

Sanctions and Economic Power: The Dollar Knight Faces Its Greatest Trial



“Resilience will come less from a single knight’s supremacy and more from the balance of many.”

For decades, the US dollar has been more than money; it has stood as a geopolitical knight, wielding sanctions like a sword that can cripple economies in a single strike. Yet the paradox is clear: the very dominance that built its strength now draws challengers, as nations move to test the knight that has long guarded the global order.

From Embargo to Economic Weapon

Sanctions first appeared as blunt shields of diplomacy in the post-WWII order, but over time they sharpened into precise instruments. By the Cold War, and especially after 9/11, financial sanctions had become siege engines capable of breaching entire economies. When Iran, Venezuela, and Russia faced these strikes, the lesson was unmistakable: whoever holds the dollar commands the lifeblood of global commerce.

The 2022 freezing of roughly \$300 billion of Russia’s foreign reserves was not just punishment but a shockwave across continents. According to the Bank of Russia, nearly half of those reserves were immobilized overnight. For others watching, the message was ironclad: reliance on the dollar is to leave your gates in another knight’s hands, ready to be closed at will.

A Strategic Awakening

Each strike of this weapon reverberates across the global system. Allies and rivals alike are realizing the tournament is staged on foreign soil, where rules can change without notice. What was once casual talk of de-dollarization has become a necessity.

The evidence is mounting:

- **Dollar Reserves Falling:** According to IMF COFER data, the dollar’s share of global reserves dropped to 57.7% in Q1 2025, down from 71% in 1999 — the lowest level on record.
- **Trade in Local Currencies:** Over 90% of Russia-China trade now settles in yuan, up from 25% in 2014. India has paid for Russian crude in rupees since 2022, while the UAE and Saudi Arabia have experimented with dirham- and yuan-based oil contracts.
- **Energy Pricing Shift:** Roughly 20% of Russia’s oil exports in 2023 were invoiced

in yuan (IEA estimates), cracking the petrodollar's grip.

- **Gold as Insurance:** Central banks bought 1,136 tons of gold in 2022 and another 1,037 tons in 2023 (World Gold Council), the two highest annual totals on record. China, Turkey, and India led the charge.

The Dollar's Enduring Stronghold

Still, the dollar commands the high ground. It anchors 88.5% of all global FX transactions (BIS 2022), dominates 60% of global debt issuance, and accounts for nearly half of world trade invoicing. In crises, investors still rush into US Treasuries.

Why?

1. Scale and Trust

US financial markets remain the deepest, most liquid, and most transparent. Treasuries, with over \$27 trillion outstanding, are still the ultimate safe haven.

2. Network Effect

The dollar's dominance is self-reinforcing. With global payments (SWIFT) still 47% dollar-denominated, banks and firms use it because everyone else does.

3. Weak Rivals:

The euro (20% reserves) struggles with fragmented fiscal policy.

The yuan (2.5% reserves) faces capital controls and political opacity.

Gold is stable but not transactional.

Crypto remains too volatile.

BRICS currency proposals are still theoretical.

BRICS: Building Bridges Away from Dollar

The BRICS nations have moved beyond rhetoric. Russia now clears most of its energy trade in yuan; Brazil has signed swap lines with China; India's rupee payment system has expanded to 18 partner countries. South Africa advocates for reforms at the IMF and World Bank.

But coordination is messy. Different inflation rates, political systems, and monetary frameworks limit progress toward a unified BRICS currency. The New Development Bank has lent in yuan and reals, but the idea of a single BRICS currency remains more symbol than substance.

Building Resilience, Not Replacing the Dollar

Sanctions have recast the dollar not just as neutral money but as a weapon. The global response is diversification, not abandonment:

Regional reserve pools (e.g., Chiang Mai Initiative).

Alternative payment systems (China's CIPS, India's Rupee Vostro accounts).

Stockpiles of commodities and strategic reserves.

Central bank digital currency (CBDC) experiments, now underway in over 130 countries (IMF 2024).

Chart1: Global Currency Share of Reserves

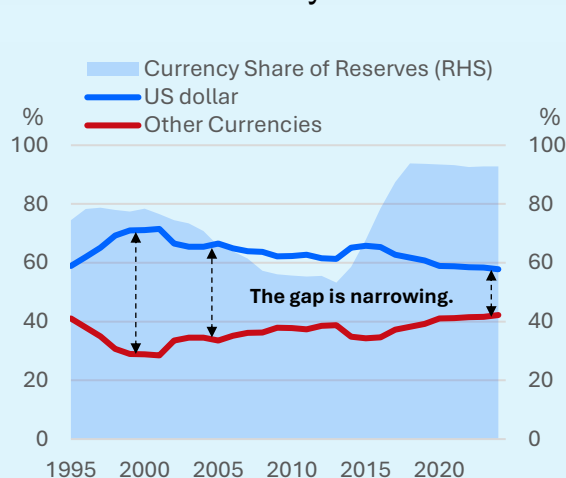


Chart2: Real Broad Dollar Index (Jan 2006 = 100)



The New Reality: Shared Power Over Single Dominance

The dollar's fortress still stands, but its walls are no longer untested. The world is shifting toward shared power: multiple shields, multiple banners. The coming order may not dethrone the dollar, but it will limit its unilateral reach. Resilience will

come less from a single knight's supremacy and more from the balance of many.

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