individuals appear to have been more effective than general sanctions on countries. The turn of many 'bad actors' to inferior crypto payments technologies demonstrates the power of a weaponised network.

Cryptocurrency's role in facilitating sketchy transactions fed back into increased turbulence at the heart of the system when crypto advocates became part of the Trump coalition. These feedback loop dynamics (Davies 2024) are not likely to contribute to cementing international order (Farrell & Newman 2019, 2023) but rather to an increasing postliberal global disorder.

How dollar centrality works

It is useful to begin by clarifying terminology. 'Dollar centrality' is a political-economic concept that refers to the extreme attractiveness of the US dollar as a currency for transactions and investment. The 'global payment system' is the specialised telecommunications network that connects financial institutions all over the world and allows payments to be made by electronic book entries rather than cash. The part of the global payment system that deals with payments denominated in US dollars is the 'dollar payment system' or, for shorthand, 'dollar system,' which involves not only the hegemonic role of the US dollar but also the communications network that is bundled with the dollar.

The conveniences of dollar centrality for facilitating financial transactions are inseparable from the dollar payment system and its rules as set by the US government. International actors might prefer not to follow these rules, but it would be very painful to lose the enormous benefits of dollar centrality. Many international commercial payments take place in dollars, for ease and convenience. Even those that are not denominated in dollars often touch the dollar payment system, because the dollar is the 'vehicle' currency for foreign exchange – a trade of yen for pesos will usually exchange yen for dollars and then dollars for pesos to take advantage of the more liquid dollar markets.

That is why international banks are effectively obliged to keep dollar-denominated accounts in US regulated institutions. 'Dollar clearing' involves settling transactions across these accounts. Furthermore, under US law, anything which involves dollar clearing in New York (in effect, any dollar transaction anywhere in the world) is in principle subject to the jurisdiction of US

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At least to some degree, dollar dominance is cemented by shared expectations: people continue to rely on dollars because they expect everyone else will.

courts¹. That further allows specialised institutions in the US government – in particular the US Department of Treasury’s Office of Foreign Assets Control (OFAC) – to designate targets and administer sanctions under a variety of complex legal authorities.

There are extensive academic debates over how the dollar assumed and retains its dominant role and the exact relationship between its status as a reserve and trading currency. At least to some degree, dollar dominance is cemented by shared expectations: people continue to rely on dollars because they expect everyone else will. While the US has historically displayed little compunction in using economic power to achieve its goals, it only began to systematically understand the national security implications of the dollar payment system after 11 September 2001. As we will see, the US’s locus of control stems not just from dollar hegemony but also the ability of US authorities to control access to the dollar communications network and surveil messages to gather intelligence.

Action: US economic coercion

It took years of experimentation for the system to assume its current form (Farrell & Newman 2023). In the high era of globalisation, the US Treasury sought to insulate the dollar system from national security agencies. During multilateral discussions to prevent money laundering, US Treasury officials saw an open financial system as central to US interests, so they warded off pressure from the agencies concerned with criminal activity and national security to provide them information or allow them more active regulation (Farrell & Newman 2023). The parts of the US Treasury that were responsive to the financial industry dominated those that were more focused on national security (most notably OFAC).

This changed after 11 September 2001, when it became clear that the attackers had used the global banking system to move money back and forth. US Treasury officials decided that it was necessary to impose order. Under the aegis of Jimmy Gurusé, the new Under Secretary of the Treasury for Terrorism and Financial Intelligence, OFAC became much more powerful within the US Treasury (Taylor 2007). As one official described it (Farrell & Newman 2023, 62), the US Treasury’s problem was that the US economy was ‘deliberately open and porous,’ while the problem of terrorism was ‘international in scope. ... The overwhelming bulk of the assets that we seek to freeze, the cash-flow that we hope to slow, and the records that we hope to audit are beyond the oceans that surround us.’

Hence, US officials began to impose US preferences on non-US actors. They threatened to block foreign banks’ access to the dollar clearing system unless they complied with US demands. ‘Know your customer’ rules that required banks to keep records on their customers and report suspicious transactions were already a mainstay of anti-money laundering. Now, they became an important tool of US national security. The SWIFT financial messaging system provided US intelligence agencies with insight into the specifics of financial transactions.² The US introduced new legislation and rules to make it easier to ‘designate’ foreign entities that threatened US interests and make them pariahs.

1 The specific New York state law asserting ‘long arm’ jurisdiction is NY CPRL 302, but the general principle of US extraterritorial reach goes back to the early 20th century and the Trading with the Enemy Act.

2 SWIFT, the Society for Worldwide Interbank Financial Telecommunications, is one of the most important operators of the global payments system. See further Farrell and Newman (2019).

Dollar hegemony and US law generated powerful incentives for compliance across the world. Although the legal basis for many actions against non-US actors was surprisingly weak, the fear of being denied access to dollar clearing was sufficient incentive to comply, especially for financial institutions.³ Initial measures against a bank that was doing business with North Korea demonstrated that simply 'designating' a bank could prompt a bank run. Afraid of the potential contagion of being designated themselves, 'global banks ... largely ignored the risk-based approach in favor of a "zero-risk" approach' (Mallard & Sun 2022, 167).

Financial institutions' aversion to risk worked as a force multiplier of US coercion. Sanctions compliance, like other forms of anti-money laundering policy but unlike most bank regulation, is enforced by sometimes unpredictable ex post regulatory punishments rather than ex ante provision of a checklist of required actions. This system presented banks with the risk of very large penalties and limited ability to mitigate that risk. Not only did financial institutions themselves want to implement extensive internal controls and checks, but they wanted to avoid business with anyone who did not have such controls. Within a few years, the internal workings of global financial institutions were transformed through a process of 'viral governance' (Mallard & Sun 2022).

Viral governance also affected the US Department of the Treasury itself. OFAC had existed for many decades and enjoyed direct links with the Presidency through its role as an enforcing authority under the 1977 International Emergency Economic Powers Act (Boyle 2021). As the use of financial sanctions increased, OFAC's powers and responsibilities grew still further, and it became a political actor in its own right, with priorities that did not always reflect the rest of the US Treasury's bureaucracy or the Presidency.

Very often, financial measures did not work nearly as well in practice as in theory (Cuéllar 2002; Kellerman 2024), but they imposed unavoidable costs on participation in the dollar system. By the mid 2010s, policymakers began to worry that the entire global payment system had veered to encourage 'derisking', in which banks declined even innocuous transactions and innocent developing countries were at risk of being cut off from the system entirely (Financial Stability Board 2015).

Financial coercion became a crucial tool – according to some sources, the most crucial tool – of US national security. The US Department of Treasury was reportedly President Obama's 'favorite non-combatant command' (Farrell & Newman 2023). Members of the US Congress regularly called for (and frequently legislated) sanctions against foreigners, which allowed the US to punish adversaries at low cost. American soldiers did not lose their lives, and the economic burden was largely born by (a) those targeted by the measures and (b) the foreign institutions that would otherwise have done business with them.

Reaction and escalation

Some US officials worried that sanctions might become counterproductive. Before leaving office as President Obama's Secretary of the Treasury in 2016, Jack Lew warned that overuse of financial coercion might undermine the role of the US dollar (Farrell & Newman 2023). While 'the power of our sanctions is inextricably linked to our leadership role in the world,' Lew worried that overuse might 'ultimately drive business activity away from the US financial system.'

3 The New York Department of Financial Services can suspend a bank's licence to do business in New York for a period of thirty days 'pending investigation'. Since this is effectively long enough to destroy a banking franchise, the implicit threat is very strong independent of its legal merits.

At this point, it might have been possible for the regulatory system to dampen a potentially dangerous positive feedback loop in which harsher enforcement provoked more systematic evasion. Clearly, the US Department of the Treasury was capable of modelling the effect of its actions on the wider system and could provide stabilising feedback. However, the Obama administration was followed by Trump's first presidential term.

The vagaries of an unpredictable US president forced Europe to reappraise its dependency on the US and begin experimenting with alternatives. Germany's foreign minister Heiko Maas proposed that Europe needed to build its own 'payment channels that are independent of the United States' (Reuters 21 August 2018). Germany and France's foreign ministries quietly encouraged the European Council on Foreign Relations to investigate how the European Union (EU) could counter US 'secondary sanctions' through strengthening defences, creating possible means of retaliation, and, possibly, making more use of cryptocurrencies (Geranmayeh & Rapnouil 2019).

This helped clear the ground for the EU to create a 'anti-coercion instrument' to retaliate against offensive measures. Concerns about 'strategic independence' helped motivate the European Central Bank (ECB) to press for the creation of a 'digital euro. Rather than generating stabilising feedback, the US's uncontrolled use of the dollar system as a means of political action began to tilt the central trade-off for non-US actors away from the convenience of dollar centrality and towards the inconveniences of the dollar payment system.

When Trump was defeated in 2020, it seemed to some that normality had been restored. Senior officials in the Biden administration were more willing to consult with allies over sanctions than their equivalents in the Trump administration.⁴ At the same time, they built on the structures created during Trump's first term rather than dismantling them. Informal conversations with Biden officials suggest that they had noticed that, despite Trump's actions, other countries had not moved away from the US dollar. Therefore, the Biden administration felt the US had greater leeway to use sanctions than Jack Lew and others had feared.

Both the US Congress and top officials continued to deploy sanctions with abandon. Although OFAC had a general bureaucratic interest in a powerful enforcement system, some worried about the uses that it was being put to. A 2024 Washington Post article (Stein & Cocco 2024) reported a former senior staffer describing the problem: 'The abuse of this system is ridiculous, but it's not Treasury or OFAC's fault: They are good professionals who have all this political work being shoved on them'. The Biden administration tried to create a policy framework that would limit the use of sanctions to urgent needs. It failed. As the Post described it: 'Treasury staffers watched their bosses take out key parts of their plan, including a provision that would have created a central coordinator ... By the time Treasury publicly released its '2021 Sanctions Review' ..., the 40-page draft had dwindled to eight pages and contained the earlier document's most toothless recommendations' (Stein & Cocco 2024).

Once more, the US Treasury had operational understanding that there was a problem but was unable to provide the necessary stabilising feedback. This plausibly reflected a fundamental design flaw in the original scheme to use the dollar payments system as a geopolitical tool: a system that was operated by the US Treasury, which could model its consequences, was not under the Treasury's exclusive control.

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4 Conversations with past Trump officials, including former National Security Advisor John Bolton, suggest that during the first Trump administration there was much more unofficial co-ordination and consultation at the practical level than was publicly visible.

Building on other Trump precedents, the Biden administration extended the logic of financial sanctions (exploiting choke points to control international economic activity) to export controls. The US introduced extensive measures against Russia after its invasion of Ukraine and acted to cut off the supply of specialised semiconductors to China in order to prevent it from catching up with the US on artificial intelligence (AI).

Non-state actors and the dollar network

As traditional financial channels became more tightly controlled, cryptocurrencies provided a less regulated alternative. Even apart from concerns over money laundering and terrorist financing, US (and European) officials worried that they might lose control of finance to non-state actors. US and European officials opposed proposals by Facebook (now Meta) to create a global cryptocurrency called Libra, while the Federal Reserve joined other central banks to accelerate developing principles for regulatory standards (Quarles 2019). The Biden administration maintained this momentum by suggesting that cryptoassets should be regulated as securities and proposing quite restrictive legislation.

This was reinforced by more traditional financial coercion. Prominent players in the crypto industry such as Binance and Tornado Cash were prosecuted or forced into settlements under money laundering legislation, while US Deputy Treasury Secretary Wally Adeyemo even suggested that Tether, the largest single dollar-based cryptoasset, was of concern to regulators. Normal banks found the low margins on current account products for people with connections to crypto not worth the compliance burden. This made it hard for crypto businesses to get bank accounts (McKenzie 2024), leading their allies to complain that the Biden administration was deliberately 'debanking' the industry.

During the Biden years, Europe publicly turned away from the more far-reaching ideas about how to retaliate against US coercion. When Russia invaded Ukraine, the EU became even more dependent on US financial intelligence, using it to target the EU's own sanctions against Russian targets. Europe handles trade and market issues centrally, but its member states retain most important competences over national security, which makes it difficult for the EU to co-ordinate on economic security. Even so, the EU passed an anti-coercion instrument into law, while the European Commission's Directorate General for Trade, once fervently committed to free exchange, quietly began to investigate the vulnerabilities of other countries to sanctions, in case of future need.

China, which was targeted by both the Trump and Biden administrations, has similarly sought to protect itself against future financial coercion. China's internal payments architecture is far less dependent on US-based systems than Europe's, providing it with some degree of natural resilience. However, Chinese banks still mostly depend on the global payments architecture for international financial flows.

These different factors are likely to combine during Trump's second presidential term to create greater instability. The Biden administration further built up America's machinery of financial coercion. Other jurisdictions, most prominently the EU and China, have looked to protect themselves. So what happens when the Trump administration begins, as it almost certainly will, to ramp up dollar-based coercion again?

When Russia invaded Ukraine, the EU became even more dependent on US financial intelligence, using it to target the EU's own sanctions against Russian targets.

Escalation upon escalation

The second Trump administration has so far relied on tariffs more than financial sanctions to extract concessions from other countries. This partly reflects Trump's understanding of the feedback loop between utility and control. At a campaign event in New York in September 2024, he provided an idiosyncratic justification that resembled Jack Lew's worries nearly a decade earlier:

The problem with ... sanctions ... [is that] ultimately it kills your dollar and it kills everything the dollar represents. ... So I use sanctions very powerfully against countries that deserve it, and then I take them off. Because, look, you're losing Iran. You're losing Russia. China is out there trying to get their currency to be the dominant currency as you know better than anybody. ... So I want to use sanctions as little as possible. (Trump 2024, 34)

Furthermore, the Trump administration now includes such long-time crypto industry figures as David Sacks as the 'AI and crypto czar' and Howard Lutnick⁵ as the secretary of commerce. Analysis by the Financial Times in March 2025 (Hawkins, Hemingway & Asgari, 2025) suggested that accounts related to Trump had taken at least \$350m from sales of the \$TRUMP cryptocurrency; although the value of that coin and cryptoassets in general have fluctuated significantly, it is likely that the President's full crypto holdings would be valued at several multiples of that account.

The administration has partly abandoned efforts to extend its enforcement capacities to crypto. An internal memo sent by Deputy Attorney General Todd Blanche (Blanche 2025) instructed staff at the Department of Justice that it 'will no longer target virtual currency exchanges, mixing and tumbling services, and offline wallets for the acts of their end users or unwitting violations of regulations' (Washington Post, 2025). Of course, targeting intermediaries for the acts of their end users is how money launderers are prosecuted; on its face, this appears to give these entities *carte blanche*.

At the same time, the Trump administration has already sanctioned Chinese oil refineries, a Yemeni bank, and, most prominently, the International Criminal Court. When Colombia refused to accept deportees, Trump briefly announced on his social media service, Truth Social, that "Treasury, banking and financial sanctions would be "fully imposed"" as well as a 50 per cent tariff in retaliation (Trump 2025).

... this two-tier system of regulation may create its own forms of instability by adversely selecting unsavory agents into a cryptocurrency adjunct of the dollar system.

While Trump's approach to economic security is just as chaotic as his other policies, the rough contours of an equilibrium appear to be emerging. He appears to be more willing to impose sanctions on allies, since they are less able to defect from the dollar than neutrals and rivals, and less likely to act against crypto even though it facilitates sanctions evasion. People around him seem to be calculating that some aspects of crypto (such as 'stablecoins' linked to the US dollar) may indirectly cement the US dollar's influence rather than undermining it. Stablecoins make it possible to use the US dollar in limited ways, without participating in the conventional 'dollar payment system' defined by US government control. This could change the trade-off between utility and dependence and weaken incentives to undermine economic and geopolitical dollar centrality. However, this two-tier system of regulation may create its own forms of instability by adversely selecting unsavory agents into a cryptocurrency adjunct

5 Lutnick is closely connected to Tether via his previous role as CEO and chairman of the bank Cantor Fitz

of the dollar system. A global system in which the payments system is a weapon used against everyone except the original targets of money laundering and counterterrorism policy⁶ seems highly unattractive.

As the domestic costs of tariffs in the US become clearer, we can plausibly expect more – possibly much more – use of sanctions, perhaps especially against allies in Europe. If this drives Europeans to make more use of stablecoin, that would both indirectly strengthen the dollar and potentially line the pockets of crypto interests associated with Trump.

That, in turn, may provoke the EU and others to protect themselves. In a hearing at the European Parliament, a member of the ECB's executive board noted that:

Most recently, the measures taken by the new US Administration to promote crypto-assets and US dollar-backed stablecoins raise concerns for Europe's financial stability and strategic autonomy. They could potentially result not just in further losses of fees and data, but also in euro deposits being moved to the United States and in a further strengthening of the role of the dollar in cross-border payments. At the same time, private businesses are increasingly open to accepting stablecoins for customer payments, which could have far-reaching implications for monetary sovereignty. (Cipollone 8 April 2025)

This threat is helping drive a renewed push for the creation of a digital euro. As the ECB's chief economist, Philip Lane, points out, the dominance of US payment systems 'exposes Europe to risks of economic pressure and coercion and has implications for our strategic autonomy, limiting our ability to control critical aspects of our financial infrastructure. When we rely on international cards, apps or stablecoins, we effectively outsource our payment infrastructure.' (Lane, 2025)

A digital euro would provide the EU with a robust independent payment system grounded in central banks rather than financial institutions that are vulnerable to pressure. It could even allow the EU to challenge global dollar hegemony and centrality itself, by providing a competing source of the benefits of ubiquitous use and acceptability. At a recent meeting of regional central bank governors in Europe, the ECB board member responsible for the digital euro made this case quite bluntly:

While the digital euro would primarily be used in the euro area, it is worth considering its possible international use. The current draft legislation foresees an approach that respects the sovereignty of third countries, mitigates potential risks for them and offers them new opportunities. ... Moreover, the digital euro's design includes multi-currency enabling features similar to those of [the ECB's existing international interbank payments system]. In practice, this means that non-euro area countries could use the digital euro infrastructure to offer their own digital currencies, thus facilitating transactions across these currencies. (Cipollone 1 April 2025)

In response to a system intended not simply to be robust but to limit and even challenge the reach of the US dollar and stablecoins, the Trump administration will likely threaten and deploy sweeping financial sanctions against the individuals and institutions that are involved. Equally,

6 This is hardly hyperbole. US Deputy Attorney General Blanche's memo explicitly states that 'cartels and human trafficking and smuggling rings have increasingly turned to digital assets to fund their operations ... The same is true of fentanyl production ... Terrorist groups, such as Hamas and ISIS, and nation states subject to US sanctions, like North Korea, also continue to transact using digital assets'. Nonetheless, the same paragraph of the memo reiterates that the Justice Department 'will not pursue actions against the platforms that these enterprises utilize to conduct their illegal activities.' (Blanche, 2025)

the EU will have little incentive to back down, given the Trump administration's specific hostility to the goals and ideals of the EU. From Europe's perspective, the US increasingly seems like an existential threat and Europe's own financial dependencies on the US seem like critical vulnerabilities. The likelihood of escalation is high. EU politicians are currently debating a so-called 'EuroStack' system of independent technologies as an alternative to US platforms (Farrell & Newman 2025a). A robust digital euro would reinforce such efforts.

This plausible near-future scenario has all the characteristics of a positive feedback loop. Under current circumstances, the EU has strong reasons to do everything it can to escape American hegemony. The US, for its part, has strong reasons to do everything it can to prevent this from happening. The more that the EU tries to get away, the more the US will do to pin it down. In this scenario, there do not appear to be any players, systems, or entities who combine the three necessary features to play a stabilising role: the capacity to model the effects of their actions on the overall system, the power to generate sufficiently strong feedback, and the incentive to maintain the current system rather than watch it tear itself apart.

Such a feedback loop would help destabilise the US dollar. A digital euro might create an alternative to dollar clearing that is stabilised by the rule of law and hence less open to political influence and weaponisation. It is equally possible that the EU eventually will find itself obliged to acquiesce to US hegemony. There is no reason to necessarily believe that the system will soon settle down to one or the other equilibrium (or to some other stable state): continued oscillation and uncertainty is a perfectly possible outcome.

The EU or China – or both – might succeed in creating alternatives to the dollar, leading to a multipolar currency system. The US might develop better feedback and control systems to allow dollar hegemony to stabilise itself once more. Or it is possible that nothing can be done and chaos is unavoidable. But what is notable – regardless of the outcome – is that the instability of the dollar payments system comes from within. Efforts by the US to impose order on an unruly international financial system created its own institutional logic in which piling financial coercion on top of ever more financial coercion appeared to be a costless way for the US to achieve its strategic goals. A grand exercise in imposing stability may be turning out to have destabilising consequences, increasing global disorder. Long-term allies may end up feeling they have no option but to join other trading and currency blocs. Who could possibly have predicted?

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