NCWA Journal, Volume-56, Issue-1, February 2025

Doi: https://doi.org/10.3126/ncwaj.v56i1.76193

De-Dollarization and South Asia: Challenges and Opportunities for Nepal in a Multipolar Currency World

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Abstract

The United States dollar's dominance as the global reserve currency, established under the 1944 Bretton Woods system, persists despite the 1971 decoupling of the gold backing to the dollar. Its liquidity, stability, and full support by the US government confer a solid financial security and advantage to the currency, including a universal acceptance of the dollar and a relatively low borrowing cost. Because of these reasons, the US dollar has been able to dominate the global financial markets for the past eight decades. However, the rapidly emerging global political and economic power shifts are challenging the status of the US dollar. In 2009, Brazil, Russia, India, China, and South Africa formed the organization BRICS as a group to work on collaboration and investment strategies. BRICS, which has now been expanded to include 10 countries, is exploring alternatives to the US dollar for international trade. The alternatives include trading with local currency and Central Bank Digital Currencies (CBDCs). Geopolitical factors, such as Western sanctions on China, Russia, Iran and other countries and China's ambitious Belt and Road Initiative (BRI), have accelerated de-dollarization efforts as a tug of war. This tug-of-war among the powerful countries, however, has created opportunities for emerging economies to embark toward financial sovereignty and decreased dependence on the financial system that has been dominated by the West.

There are mixed implications of these emerging trends for South Asia. India is pursuing rupee-based trade aspiring to enhance regional trade in Indian Rupees. Other South Asian countries also aspire to follow similar suit. There are several barriers associated with it. The limited convertibility of the currencies of the BRICS member nations makes the complete replacement of the US dollar-based

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international trade difficult. Nepal may face several challenges because its economy relies heavily on remittances and imports. Nonetheless, efforts in diversifying trades in regional and local currencies, leveraging CBDCs, and strengthening regional economic ties offer potential benefits in the pursuit of financial autonomy. Nepal's strategic reforms and increased collaboration within South Asia are crucial for mitigating risks and enhancing its financial resilience in a multipolar currency system.

At the global scale, de-dollarization could reduce financial risks and foster a more equitable structure, though market inefficiencies and trade barriers remain obstacles. For South Asia and Nepal, embracing financial innovation and fostering regional integration is key to navigating this transformative shift. With de-dollarization efforts leading to policy and policies, Nepal could reduce dollar dependence and enhance its role in South Asia's evolving economic and financial matters.

Keywords: de-dollarization, South Asia, Nepal, BRICS, CBDCs, financial sovereignty

Introduction

The US dollar became the primary global reserve currency from the time of the Bretton Woods Conference in 1944. This was one of the pivotal events that established a global monetary framework centered on fixed exchange rates. Under this system, the currencies of various countries were pegged to the dollar. The dollar became convertible to gold at a fixed rate of $35 per ounce (Federal Reserve History, 2013 a & b; Bordo, 2008 a & b). In the aftermath of the global depression of the 1930s and World War II, forty-four nations agreed to create the Bretton Woods institutions and the General Agreement on Tariffs and Trade (GATT) to promote economic stability and peace. Harry Dexter White was the principal architect of the Bretton Woods system. He noted, "The absence of a high degree of economic collaboration among the leading nations will inevitably result in economic warfare that will be but the prelude and instigator of military warfare on an even vaster scale" (Pollard, 1985, p. 8).

This system leveraged the US economic dominance after World War II when the country produced more than half of the world's industrial output and held the largest gold reserves. As a result, the US dollar became the foundation of international trade and finance, supporting global economic stability and growth during the mid-20th century. In 1971, however, US President Richard Nixon ended the gold standard, transitioning the dollar to a fiat currency system in which the government determines its value. Despite this shift, the dollar maintained its global dominance because of its central role in international trade, financial transactions, central bank reserves, and global finance. Its liquidity, stability, backing by the powerful US government, and the strength of US financial markets solidified its position as the primary global currency.

The dollar's global dominance has given the United States unmatched economic and geopolitical power. As the world's primary reserve and trade currency, it has allowed the U.S. to shape global trade policies, enforce sanctions effectively, and maintain financial stability on terms favorable to the U.S. This dominance has also granted the U.S. what is known as the "exorbitant privilege" enabling it to borrow from other countries and international markets at low costs and run persistent trade deficits without significant economic consequences.

Theoretically, to repay its domestic and international debts, the US government reserved the right to print more money. Additionally, the US benefited significantly from seigniorage - the difference between the cost of producing money and its actual market value. For example, printing a one-dollar bill costs the US government about five cents. When foreign individuals and governments hold US dollars for extended periods, the US economy benefits because the government or businesses have already received one dollar's worth of goods and services without an immediate obligation to repay it. Since the US dollar is widely held in reserves by individuals and companies worldwide, the US enjoys financial advantages for years without having to redeem the full value of the currency. If another country or group establishes a widely accepted reserve currency, they too could benefit from the seigniorage advantage associated with it.

In recent years, challenges to the dominance of the US dollar have arisen due to shifts in global power dynamics and economic disruptions (OECD, 2023). The growth of emerging economies, particularly within the BRICS bloc (Brazil, Russia, India, China, and South Africa), has led to discussions about alternatives to the US dollar (BRICS, 2023a & b). These countries have considered using local currencies for trade, creating new reserve assets, establishing a regional or global currency, and developing financial systems independent of dollar-based mechanisms.

Recent global developments, such as China's ambitious Belt and Road Initiative (BRI), have intensified efforts toward de-dollarization (BRI Report, 2023). China has advanced the internationalization of the yuan through bilateral currency swap agreements and trade settlements in yuan (People's Bank of China, 2023; Ziliang et al., 2023). Similarly, Russia has shifted to conducting trade in rubles or yuan, particularly in response to recent Western sanctions (IMF, 2023a). The rise of central bank digital currencies (CBDCs) offers new opportunities to bypass traditional dollar-based payment systems, providing efficient, secure, and localized payment mechanisms (World Bank, 2023a & b). Additionally, economic crises, such as the 2008 global financial meltdown and the COVID-19 pandemic of 2019-22, have exposed vulnerabilities in a dollar-centric system, strengthening calls for diversified monetary practices to reduce risks associated with overreliance on a single currency (World Bank, 2023a).

A shift away from dollar dominance could lead to a currency system that better reflects global multi-polarity, presenting both opportunities and challenges for the global financial system. Reduced reliance on a single reserve currency could help mitigate risks such as exchange rate volatility and trade imbalances, promoting a more balanced financial structure and strengthening the position of emerging economies. However, this transition may also create inefficiencies in international trade due to higher transaction costs and the complexities of managing multiple currencies (World Bank, 2023c). A reduced role for the dollar could weaken US economic and political influence, with significant consequences for global geopolitics and financial stability. The US is likely to resist efforts to reduce the dollar's role in global trade and may leverage its influence to maintain the currency's status as a global reserve and trade medium.

South Asia is increasingly integrated into the global economy. This region is likely to experience both benefits and challenges if the world is de-dollarized. India, for example, is moving away from the dollar to reduce vulnerability to dollar-induced inflation. It also plans to promote regional trade through local currencies. India's efforts to trade in rupees with selected partners reflect its initiative to strengthen economic sovereignty (Reserve Bank of India, 2023a & b). Overall, South Asian countries face obstacles in their de-dollarization plight because of the limited currency convertibility. Moreover, their financial systems are also not well developed. They need to invest more in financial infrastructure and greater regional cooperation.

Nepal's currency is pegged to the Indian rupee at a fixed exchange rate. As part of the South Asian monetary system, Nepal faces both opportunities and challenges if de-dollarization efforts progress. Remittances, a major contributor to Nepal's economy, are primarily dollar-denominated (World Bank, 2023d & e). Shifting to alternative currencies could reduce exposure to dollar fluctuations and lower transaction costs in regional trade. However, Nepal's heavy reliance on imports priced in dollars makes this transition complex. To manage these challenges, Nepal must implement monetary policy reforms, diversify foreign exchange reserves, strengthen economic ties within South Asia, and invest in financial infrastructure to support transactions in local currencies (NRB, 2023; World Bank, 2023e).

This raises important research questions. What are the economic and geopolitical implications of de-dollarization on the stability of the global financial system and the influence of the US on international trade and politics? How can South Asian countries, particularly Nepal, address the challenges of limited currency convertibility and underdeveloped financial systems to benefit from regional trade in a de-dollarized economy? Finally, what role do emerging financial innovations, such as central bank digital currencies (CBDCs), play in supporting a multipolar currency system, and how might this impact global trade and economic integration in South Asia?

De-Dollarization: US in a Shifting World

Efforts to reduce the global reliance on the US dollar may present significant economic and geopolitical challenges for the United States. Initiatives such as the potential introduction of a BRICS currency or increased trade in local currencies threaten the dollar's status as the dominant global reserve currency. When its importance is reduced as a reserve asset and its use decreased in the international transactions, obviously, it will weaken the US economic influence (Burunov, 2024; Yevgeny, 2023; Siddiqui, 2023). Establishing an independent payment system or a unified BRICS currency could further disrupt trade, increase transaction costs for US exporters and businesses, and reduce demand in markets shifting toward the new currency (O'Connor, 2023).

In response to these risks, US President Trump has threatened high tariffs on BRICS nations supporting de-dollarization. However, the imposition of high tariffs could increase domestic inflation, the cost of imported goods will increase, and it will create economic pressures on all aspects of society (Johnson, 2022). On a broader scale, reduced reliance on the dollar could fragment global financial systems, disrupting established trade, investment, and reserve management patterns that have historically benefited the US (International Monetary Fund, 1944; 2023 a-f).

The geopolitical consequences are also significant. The dominance of the dollar has long been a key tool of US foreign policy, enabling Washington to impose sanctions and advance political and financial objectives at the will of the US (Global Time, 2024). A successful de-dollarization effort could weaken this leverage. De-dollarization will reduce the US's ability to use its currency as an instrument of influence (Ghosh, 2023). The emergence of a unified BRICS currency could signal a shift toward a multipolar world order. It will also limit the US's unilateral power in global financial and geopolitical affairs. In response, the US might apply diplomatic pressure, including tariff threats on goods from BRICS nations entering the US market. This approach could unintentionally strengthen ties among BRICS countries. Further, it will deepen geopolitical divisions between the Global South and the Global North while fostering greater alignment among emerging economies against US policies (Smith, 2023).

All these developments require the US to reconsider its strategy for maintaining the dollar as the preferred currency for global trade and finance. The success of de-dollarization depends on BRICS nations overcoming technical and structural challenges, such as establishing stable currencies, credible regulatory frameworks, and strong financial institutions (Wilson, 2022). To mitigate risks, the US could focus on reinforcing its alliances, enhancing the dollar's utility in global transactions, and promoting international economic cooperation to reduce incentives for alternative currencies (Chowdhury, 2023). Adjusting monetary and foreign policies to navigate a decentralized financial landscape will be essential for maintaining US influence, particularly among G-7 nations, in an increasingly competitive global economy (Bank of England, 2017).

BRICS: Charting a New Path in Global Economic Dynamics

BRICS member countries are exploring ways to enhance economic and financial benefits for their members by promoting payment systems that are cost-effective, transparent, secure, and equitable. They are using trading in global currencies wherever possible. A major step in this direction is the upcoming report by the BRICS Payment Task Force (BPTF), which will outline the implementation of the Roadmap on Cross-Border Payments within BRICS nations. These efforts aim to improve the interoperability of payment infrastructures and facilitate the interlinking of cross-border payment systems. By fostering cooperation, these initiatives could lead to discussions on innovative payment mechanisms that support trade and investment both within BRICS and with other developing countries.

A key focus of BRICS is promoting the use of local currencies in international trade and financial transactions among member states and their trading partners. Strengthening corresponding banking networks and enabling financial settlements in local currencies are critical steps toward reducing reliance on the US dollar. This shift could help shield BRICS economies from external economic shocks and enhance financial sovereignty. For instance, the 2023 agreement between China and Brazil to conduct trade in their respective national currencies marked progress in financial independence and economic resilience (BRICS Summit Reports, 2023b).

The geographic diversity of BRICS - spanning South America (Brazil), Eurasia (Russia), Asia (India and China), and Africa (South Africa) - positions the group to leverage strategic resources and trade routes. This diversity can facilitate alternative trade corridors, as seen in China's BRI, which integrates several BRICS nations into a global infrastructure network (BRI Report, 2023). However, this geographic spread also presents coordination challenges, unlike the more economically integrated G7, whose members are primarily concentrated in North America and Europe, except for Japan.

BRICS accounts for 32% of global GDP, surpassing the G7's 30% (World Bank, 2023b). This achievement is largely driven by China's strong industrial base and India's rapidly expanding IT sector, as reflected in China's yuan trade agreements with Saudi Arabia and India's software export growth (IMF, 2023). However, economic disparities within BRICS remain a challenge, with South Africa experiencing slow growth that hinders collective economic action. In contrast, G7 economies benefit from financial stability among their members and the established role of reserve currencies like the dollar and euro in global trade (ECB, 2023).

Demographically, BRICS is home to 41% of the global population, whereas G7 has only 10% of the global population (United Nations, 2023). Younger populations in India and Africa provide a demographic advantage that supports growth in labor-intensive industries. However, this benefit is offset by high unemployment in South Africa. Population is aging in China, Russia, and Brazil. A strong demographic policy is needed to replenish the aged population through economic and other social incentives. Culturally and politically, BRICS' diversity enhances its global influence but also complicates consensus-building. Coordinated policy decision-making might be a difficult approach in centralized China whereas India's democratic governance might help find a people-based coordinated decision-making process. The G7 countries share liberal democratic values, allowing for more unified responses to global issues, such as the sanctions imposed on Russia following the Ukraine invasion in 2022 (Council on Foreign Relations, 2023). However, this may not be the case among the BRICS countries as antipolar countries such as India and China are in the same boat.

Nonetheless, BRICS members continue to explore ways to reduce reliance on the US dollar through bilateral trade agreements and discussions on a unified currency. The BRICS summit in Johannesburg discussed the creation of a BRICS currency backed by gold or a basket of assets, signaling aspirations for greater financial independence (BRICS Summit Reports, 2023c). However, obstacles such as limited financial integration, economic disparities, and geopolitical pressures from the US and its allies remain significant. Additionally, US Federal Reserve interest rate hikes increase financial strain on BRICS economies that might weaken their objective of de-dollarization as the dollar-denominated transactions may dominate the global markets (Federal Reserve, 2023a).

Efforts to move away from the dollar have broad economic and political implications. For BRICS, these initiatives promise greater financial sovereignty and protection from external shocks, while for the US, declining global demand for the dollar could reduce its financial and geopolitical influence. The Global South may benefit from lower transaction costs and greater financial independence, as seen in ASEAN's strategies to minimize exchange rate volatility (ASEAN Economic Report, 2023). However, despite BRICS' geographic scope, economic strength, and demographic advantages, substantial progress requires addressing internal challenges and external resistance. Building trust, strengthening financial integration, and fostering collaboration will be essential. A gradual, strategic approach focusing on local currency integration, enhanced banking networks, and deeper cooperation will be key to advancing de-dollarization. As these efforts progress, attention will turn to how similar strategies are unfolding in South Asia, where regional dynamics play a critical role in shaping the path forward.

De-Dollarization in South Asia: Opportunities and Challenges

The US dollar has been the dominant global currency since the Second World War, serving as a benchmark for measuring purchasing power parity and comparing economies across nations. Replacing or even reducing the use of the US dollar in global transactions is a complex and challenging process that requires the development of a reliable alternative currency and robust financial institutions to facilitate transparent and efficient monetary transactions. These efforts are further complicated by the current global reliance on the dollar in trade and finance, creating significant barriers to de-dollarization.

Countries in the Global South have been working to reduce the influence of the US dollar in their economies. Central Bank Digital Currencies (CBDCs) have emerged as a potential solution to enable a transition to a multipolar currency system. By offering improved efficiency, security, and inclusivity, CBDCs align with broader technological advancements, including digital economies and green technologies. BRICS member countries have taken the lead in these efforts, aiming to reduce their dependence on the US dollar in global trade. For South Asia, these initiatives could reshape the region's economic landscape by fostering greater financial sovereignty, regional economic integration, and resilience to external shocks (BIS, 2023; IMF, 2023).

The adoption of CBDCs could streamline cross-border payments by reducing transaction costs and increasing trade efficiency. In South Asia, where economies rely heavily on remittances from Gulf nations and trade with the US, Europe, China, and other BRICS nations, this shift holds significant potential. Enhanced financial transaction systems could strengthen economic ties, diversify trade, and mitigate currency volatility caused by external factors such as US monetary policies or global economic fluctuations. These advancements are particularly critical for smaller South Asian economies, which often struggle to maintain stability under a dollar-dominated financial system (World Bank, 2023c-d).

A major development in this context is the push among BRICS countries to challenge the dominance of the dollar by promoting trade in local currencies and establishing alternative financial mechanisms. Among South Asian nations, only India is a BRICS member, though Bangladesh and Pakistan have expressed interest in joining. As a founding member of BRICS, India's digital rupee initiative aligns with the global shift toward CBDCs, potentially strengthening trade partnerships and enhancing financial stability. Similarly, countries like Nepal and Bangladesh could leverage CBDCs to optimize their remittance systems and reduce over-reliance on the dollar, enabling more diversified trade dependencies (Stiglitz, 2023; ADB, 2023a & b). Economic and technological competition between the US and China, particularly in sectors like green technology and digital innovation, further highlights the importance of regional partnerships. South Asia's adoption of CBDCs could facilitate integration into emerging digital trade ecosystems, reducing barriers to international trade while encouraging collaboration with China's advancements in clean energy and digital technologies. By strengthening its position in global supply chains, South Asia could also address sustainability challenges. For example, green technology innovations supported by CBDC infrastructure could help countries in the region mitigate environmental vulnerabilities and foster long-term economic resilience (Stiglitz, 2023; ADB, 2023a & b).

Beyond trade and sustainability, CBDCs have the potential to enhance economic integration and stability within South Asia. These financial innovations could stabilize national and multinational monetary systems, improve access to credit, and promote equitable growth. As the global economy shifts away from dollar centrality, greater financial autonomy could enable South Asian governments to manage external shocks more effectively. This transition aligns with broader calls for a reimagined globalization framework that balances economic sovereignty with the realities of interdependence in an emerging multipolar world (OECD, 2023).

Additionally, CBDCs provide an opportunity to redefine South Asia's role in global trade. By offering secure and transparent financial transaction platforms, CBDCs could strengthen trade relationships with regional powers such as China and other emerging markets. Such an inclusive growth strategy would enhance South Asia's resilience against global economic shocks, paving the way for a more diversified and stable economic future. The transition to a multipolar currency system, supported by CBDC innovation and BRICS' de-dollarization efforts, offers South Asia a pathway to better integration into global trade while addressing structural vulnerabilities (BIS, 2023; UNESCAP, 2023).

For Nepal, adopting CBDCs could enhance its role in regional digital trade. Collaboration with India and China, both leaders in CBDC development, would allow Nepal to establish interoperable systems for cross-border transactions. These systems could lower remittance costs, a crucial source of foreign exchange for Nepal, and streamline trade settlements (Wang & Liu, 2023).

Critical Evaluation of De-dollarization for Nepal

The global trend toward de-dollarization, driven by geopolitical realignments and economic transitions, presents both opportunities and challenges for Nepal. The following paragraphs examine how Nepal's unique economic and financial landscape influences its ability to navigate these changes.

1. Nepal's Pegged Currency and Regional Financial Cooperation

Nepal's pegged exchange rate system with the Indian Rupee (INR) ensures monetary stability but limits financial independence. This system facilitates trade and remittances with India, which accounts for most of Nepal's trade, and helps keep inflation in Nepal aligned with India's economy. Even when the actual value of the Nepali Rupee (NPR) falls below the official exchange rate, the open border with India and the integration of Nepali and Indian markets help stabilize the currency. However, this dependence on the Indian currency makes Nepal vulnerable to external shocks or changes in India's monetary policies (Sharma, 2021).

Nepal's economic development is constrained by the lack of strong regional financial mechanisms, which poses a challenge to reducing dependence on the US dollar. Establishing regional currency swap agreements, like the ASEAN+3 Chiang Mai Initiative, could provide necessary liquidity buffers during economic crises. To achieve this, Nepal must strengthen its financial reserves and engage in multilateral negotiations with South Asian neighbors. Collaborating with India to expand the use of the Indian Rupee for bilateral trade and reserves could significantly reduce reliance on the US dollar (Dhungana, 2020). Additionally, enhancing Nepal's manufacturing sector and improving productivity would help maintain the value and desirability of its currency.

Diversifying export destinations and expanding the range of exportable commodities are crucial for Nepal's economic resilience. High-value sectors such as IT, software development, hydropower, tourism, and premium agricultural products like cardamom, ginger, turmeric, and Sichuan pepper present significant opportunities. Bhutan has successfully exported hydropower to India, generating Nu 16.67 billion in revenue in 2022 (Kuensel Online, 2022). This demonstrates the potential for Nepal to benefit from regional energy trade. Recent bilateral agreements with India and Bangladesh on electricity exports and imports are steps in the right direction.

Bilateral currency swap agreements with major trading partners like India and China could provide a sustainable economic solution. China has signed currency swap agreements with 22 countries under the BRI, facilitating trade and investment in local currencies (State Council of China, 2021). Similar agreements could protect Nepal's economy from global dollar fluctuations, reduce dependency on the US dollar, and enhance regional economic integration. However, for foreign countries to accept NPR, they must be able to use them to purchase valuable goods and services from Nepal. Therefore, boosting high-value agricultural, industrial, and service sectors is crucial.

Expanding tourism partnerships with India and China using local currencies is another effective strategy for diversifying revenue and strengthening economic stability. Additionally, implementing a South Asian Payment Mechanism (SAPM) through digital platforms could streamline trade settlements. Nepal and India already conduct some trade in INR and NPR, which could serve as a model for broader regional adoption. Such a system would help mitigate foreign exchange risks, lower transaction costs, and promote regional trade integration, contributing to Nepal's long-term economic sustainability (Bhattarai, 2019). Similarly, expanding tourism partnerships with India and China in local currencies could enhance Nepal's revenue streams (Adhikari & Pandey, 2022).

2. Limited Currency Convertibility and Financial Liberalization

The NPR is not widely convertible, which limits Nepal's engagement in regional and global trade beyond India. Gradual liberalization of the capital account could improve the NPR's usability. However, such a move would require Nepal to first strengthen its macroeconomic fundamentals, including managing its fiscal deficit and maintaining inflation to an acceptable low level (Shrestha & Karki, 2022). Diversifying foreign exchange reserves to include currencies like the Chinese Yuan (RMB) and Special Drawing Rights (SDRs) could stabilize Nepal's reserves and enable multilateral trade agreements. For example, Malaysia's cautious liberalization strategy offers a road-map for Nepal to balance risks and benefits in liberalizing its foreign exchange system (Rahman & Li, 2023).

3. Financial System Modernization and Digital Solutions

Nepal's underdeveloped financial infrastructure remains a barrier to fully realizing the benefits of de-dollarization. Digital financial platforms have the potential to improve access to trade finance, particularly for small and medium enterprises (SMEs). Bangladesh's experience in modernizing its financial sector highlights the transformative impact of such reforms (Islam & Alam, 2021). Strengthening Nepal's banking sector to offer trade and financial instruments, such as letters of credit and guarantees, would enhance export capabilities. Expanding banking services to rural areas would also help formalize informal trade, which constitutes a significant portion of Nepal's economic activities (ADB, 2022).

4. Trade Infrastructure and Regional Agreements

Regional trade agreements and arrangements, such as the South Asian Free Trade Area (SAFTA), offer a framework for economic integration for the South Asia region. However, Nepal must invest in trade infrastructure, particularly at critical border crossings with India such as, Jogbani, Birgunj, Bhairahawa, Krishna Nagar, and Nepalgunj to fully benefit from such agreements with India. Harmonizing trade standards and adopting mutual recognition agreements would reduce non-tariff barriers and improve regional trade flows (Thapa & Poudel, 2020). Likewise, Nepal can leverage its trade with China by opening trade routes and emphasizing the potential benefits of leveraging key border crossings like Rasuwagadhi-Keyrong, Kodari-Nyalam, Yari (Humla)-Purang, Olangchunggola-Riwu, Kimathanka Riwu, and Nechung (Mustang)-Lizi.

5. Governance and Political Stability

Economic reforms and financial modernization require political stability and transparent governance. Ensuring policy continuity and maintaining a stable macroeconomic environment is essential for attracting regional partnerships and investor confidence (Nepal Rastra Bank, 2023). Strengthening fiscal and monetary governance would further support Nepal's transition to a de-dollarized economy (World Bank, 2023 e & f). Nepal's shift toward a de-dollarized economy presents both challenges and opportunities. By leveraging its economic ties with India and other South Asian countries, modernizing its financial infrastructure, and diversifying its trade and reserves, Nepal can mitigate risks and maximize benefits. Strategic policy interventions, institutional reforms, and regional cooperation are essential for Nepal to succeed in the evolving global economic landscape.

Conclusion

The rise of the US dollar as the global reserve currency was rooted in the Bretton Woods system established in 1944, which pegged international currencies to the dollar. The dollar was convertible to gold. This system flourished due to the United States' post-World War II economic and political dominance, supported by its industrial strength and substantial gold reserves. Although the gold standard was eliminated in 1971 under President Nixon, the dollar maintained its dominance, reinforced by its liquidity, stability, the strength of U.S. financial markets, and the backing of US power. This supremacy provided the US with significant geopolitical and economic advantages, including influence over global trade, the ability to impose sanctions, and the privilege of borrowing at low costs (World Bank Group, nd).

However, recent global changes are beginning to challenge this dominance. Emerging economies, particularly the BRICS nations, are exploring alternatives to the dollar, such as bilateral trade in local currencies and discussions of a unified alternative currency, the BRICS currency. Geopolitical factors, including Western sanctions on countries such as Russia, China, Iran, North Korea, Belarus, and Venezuela, as well as China's Belt and Road Initiative, have accelerated efforts to move away from the dollar. The rise of Central Bank Digital Currencies (CBDCs) presents new possibilities for reducing reliance on traditional dollar-based systems. Additionally, economic crises such as the 2008 financial collapse, and the Covid-19 pandemic have exposed weaknesses in a dollar-centric framework.

The shift away from the dollar has broad implications. For the US, reliance on the dollar could weaken its geopolitical influence and increase economic costs for trade. For emerging economies, it offers opportunities for financial independence and reduced exposure to dollar-driven fluctuations. However, transitioning to a multipolar currency system presents challenges, including higher transaction costs and the need for better international coordination in trade and finance. The success of de-dollarization efforts by BRICS and other nations will depend on overcoming internal differences and establishing strong financial systems.

South Asia, which is increasingly integrated into the global economy, faces mixed outcomes in a de-dollarized world. India, through initiatives to trade in rupees, could benefit from reduced dependence on the dollar. It is using rupees to promote regional trade and economic sovereignty. Additionally, using its own currency for trade could generate financial benefits. However, other countries in South Asia face obstacles such as limited currency convertibility and underdeveloped financial systems. Nepal, for example, relies heavily on dollar-denominated remittances and international trade, making the transition complex. Nevertheless, opportunities exist in diversifying foreign reserves, strengthening regional economic ties, and adopting financial innovations such as CBDCs to facilitate trade within South Asia.

A currency system that reflects an emerging multipolar world could reduce global financial risks linked to over-reliance on the dollar and create a more equitable economic structure, where even smaller economies benefit from regional and global trade arrangements. However, internal inefficiencies and geopolitical tensions may complicate this transition. For Nepal, strategic policy reforms, financial modernization, and regional collaboration will be crucial for adapting to these changes. By leveraging its geographic and economic position, Nepal could reduce dependence on the dollar while enhancing its economic standing in South Asia.

In conclusion, de-dollarization represents a significant shift in the global monetary system and political landscape. While it challenges the existing US-led order, it offers emerging economies, including those in South Asia, a path toward greater financial autonomy and stability. The success of this transition will depend on addressing structural and technical challenges, fostering regional cooperation, and embracing financial innovations such as CBDCs. For Nepal, targeted economic reforms and strategic international partnerships could unlock new opportunities in this evolving global environment.

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