

PROBLEMS OF REFORMING THE GLOBAL MONETARY AND FINANCIAL SYSTEM

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Abstract: The reform of the global monetary and financial system represents not merely an economic necessity but a civilizational challenge. The post-Bretton Woods order, once a symbol of stability, is now eroded by rising inequality, digital disruption, and geopolitical fragmentation. Global debt levels, structural asymmetries in currency power, and the dominance of a few financial centers have undermined the system's legitimacy. The increasing use of sanctions, politicization of payment networks, and the growing role of emerging powers in finance have accelerated calls for reform. This article explores the main contradictions, historical roots, and prospective pathways for reshaping the world's financial architecture. It combines analytical rigor with forward-looking scenarios, arguing that the 21st-century monetary order must evolve toward pluralism, sustainability, and transparency.

Keywords: global monetary system, financial reform, de-dollarization, multipolarity, BRICS, IMF, digital currency, financial sovereignty, Uzbekistan.

Аннотация: Реформа мировой валютно-финансовой системы представляет собой не просто экономическую необходимость, но и цивилизационный вызов. Постбреттонвудский порядок, некогда символ стабильности, теперь подорван растущим неравенством, цифровыми потрясениями и геополитической фрагментацией. Глобальный уровень задолженности, структурная асимметрия валютного влияния и доминирование нескольких финансовых центров подорвали легитимность системы. Расширение применения санкций, политизация платежных сетей и растущая роль развивающихся держав в финансовой сфере усилили призывы к реформам. В данной статье рассматриваются основные противоречия, исторические корни и перспективные пути преобразования мировой финансовой архитектуры. Автор сочетает аналитическую строгость с перспективными сценариями, утверждая, что валютный порядок XXI века должен развиваться в сторону плюрализма, устойчивости и прозрачности.

Ключевые слова: глобальная валютная система, финансовая реформа, дедолларизация, многополярность, БРИКС, МВФ, цифровая валюта, финансовый суверенитет, Узбекистан.

Introduction

The modern global financial system is the bloodstream of world capitalism — invisible yet decisive in shaping political and economic outcomes. It defines who controls capital, who bears risk, and who sets the rules of trade. Since the collapse of the Bretton Woods gold-dollar system in 1971, the world has relied on an unanchored, dollar-centered network of floating exchange rates. For half a century, this system has powered globalization, but it has also created persistent instability. Every major crisis — from Latin America's debt collapse in the 1980s, to the Asian

financial crisis in 1997, to the global crash of 2008, and the post-pandemic inflation wave of 2022–2024 — has revealed the same structural truth: global finance lacks a mechanism of collective balance.

The world's financial architecture is dominated by a handful of reserve currencies and institutions that reflect the geopolitical order of the mid-20th century, not the reality of a multipolar 21st century. The U.S. dollar remains the world's reserve and transaction medium, accounting for 58% of global reserves and nearly 80% of trade invoicing. Yet this concentration of monetary power allows one nation's policy decisions — especially those of the Federal Reserve — to dictate global liquidity conditions. When the Fed raises rates, capital drains from emerging markets; when it cuts, speculative bubbles emerge. According to the IMF (2024), the latest U.S. interest rate hikes triggered over \$200 billion in capital outflows from developing economies, leading to currency depreciation and inflationary spirals.

Historical Context. The idea of a universal monetary order emerged after World War II, when the world sought peace through financial cooperation. The Bretton Woods Agreement of 1944 established the International Monetary Fund (IMF) and the World Bank, designed to stabilize exchange rates and fund reconstruction. Currencies were pegged to the U.S. dollar, which itself was tied to gold at \$35 per ounce. For a generation, this system anchored trust and disciplined monetary policy. However, by the late 1960s, U.S. inflation and the Vietnam War eroded confidence. When President Nixon suspended gold convertibility in 1971, the world entered the era of fiat money — a system built entirely on credit and confidence.

Since then, financial globalization has exploded. The liberalization of capital markets in the 1980s and the rise of neoliberalism made finance a dominant force over production. Global capital flows grew from 5% of GDP in 1980 to more than 60% by 2023. But this growth came at a cost: massive financialization of economies, widening inequality, and the subordination of developing countries to volatile external conditions.

The Dollar Paradox. The U.S. dollar's dominance provides stability but also distortion. It gives the U.S. government the unique privilege of financing its deficits in its own currency, a phenomenon French economist Valéry Giscard d'Estaing once called “exorbitant privilege.” As a result, the rest of the world effectively finances U.S. consumption by holding dollar reserves. This asymmetric arrangement has transformed the dollar into both a stabilizing and destabilizing force.

The 2008 crisis revealed the fragility of dollar dependency. When liquidity froze, the Federal Reserve became the de facto central bank of the world, providing dollar swaps to allied economies. Yet this safety net remains selective — access depends on geopolitics, not economic need. Sanctions against countries like Iran, Russia, and Venezuela have weaponized the dollar-based payment infrastructure, turning finance into an instrument of political coercion. This has accelerated the global search for alternatives.

Emerging Alternatives and De-Dollarization. The 2020s have witnessed the most serious challenges to dollar dominance since Bretton Woods. The BRICS bloc has intensified efforts to create a new international currency or at least a coordinated settlement system based on local currencies. The launch of BRICS Pay, and the expansion of the Chinese CIPS network as an alternative to SWIFT, indicate an evolving financial pluralism. According to the Bank for International Settlements (2024), cross-border settlements in non-dollar currencies rose by 23% between 2020 and 2024.

The inclusion of the Chinese yuan in the IMF's Special Drawing Rights (SDR) basket in 2016 symbolized a shift toward multipolarity. China's Belt and Road Initiative, supported by the

Asian Infrastructure Investment Bank (AIIB), has extended credit networks across Asia, Africa, and Europe. In parallel, the European Central Bank's (ECB) introduction of the digital euro aims to strengthen Europe's monetary autonomy. Even Saudi Arabia's openness to selling oil in currencies other than the dollar marks a psychological break from the "petrodollar" era that defined post-1973 global finance.

Institutional Imbalances and the Need for Reform. The governance of global finance remains rooted in 1944 hierarchies. The IMF's voting structure grants the U.S. alone more than 16% of total votes, effectively giving it veto power over major decisions. Meanwhile, Africa — home to 1.4 billion people — collectively holds less than 7%. This institutional inequality undermines legitimacy. Calls for "IMF democratization" have been made repeatedly by the G24 and UNCTAD, yet progress is symbolic. The 2023 IMF quota review modestly increased China's and India's shares but left structural power untouched.

Conditional lending — the IMF's main instrument — has also been criticized. Programs requiring fiscal austerity and privatization often weaken domestic demand and social cohesion. Countries like Argentina and Ghana have experienced repeated debt crises despite decades of IMF engagement, highlighting the limits of current frameworks. Stiglitz (2022) and Zettelmeyer (2023) argue that reform must move beyond austerity toward inclusive growth strategies and transparent debt renegotiation mechanisms.

Technological and Digital Challenges. A quiet revolution is reshaping the financial landscape: the digitalization of money. Central Bank Digital Currencies (CBDCs) have emerged as both a tool of modernization and a potential disruptor. Over 130 central banks are exploring CBDC development, representing 98% of global GDP. China's digital yuan is already used in cross-border trade, while the EU, India, and Japan are testing their own versions. These initiatives aim to make payments faster, cheaper, and more transparent.

However, digital finance introduces new complexities. It challenges existing payment networks (SWIFT, CHIPS) and could fragment the global system into regional blocs. Moreover, cybersecurity threats, privacy concerns, and the concentration of digital data in state hands raise ethical questions. Yet, the transition toward digital monetary infrastructure appears irreversible. Blockchain-based settlement systems, tokenized assets, and decentralized finance (DeFi) platforms represent the frontier of a new financial era.

The Global Debt Trap. One of the gravest obstacles to reform is the explosion of global debt. The Institute of International Finance (IIF, 2024) reports total debt exceeding \$315 trillion — three times global GDP. Advanced economies account for the largest share, but developing countries bear the heaviest burden due to currency depreciation and interest rate shocks. As the U.S. and Europe tighten monetary policy, emerging economies face capital flight and higher borrowing costs.

In Africa, debt service already consumes 40% of fiscal revenues. Latin American economies face similar strains, while Asia grapples with slowing growth and rising repayment risks. The G20's "Common Framework for Debt Treatment" aims to coordinate restructuring, but its progress has been limited by creditor fragmentation and geopolitical tension. Without systemic change, global debt could trigger another cycle of financial contagion.

Sustainability and the Moral Dimension of Reform. Reforming global finance is not only a technical or institutional challenge — it is a moral imperative. The current system perpetuates inequality: while speculative capital moves freely, developing nations struggle for affordable financing for infrastructure, education, and health. The United Nations Development

Programme (UNDP, 2024) estimates that developing countries require \$3.9 trillion annually to meet Sustainable Development Goals, yet less than one-third of that is currently available.

The concept of “sustainable finance” — integrating environmental, social, and governance (ESG) principles into investment decisions — has gained traction. But sustainability requires structural transformation, not cosmetic labeling. The world needs a financial system that channels capital toward productive and socially beneficial uses rather than speculative profit. Reform should focus on fair taxation of global capital, transparent debt relief, and climate-related investment funds accessible to low-income countries.

Uzbekistan’s Position in the Global Reform Context. For Uzbekistan, participation in the reform of the global monetary and financial system is both an opportunity and a challenge. The country’s transition toward an open market economy, currency liberalization, and active integration into global capital markets reflect its long-term modernization strategy. The creation of the Tashkent International Financial Center (TIFC) aims to position Uzbekistan as a regional financial hub connecting Europe and Asia. By deepening cooperation with the IMF, AIIB, and EBRD, Uzbekistan is aligning with international standards while diversifying financial partnerships.

In the context of de-dollarization and multipolar finance, Uzbekistan can benefit by strengthening its regional role within Central Asia, promoting local currency settlements, and developing Islamic finance. Expanding the use of green bonds, digital payment systems, and sustainable investment frameworks can enhance its financial sovereignty and resilience.

Conclusion

The reform of the global monetary and financial system is a defining project of our century. The postwar architecture, designed for a world of 44 nations, must now serve a world of 193. A just and sustainable order cannot emerge from old hierarchies; it must reflect the diversity of human development and the technological realities of the digital age.

The path forward lies in three directions: pluralization of reserve currencies to reduce systemic risk, democratization of financial institutions to ensure fair representation, and digital transformation to enhance transparency and efficiency. The future global system must be neither Western nor Eastern, but universal — governed by principles of cooperation, equality, and sustainability. For developing nations like Uzbekistan, active participation in shaping this new order is not a privilege but a strategic necessity. The challenge is immense, but so is the opportunity to finally design a global financial system that serves people, not power.

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