

How Is Changing A USD-dominant IMS Harder Than Changing World Order?

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Principal conclusions:

1. Continued USD dominance of the IMS; no viable alternatives
2. Rising demand for reserves and increasing desire to diversify away from the USD
3. Even if efficiency improves, fintech innovation might increase USD centrality and risks and costs for EMDEs.

Headline facts on USD shares:

1. International payments 59%, up from 32% in 2012
2. Trade finance 82%; each of RMB and EUR, 6%

Phrasings:

1. “two unsavory alternatives—continued dollar dominance vs a fragmented currency system”
2. “eagerness of countries around the world to disentangle from the USD-dominated financial system”

Conclusion

1. Even if alternatives, should USD dominance continue anyway?

- Core gains and perimeter losses
- Perhaps it does not matter

2. IMS and World Order

- Different imagined world orders
- IMS and the new world disorder: Bargains and compromises
- Fragmentation is no indictment. It is both tolerable and already taking place.

3. Is USD dominance a red herring?

- Even apart from economic statecraft, IMS is not just money (in economic theory)
- Measurement: Conduit vs Medium, Capacity vs Flow
- Piping, not the USD, is the bottleneck. But developments ...

Should USD dominance continue
anyway?

Costs and benefits: Distributional accounts

Subject	Representative good. Core gains	Perimeter losses
International Monetary System	Efficiency: Reduced transaction friction; group insurance. Liquidity. Trust. Adjustment elasticity. Safety. Weaponize economic interdependence.	Exorbitant Privilege. Triffin. Structural imbalance. Asymmetry across deficit and surplus economies. Debt currency mismatch and exchange-rate risk. Weaponize economic interdependence.
Economic growth	Expands capacity. Social mobility	Income inequality. Physical environment degraded.
Trade	Mutual gain. Comparative advantage	Economic dislocation (China Shock). Income inequality.
Benevolent Hegemony (Kindleberger)	Economic and financial stability HST	Bias global decision-making.
Rules-based Order. Multilateral-3	Fairness, opportunity. Level playing field. Peace. Cooperation	Multipolarity, degraded privilege with the decline of unipolarity. Relative-power concerns.

Table 1: The International Monetary System: Core Gains and Perimeter Losses. Distributional accounting so that, e.g., “Weaponize economic interdependence”, or zero-sum economic statecraft more generally, appearing as both gains and losses.

Grand Economic Compromises: Commonalities and Differences

Key conclusions:

1. Distributional, not single-player, costs and benefits
2. All societies work out equilibria to resolve compromises in distributional accounts. In concept, IMS is no different a challenge.
3. IMS and Kindleberger HST: Critical role of centralised power
4. How would alternative currency dominance change these tradeoffs? For nearly all, ambiguous or unchanged; potential exception structural imbalance. Otherwise, clarity and high stakes **only for economic statecraft.**

Takeaways:

1. USD-dominance indifference.
Zero-sum consequence of legacy Dollar Trap. Worse only if destructive economic statecraft.
2. Economic statecraft takes economics as a “means of working the US’s geopolitical will in the world” (Harris and Sullivan, 2016).
3. Intentional vs inadvertent
4. **Which power centre will use its currency, if dominant, to intentionally cause greater perimeter loss?**

IMS and World Order: Bargains and Compromises

IMS and World Orders: Distributional accounts

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International Monetary System	Efficiency: Reduced transaction friction; group insurance. Liquidity. Trust. Adjustment elasticity. Safety. Weaponize economic interdependence.	Exorbitant Privilege. Triffin. Structural imbalance. Asymmetry across deficit and surplus economies. Debt currency mismatch and exchange-rate risk. Weaponize economic interdependence.
Benevolent Hegemony (Kindleberger)	Economic and financial stability HST	Bias global decision-making.
Liberal International Order (Ikenberry)	Democratic peace and major-power stability. Globalisation. Ruel-based cooperation. US-led international security	Political and economic convergence. Constrained autonomy. Economic and security dependency. Western-centric norms.
Realist Order (Thucydides, Mearsheimer)	Hegemonic dominance. Security and primacy for the hegemon. Reduced open conflict through enforced hierarchy. Rival deterrence and concession extraction.	“Suffer what you must”. Subjugation and exploitation of weaker states. Inefficient security dilemma. Constant threat of Great Power conflict. Outcomes depend on raw power.
Rules-based Order. Multilateral-3	Fairness, opportunity. Level playing field. Peace. Cooperation	Multipolarity, degraded privilege with the decline of unipolarity. Relative-power concerns.

Table 2: The International Monetary System and World Orders: Core Gains and Perimeter Losses. Distributional accounting so that, e.g., “Weaponize economic interdependence”, or zero-sum economic statecraft more generally, appearing 7/13 as both gains and losses.

Key conclusions:

1. All world orders work out equilibria to resolve compromises in distributional accounts. In concept, IMS is no different a challenge.
2. Leaderless RBO-M3 is a scaled-down version of LIO; it is just “multilateral-enough”.
3. IMS closest to HST and LIO—where centralisation too is critical. But world order is already moving away from HST/LIO, towards either Realism or Leaderless RBO-M3.

Takeaways:

1. Not Cold War: No separating hyperplane. (China Shock. Posen. Colby.)
2. Domains with increasing returns still: War (but asymmetric warfare), ...
3. RBO-M3 with G-minus plurilateralism: MPIA, RCEP, CPTPP, FIT-P, ...
4. **Fragmentation is no longer an indictment.** It is both tolerable and already taking place.

Is USD dominance a red herring?

Measurement: Conduit vs Medium, Capacity vs Flow

Analysis

1. Table 1: Intentionality in economic statecraft surfaces to be critical.
2. Table 2: Fragmentation is both tolerable and already taking place.
3. These forces disrupt IMS. But they do not assign importance to the identity of the dominant currency.

Model

1. An exchange network is a pair (C, M) , i.e., a conduit C (“the pipes”) together with a medium M (“the flow”). Can a fixed conduit flow different media? Can C and M vary independently?
2. The IMS is an exchange network. How does co-variation in C and M affect the terms of the international bargain and compromise?

Response:

1. SWIFT, CIPS, Project mBridge, Project Nexus, . . .

SWIFT Society for Worldwide Interbank Financial Telecommunication

1. Secure messaging network for cross-border banking and financial transactions. Communicates instructions but does not hold or move financial assets. A restricted WhatsApp.
2. Belgium-based, jointly owned by 200 member banks across 200 nations; governed by major central banks including the Fed and the ECB.
3. Transactions not part of SWIFT, but traditionally transactions route through NY correspondent banks, where US economic statecraft can more fully operate.

CIPS Cross Border Interbank Payment Systems

1. China's clearing and settlement system. Has its own messaging system but (80%) regularly uses SWIFT messaging.
2. Connects nearly 2000 participants and 5000 legal entities across 200 countries.
3. Alternative, not replacement, infrastructure.
4. Switching costs?
 - Distinguish network effects from network switching costs. BlackBerry Messaging pre- and post-iPhone.
 - Messaging vs broadcasting: bilateral, thus less costly gradual adjustment.

Project mBridge

1. Multilateral: BIS Innovation Hub collaboration with CN, HK, AE, SA, and TH
2. Goal to create a multi-CBDC platform that reduces cross-border settlement times using Blockchain direct peer-to-peer transactions.
3. Does not traverse NY (or other) correspondent banks
4. Settles in pairwise national CBDCs, and so does not use USD as intermediary vehicle currency
5. Focus is wholesale CBDC settlements using direct transactions
6. Reached Minimum Viable Product stage in mid 2024; handed over to partners for further development and implementation.

Project Nexus

1. Multilateral: BIS Innovation Hub Singapore Centre, with IN, ID, MY, PH, SG, and TH; connected to Eurosystem payments
2. Single-hub gateway. Costs from quadratic to linear, using common APIs
3. Cross-border payments within 60 seconds by mobile telephone, supporting G20 roadmap for improved cross-border transactions.
4. Works alongside SWIFT messaging.
5. Operating, with SEA concentration for now.

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