



# **THE GEOPOLITICAL REALIGNMENT OF GLOBAL FINANCE: DE-DOLLARIZATION AND ITS STRUCTURAL IMPACTS ON THE EUROPEAN ECONOMY**

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## **Abstract**

This paper examines the ongoing structural shift toward "de-dollarization"—the systematic diversification away from the United States Dollar (USD) as the primary global reserve currency, medium of exchange, and unit of account—and analyzes its profound macroeconomic and institutional implications for the European economy. Propelled by the aggressive weaponization of Western financial clearing mechanisms, persistent inflationary pressures, and the emergence of alternative multilateral payment architectures, the global financial system is gradually transitioning from a unipolar landscape toward structural multipolarity. For Europe and the Eurozone, this evolution presents a dual narrative of geopolitical friction and economic opportunity. While the fragmentation of global supply chains exposes the European Union (EU) to transactional volatility and diminished structural leverage, it simultaneously paves the way for the strategic ascendance of the Euro (EUR) and regional payment alternatives. This paper evaluates these dynamics through the lenses of reserve diversification, financial autonomy, macro-structural vulnerabilities, and the institutional evolution of European monetary policy.

Keywords: European economy, Finance, EU, Euro, USD

## **INTRODUCTION**

For over three-quarters of a century, the global financial architecture has operated under a framework of dollar hegemony. Established at Bretton Woods and reinforced by the post-1970s petrodollar recycling regime, the United States Dollar (USD) has long served as the dominant

global reserve asset, dominant trade-invoicing metric, and primary medium for cross-border capital clearing. Historically tied to the free-market principles of the original Washington Consensus, this dynamic effectively granted the United States significant economic leverage and asymmetric oversight over international trade networks (Collins, n.d.).

However, structural vulnerabilities inherent in the global reserve system, combined with a shifting geopolitical landscape, have accelerated a deliberate counter-trend: de-dollarization (Connolly, 2026). De-dollarization manifests as the strategic reduction of USD-denominated assets in official central bank reserves, the proliferation of local-currency bilateral trade settlements, and the construction of parallel clearing infrastructures designed to bypass Western financial chokepoints (Connolly, 2026).

While much of the existing scholarship focuses extensively on emerging economies—such as the BRICS Plus bloc—as the primary drivers of this trend (Saaida, 2024), the structural fallout extends deep into the core of the European economy. As the issuer of the Euro (EUR)—the world's second-largest reserve currency—the European Union (EU) occupies a highly complex position. This paper explores the underlying drivers of global de-dollarization and systematically evaluates how this transition reshapes European trade invoicing, monetary sovereignty, systemic exposure to financial shocks, and the broader institutional design of Eurozone finance.

## MACROECONOMIC DRIVERS OF GLOBAL DE-DOLLARIZATION

The accelerating global pivot away from the USD is not driven by a singular macroeconomic event. Rather, it is a structural reaction to a compounding triad of geopolitical, inflationary, and architectural pressures.

### The Weaponization of Interdependence and Sanction Risks

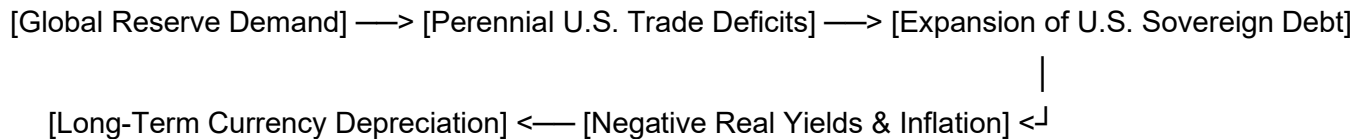
The primary systemic catalyst for active de-dollarization is the increasing deployment of unilateral and multilateral financial sanctions by Western jurisdictions. Utilizing what political economists label the **"weaponized interdependence"** framework, central states leverage their asymmetric control over vital hub-and-spoke networks—specifically the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network and the primary dollar-clearing system—to exercise coercive political authority (Connolly, 2026).

The sweeping asset freezes implemented in response to recent geopolitical conflicts effectively introduced a permanent "availability risk" for sovereign reserve holdings. When foreign central banks observe that nominal safe-haven assets can be rendered inaccessible via administrative decrees, the fundamental appeal of holding sovereign debt obligations

denominated in USD or EUR drops systematically (Connolly, 2026). This sanctions-driven risk has fundamentally altered asset allocation models, encouraging central banks to aggressively substitute paper reserves with "sanctions-resistant" tangible vehicles, most notably gold (Connolly, 2026).

### The Triffin Dilemma, Inflation, and Real Yield Degradation

At the structural core of dollar dominance lies the classic **Triffin Dilemma**: the inherent paradox where the global reserve issuer must perpetually run structural trade deficits to inject international liquidity into the global market, which progressively undermines the core convertibility and long-term stability of the currency itself (Connolly, 2026).



This structural vulnerability was heavily aggravated by the expansive, Bagehot-style liquidity injections pursued during macro-crises in the early 2020s, which triggered a significant spike in inflation and subsequent currency depreciation (Connolly, 2026). As a result, U.S. Treasuries have frequently yielded negative real returns. When sovereign bonds yield below the rate of domestic inflation, the opportunity cost of holding non-yielding alternative assets like gold falls sharply, driving central banks to diversify away from traditional fiat portfolios (Connolly, 2026).

### Trade Fragmentation and Supply Chain "Friend-Shoring"

Historically, the widespread invoicing of global trade in dollars created a self-reinforcing loop, locking in international demand for USD-denominated assets to manage transaction liquidity. However, the modern fragmentation of global trade and the explicit adoption of "friend-shoring" or "near-shoring" policies are uncoupling these historical patterns (Connolly, 2026). As bilateral trade agreements increasingly incorporate local-currency settlement mechanisms, central bank reserve compositions are natural targets for realignment to mirror these updated invoicing patterns and hedge localized exchange-rate risk (Connolly, 2026).

### Structural Impacts on the European Economy

The structural displacement of the dollar acts as a double-edged sword for the European economy, creating a distinct matrix of systemic challenges and strategic openings.

## The Strategic Position of the Euro as an Alternative Anchor

As global actors seek safe alternatives to the dollar, the Eurozone represents the most developed alternative capital market available. Historically, full "euroization" or "dollarization" regimes have functioned as highly asymmetric monetary configurations, requiring deep integration with the core issuing economy to remain viable over time (Ponsot, 2022).

A global flight from the dollar presents Europe with a rare opportunity to expand the international use of the Euro. Increased external invoicing in Euro-denominated assets enhances the region's collective **seigniorage**—the economic profit derived from issuing currency—lowers transaction costs for domestic European enterprises, and insulates local supply networks from exogenous shocks originated by the Federal Reserve's monetary cycles.

## Fragmented Trade Channels and Transactional Friction

Conversely, de-dollarization introduces distinct vulnerabilities. Europe's economic business model remains structurally dependent on open, rule-based global trade. The systematic breakdown of a unipolar currency standard into regionalized currency unions or complex bilateral swap frameworks introduces clear transaction frictions.

For European industrial entities, navigating a multipolar invoicing environment requires managing multiple currency hedging arrangements, absorbing higher localized tracking fees, and coping with volatile swings in foreign exchange pairs across developing markets.

## Capital Reallocation and Eurozone Yield Dynamics

The active diversification of sovereign portfolios away from the USD inevitably shifts global capital flows into European sovereign debt instruments. While this incoming demand can compress borrowing yields for Eurozone sovereigns—benefiting fiscal expansion plans—it can also create a highly challenging dynamic of passive currency appreciation. A structurally overvalued Euro risks harming the price competitiveness of European manufacturing exports, particularly in capital-goods intensive economies like Germany and Italy.

## COMPARATIVE FRAMEWORK OF INTERNATIONAL CURRENCY REGIMES

To map how the erosion of the dollar standard changes structural performance across distinct financial configurations, the table below contrasts the operational realities of dollarized/euroized regimes against a rising multipolar architecture:

Macroeconomic Variable	Dollarized / Euroized Regimes (Historical Standard)	Multipolar Currency Standard (Emerging Paradigm)
<b>Monetary Sovereignty</b>	Total abdication of independent policy; domestic central banks lose Lender of Last Resort (LOLR) capability (Ponsot, 2022).	Retained national/regional autonomy via flexible bilateral swap lines and digital arrangements (Connolly, 2026).
<b>Inflationary Tendencies</b>	Systemic convergence toward anchor state inflation; structural mitigation of domestic policy bias (Edwards & Magendzo, 2003).	Variable; vulnerable to local currency depreciation and domestic monetary printing offsets.
<b>Systemic External Vulnerabilities</b>	Severe exposure to external liquidity shocks; structural dependence on foreign capital inflows (Ponsot, 2022).	Distributed risk profile; insulation from unilateral sanctions through parallel clearing systems (Connolly, 2026).
<b>Economic Growth Channels</b>	Tends toward export-led growth strategies to maintain necessary foreign exchange inflows (Ponsot, 2022).	Supported by regional integration, diversified trading blocks, and local-currency financing structures (Saaida, 2024).

## INSTITUTIONAL REORIENTATION AND THE DIGITAL EURO

To secure its position and limit secondary vulnerabilities during this era of de-dollarization, the European Union is altering its institutional frameworks across two primary areas:

- **Payment Infrastructure Autonomy:** Recognizing that financial chokepoints present a serious vulnerability to national sovereignty, the European Central Bank (ECB) and member states have prioritized the development of standalone payment networks. This includes building out independent cross-border rails and strengthening local clearing mechanisms to ensure transactional continuity if external access is disrupted.
- **The Digital Euro Initiative:** The deployment of a Central Bank Digital Currency (CBDC) represents a major step forward for Europe's retail and wholesale monetary architecture. A tokenized digital Euro streamlines cross-border capital settlements, lowers the transactional friction associated with converting non-dollar pairings, and ensures that European public money remains competitive against a backdrop of rising private stablecoins and alternative international digital networks.

## CONCLUSION

The global transition toward a multipolar financial ecosystem—driven by sanctions-induced asset risks, persistent inflationary pressures, and structural trade fragmentation—is fundamentally altering the international monetary landscape. For the European economy, de-dollarization is not a distant trend; it is an active structural transformation requiring immediate strategic adjustment.

While the fragmentation of global supply chains and the resulting transactional friction present clear risks to Europe's open, export-dependent economy, the decline of a unipolar dollar standard also offers a unique opening. By positioning the Euro as a stable, sanctions-resistant alternative anchor, deepening its domestic capital markets, and advancing digital currency infrastructure like the Digital Euro, Europe can insulate itself from external shocks and assert greater strategic autonomy in a changing global economy.

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