

“Weaponisation of the dollar marks the end of an era”, Op- ed in Arabian Gulf Business Insight (AGBI), 17 Feb 2026

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Weaponisation of the dollar marks the end of an era

Sanctions, quantitative instruments and the freezing of sovereign assets have destroyed the inherited order

For decades, the global financial system operated on a fundamental assumption: US debt assets are risk-free.

Central banks and sovereign wealth funds relied on US treasuries as the ultimate safe haven, supported by deep capital markets and the stability of the post-World War II international order.

That era is over. The weaponisation of the dollar, unsustainable US fiscal policy, and the dismantling of rules-based institutions have fundamentally altered the risk-return profile of holding the US dollar.

For a central bank governor in the GCC or Beijing, holding US treasuries is no longer about yield and liquidity – it’s a question of national security.

This poses significant challenges for the Gulf. Regional exchange rate policies are tied to the dollar, creating direct exposure to American monetary policy and geopolitical decisions.

Can they continue to anchor their currencies and park their wealth in a system where the rules no longer apply equally, where assets can be frozen on political grounds and where inflation may be used to erode debt obligations?

The unravelling of the rules-based order

The post-World War II order is being dismantled in a disorderly manner. The US has launched military intervention in [Venezuela](#), imposed [additional tariffs](#) on countries “doing business” with Iran, threatened sanctions on EU nations that opposed its stance on Greenland (since walked back), and formed a [“board of peace”](#) in Gaza – all while issuing threats to Cuba, Colombia and Iran.

This undermines the multiple alliances and multilateral institutions that underpinned global economic growth and stability for decades. The foundation – symbolised by Bretton Woods (the system that required countries to guarantee their currencies’ convertibility to the US dollar), the United Nations and the World Trade Organization – is crumbling.

The growing militarisation of external relations has been especially evident in [President Trump’s](#) second term.

The expanding use of sanctions, quantitative instruments and the freezing of sovereign assets have destroyed the inherited order and accountability. If the US dollar can be weaponised, it ceases to be a risk-free store of value.

Ongoing threats to [Federal Reserve independence](#) further undermine the credibility of US monetary policy and regulated institutions. For the GCC, whose currencies move with the dollar, this creates a dangerous dependency on increasingly

erratic American policy.

Simultaneously, the US fiscal trajectory is becoming unsustainable. The International Monetary Fund predicts its debt-to-GDP ratio will climb to 143 percent by 2030, a level historically associated with wartime and deep recessions. Debt service costs alone – more than \$1 trillion annually – now rival the defence budget.

The government in Washington has four options: grow real GDP (difficult in a mature economy), undertake fiscal reform to raise revenue (politically toxic), repudiate debt (catastrophic) or inflate the debt away. Given the political gridlock in the US, the likelihood is higher inflation and fiscal dominance, with monetary policy geared to accommodate government borrowing requirements.

The structural shift has begun

The consequence is a structural shift out of the US dollar. The share of dollar holdings in total foreign exchange reserves slipped to 57 percent in the third quarter of 2025 (down from 70 percent at the start of the century).

Central bank gold purchases have surged, averaging 60 tonnes per month – more than triple the pre-2022 pace – with gold overtaking the euro as the second-largest reserve asset globally. Lower participation from domestic and foreign buyers of US treasuries has raised yields on 10-year+ bonds, reflecting a higher risk premium demanded by the market.

A multipolar international trade and financial infrastructure is emerging, reflecting a shifting centre of gravity towards Asia and a pivot to China. This transition will require deep, global structural shifts.

In Europe, the pressure for an EU fiscal union will intensify. Europe must create a unified, broad, deep and liquid eurobond market to create a safe asset rivalling the dollar. China is

accelerating the development of the yuan market.

China's Cross-Border Interbank Payment System (known as CIPS) is expanding as an alternative to Swift, enabling trade to bypass Western chokepoints. While the yuan is not yet fully convertible, it is being increasingly used in bilateral trade, especially for oil and commodities.

Nations are increasingly settling trade in national currencies – rupees, dirhams, riyals – bypassing the dollar as the vehicle. The fragmentation reduces efficiency but protects sovereignty.

Technology accelerates the transition

Technological innovation is acting as an accelerant. E-finance, digital asset markets and [central bank digital currencies](#) (CBDCs) are creating new avenues independent of the US banking system.

A wholesale CBDC network such as the [mBridge project](#) – connecting central banks from Asia to the Middle East – allows instantaneous cross-border settlement without involving a US correspondent bank, neutralising America's ability to sanction financial flows.

As US assets become riskier, non-US assets – particularly in emerging market economies, China, India, the Brics+ bloc and the GCC – become relatively more attractive. [Sovereign wealth funds](#) in the Middle East and Asia are already diversifying their portfolios.

For the GCC, this implies diversifying asset holdings and the underlying currencies used in trade and financial transactions. Regional currencies, such as the dirham and riyal, could eventually become reserve assets for their trade partners.

Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist at the DIFC Authority, Lebanon's economy minister and a vice governor of the Central Bank of Lebanon