Two central bankers foreshadow challenges to US dollar

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20 June 2025

The position of the dollar as the world's reserve chief currency has come under question this week from two significant quarters—the European Central Bank and the central bank of China.

In an opinion piece written for the *Financial Times,* ECB president Christine Lagarde touted opportunities for the euro to assume a much more prominent role amid what she characterised as "a profound shift in the global order."

Halfway around the world, China's central bank head Pan Gongsheng told the annual gathering at the Lujiazui Forum in Shanghai that he expected a new global currency order to emerge after decades of dollar dominance.

Outlining the major shifts in the international economic system, Lagarde set out a list of maladies: the fracturing of multilateral trade rules, the uncertainty surrounding the dollar, protectionism, zero-sum thinking and bilateral power plays.

"Uncertainty is harming Europe's economy, which is deeply integrated in the global trading system, with 30 million jobs at stake," she wrote.

But within the shifts now underway there were "opportunities for Europe to take greater control of its own destiny and for the euro to gain global prominence."

It appears that her call is the expression of a demand for action. A report in the *Financial Times* yesterday said France was pushing for European Union countries to take additional measures to raise the status of the euro as a global currency ahead of a leaders' summit later this month.

A draft EU statement said its institutions including the European Central bank should "explore actions to reinforce the international role of the euro." France has been pushing for joint borrowing, considered necessary for a greater international role.

The nationality of the anonymous official was not disclosed but both Germany and the Netherlands are firmly opposed to common borrowing because they believe they would be saddled with a greater share of debt than others, including France.

In her comment piece, Lagarde said increased euro prominence would not come by default but had to be "earned." At present the concerns about the "dominant currency" were "not triggering a major shift towards alternatives. Instead, they are reflected in a rising demand for gold."

While she did not comment directly on the military expansion in Europe her comments on how the euro could assume a more prominent globe had a distinctly militarist tone.

For the euro to reach its full potential Europe had to strengthen its "geopolitical credibility"—a euphemism for developing more military clout—as well as economic resilience and institutional integrity.

The ECB had to ensure collaboration with key partners to ensure the smooth transmission of its monetary policy. But then in a veiled reference to the Trump administration, Lagarde continued: "Real confidence, however, rests on hard facts. Investors seek regions that honour their alliances."

Returning to the military build-up, she noted: "Europe is undergoing a major shift towards rebuilding its hard power, which should also help bolster global confidence in the euro."

Lagarde concluded with a historical reference pointing to the signs of the decline of dollar dominance, albeit indirectly.

"History teaches us that regimes seem enduring—until they no longer are. Shifts in global currency dominance have happened before. This moment of change is an opportunity for Europe: it is a 'global euro' moment. To seize it and enhance the euro's role in the international monetary system, we must act decisively as a united

Europe taking greater control of its own destiny.”

She did not, however, even so much as mention that such transitions have involved the bloodiest episodes in human history.

The British pound sterling lost its preeminent position, during which it had been regarded “as good as gold,” as a result of World War 1. The inter-war system was one of chaos and the division of the world into rival currency and trading blocs. Sterling could no longer play the role it once had, and the US had yet to fully establish itself as the dominant imperialist power.

The US finally achieved that with the defeat of its two main rivals—German and Japanese imperialism in World War 2—after which the dollar became the global currency.

The day after Lagarde’s article appeared, China’s central bank governor made one of the most explicit forays into the issue of dollar dominance so far from Beijing at the Lujiazui Forum.

Pan said he expected the emergence of a new global currency order in which the Chinese currency, the renminbi, would compete in a “multi-polar international monetary system.”

The dollar had “established its dominance” after the second world war and retained its status “up till now.”

In careful language, he said dangers posed by fiscal and regulatory problems in the issuing country [a reference to the US] could “overflow to the world in the form of financial risks, and even evolve into an international financial crisis.”

Looking ahead he said: “In the future, the global monetary system may continue to evolve towards a pattern in which a few sovereign currencies co-exist, compete with each other, and check and balance each other.”

But this happy scenario of competition based on a regime of peaceful co-existence completely ignores the lessons of history.

The multi-polar economic, trading and financial world of the 1920 and 1930s was the breeding ground for conflicts which led to World War 2.

Today the palpable economic decline of the US—its transformation from the industrial powerhouse of the world at the end of the war to the centre of debt and financial parasitism today—has led to ever intensifying military and economic conflict as it seeks to retain its dominant position.

The FT noted that Pan’s comments indicated a “renewed urgency in China’s long-standing push for a ‘multi-polar’ currency system, as China clashes with the US over trade and Trump’s imposition of higher tariffs.”

As Pan put it in his address: “When geopolitical conflicts, national security interests or even wars occur, the international dominant currency is easily instrumentalised, and weaponised.”

The most glaring example was the exclusion of Russia from the international payments system and the seizure of $300 billion of foreign assets held by the Russian central bank shortly after the start of the Ukraine war.

It sent a shock wave through the financial system as countries around the world, and above all China, realised that they could be subject to such sanctions if they crossed the US path. The sanctions imposed on Russia were backed and enforced by the European powers.

But Europe understands that it too could be a target as the US shatters the norms and rules of the post-war period. In July 2018 as Trump imposed sanctions on Iran—tearing up a previous nuclear agreement in which the US was involved—he explicitly ruled out any exemptions for European firms continuing to do business with the country and labelled the EU as a “foe.”

Neither Lagarde nor Pan canvassed the possible reactions of the US to the erosion, or even the loss, of the dollar’s global dominance. But it is an existential question. The US has been able to run up debts to extraordinary levels that would have any other country bankrupt because it is financed by the rest of the world seeking dollars.

During the election campaign last year, Trump remarked that losing the dollar’s position as the global currency would be the equivalent of losing a war.

The remarks by Lagarde and Pan arise from the deepening crisis of the dollar-system. But this crisis is not going to bring about the peaceful passage to a new financial order, multi-polar or otherwise. Rather, the economic, financial and geo-political tensions combined with the military build-up are going to increasingly intersect and intensify.