

An aerial photograph showing a two-lane asphalt road that curves through a dense, green forest. To the left of the road is a large, calm body of water with a deep blue-green hue. The road has a white dashed line in the center and solid white lines on the edges. A single white car is visible in the distance on the road. The forest consists of many tall, thin trees, likely pines or firs. The overall scene is serene and natural.

DE-DOLLARISATION

US-China Decoupling Part 3

December 2025



WHAT ABOUT DE-DOLLARISATION?

The process by which the US and China strategically unwind their interdependence, whether in their economies, supply chains, or technological systems, is known as decoupling. Newton's Third Law of Motion states that every action has an equal and opposite reaction; a similar dynamic is at play here, with de-dollarisation emerging as both a key enabler and a consequence. This shift involves a reduced reliance on the US dollar in international trade and finance. While decoupling acts as the driver, de-dollarisation serves as a critical accelerant and outcome. In effect, each reinforces the other, creating a self-reinforcing cycle.

Decoupling does not occur overnight; rather, it results from a gradual erosion of trust over time. In China's case, this is evident in its reduced holdings of US Treasury bonds from \$772 billion in September 2024 to \$700.5 billion a year later. This move is less about yields and more a strategic recalibration, as it would be irrational for China to hold its vast wealth and conduct its trade in the currency of its primary strategic rival. Instead, China is converting some of its dollar liquidity into safer alternatives such as gold and other commodities, while also cautiously increasing holdings in currencies like the euro and yen, as well as assets in Belt and Road partner countries.

Although demand for US Treasury bonds remains significant with Japan, the United Kingdom, and Canada among the largest foreign holders, a broader trend is underway. Many nations are gradually diversifying away from dollar-denominated assets, reflecting a collective move toward reduced dollar dependence.

Figure 1: Top 10 foreign holders of US Treasury evolution

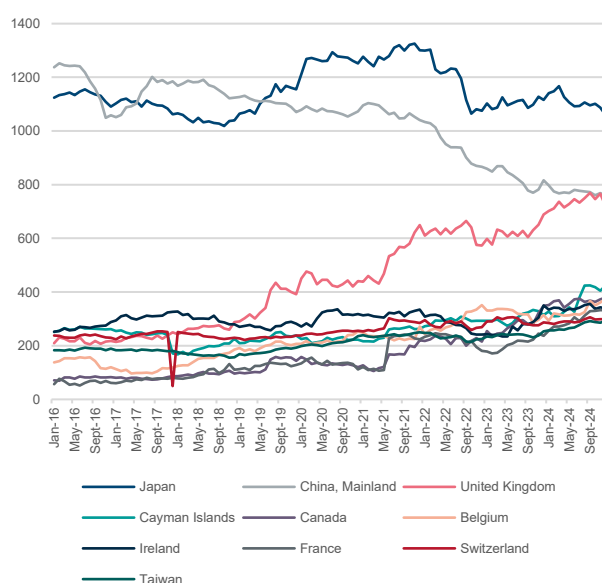
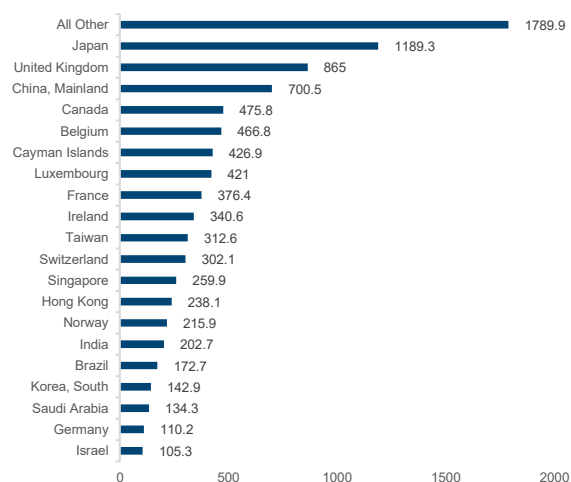


Figure 2: Major foreign holders of US Treasury



Source: Treasury International Capital System

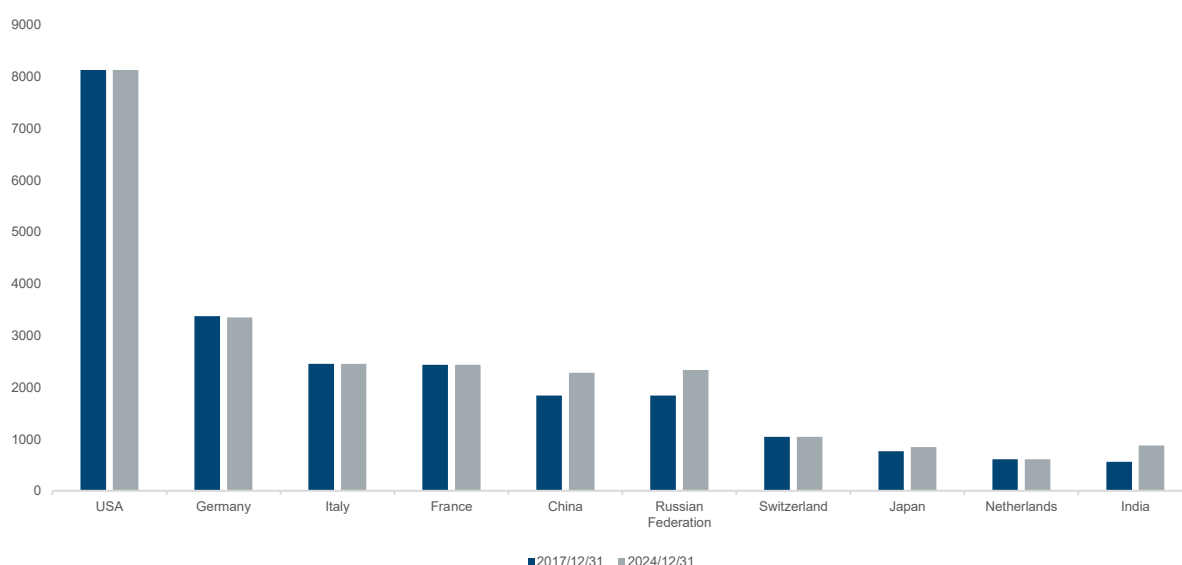
According to J.P. Morgan Research, a 1-percentage-point decline in foreign Treasury holdings relative to GDP (roughly equivalent to \$300 billion in Treasuries) could push yields up by more than 33 basis points. While China alone has reduced its holdings by \$369.4 billion since January 2020, overall foreign holdings have actually increased by \$2.40 trillion over the same period. This net growth is due to sustained demand from other countries.



So, who is buying Treasuries? Primarily, US domestic investors and government agencies. That said, foreign investors still hold a substantial share. Many have significantly increased their positions compared to last year, with Israel, Canada, and Belgium raising their holdings by 33.3%, 29.3%, and 27.3%, respectively. Conversely, the largest declines have come from India, China, and Saudi Arabia, with reductions of 18.0%, 9.3%, and 6.7%. This should not be interpreted as a wholesale "dumping" of Treasuries. Rather, it reflects a strategic diversification of reserves, a gradual shift toward other currencies like the euro and yen, and increasingly toward gold.

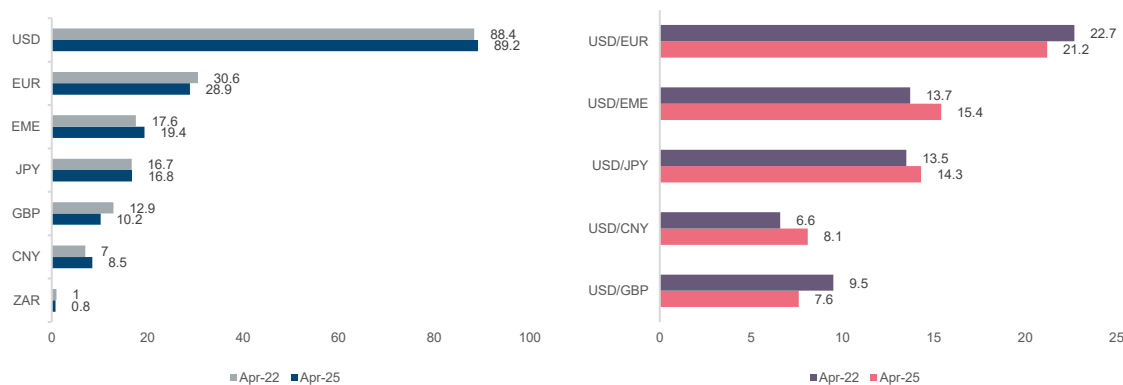
A longstanding trend, particularly led by China and India, has been central banks acting as net buyers of gold for over a decade. This is largely a safe-haven move amid geopolitical risks, as gold is sanctions-proof and serves as a hedge against both dollar depreciation and inflation. China's strategy illustrates this clearly, as the People's Bank of China has consistently added to its gold reserves on a monthly basis while selling Treasuries. This long-term strategic move aims to back the yuan's international credibility with a tangible, non-dollar asset.

Figure 3: Gold Reserves by Tonnes



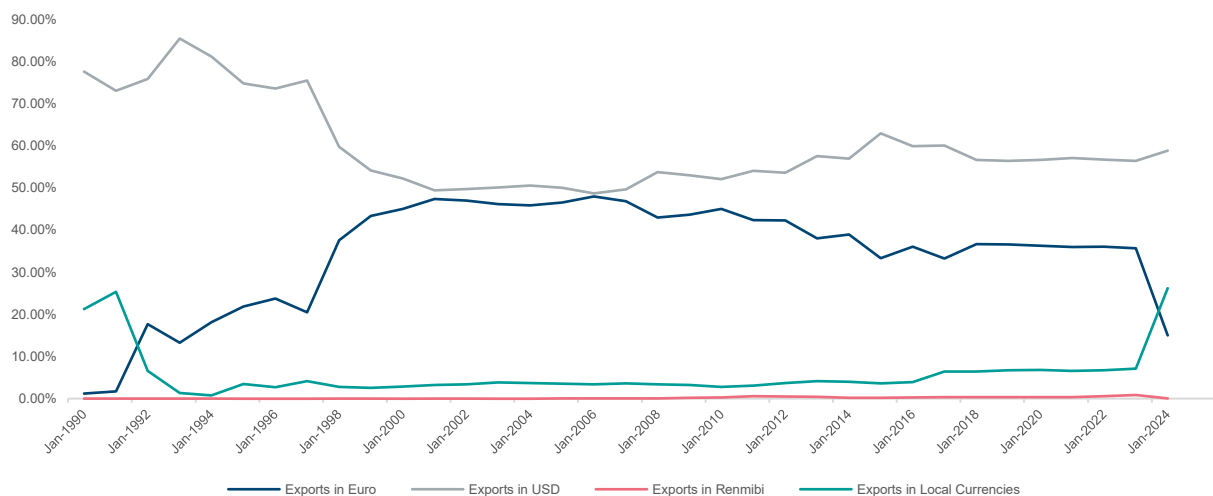
Source: Goldhub, World Gold Council

In Part 1, we evaluated how the US-China trade gap has widened, noting that China has increased both its exports and its share of global exports, while the US share has contracted significantly. Despite this shift, trade continues to be predominantly invoiced in US dollars. The dominance of the dollar is further evident in foreign exchange settlements. According to the BIS Triennial Central Bank Survey, the US dollar made up 89.2% of all trades, up from 88.4% in 2022. Over the same period, the share of the euro declined, while that of the Chinese renminbi rose to 8.5%. Therefore, despite the relative decline in the US share of global GDP and exports, the dollar's role in the international financial system remains remarkably stable, as the data below illustrates.

**Figure 4: Foreign exchange market turnover by currency and currency pairs**

Source: BIS

The dollar's dominance is also evident in trade invoicing, where it accounts for roughly 50-60% of global transactions, a share that significantly exceeds the United States' portion of global trade. While the specific figure for the US trade share fluctuates, the dollar's over-representation is clear. An interesting emerging trend is the increased settlement of trade in local currencies. Although this reflects a strategic shift away from the dollar, overall dollar dominance in the international financial system remains firmly intact.

Figure 5: Global exports by invoicing currency

Source: IMF

US-China decoupling serves as a slow yet powerful engine of economic transformation. In parallel, the long theorised move away from the US dollar is gradually becoming a reality. This shift is compelling central banks worldwide to seriously reassess the security of their dollar reserves. It is driving the creation of entirely new financial systems and increasingly channelling global trade into lanes defined by geopolitical alliances rather than pure market efficiency. While de-dollarisation is underway among emerging countries, it is happening very slowly, and the dollar's dominance may take several decades to be shaken.