

DISCUSSION PAPER



BRICS & De-dollarisation: Motives and Outcomes

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Introduction

The tensions between the US and China are altering the calculations of actors, and more countries feel inclined to be better positioned and have better options. Under such geopolitical calculations, sanctions against Russia added to the mix. The dollar has been the world's principal reserve currency since the end of World War II and is employed in more than 80 per cent of global trade. However, developments such as the US-imposed restrictions on exports of semiconductor technology to China, as well as the freezing of approximately half of Russia's foreign currency reserves while removing major Russian banks from SWIFT have eventually led to calls for a shift away from dollar dominance in a more pronounced manner (Ismail, 2023). Although the creation of a BRICS currency is on the agenda, countries resort increasingly to use local currencies in their trade. A case in point is the trade between Russia and China and the use of Russian Rubles or Chinese yuan. It then led to the emergence of the term 'petroyuan', which stands to replace the 'petrodollar' that has been the norm since the end of the Bretton Woods.

One such implication of this sentiment has been the central banks actively increasing their gold reserves, with significant purchases reported in the first two months of this year. Noteworthy accumulations come from

countries like Singapore, Türkiye, China, Russia, and India, suggesting a trend among BRICS nations in preparation for a new currency. As per the IMF Currency Composition of Official Foreign Exchange Reserves (COFER), the declining share of US dollars held by central banks indicates a broader global shift as countries position themselves for an evolving international system.

The dollar's reserve currency status has been supported and reinforced by its international use for trade invoicing and cross-border investment (Iancu, Anderson et al., 2020). Yet, the picture is changing, favouring the BRICS countries in trade invoicing, which can harm the dollar's reserve currency status. There are sceptics alongside those who agree on the shifting dynamics of the dollar's role. In any case, one thing is certain: the dollar is currently not as strong as it used to be, and the BRICS efforts fuel the debate about the American currency's future role.

Accordingly, the US dollar's historical role, its status as a global currency and what might alter the status quo will be discussed, alongside the peculiarities of the BRICS countries and the coalition to make a case for de-dollarisation and what lies ahead for BRICS.

The Dollar and its Status of Global Reserve Currency

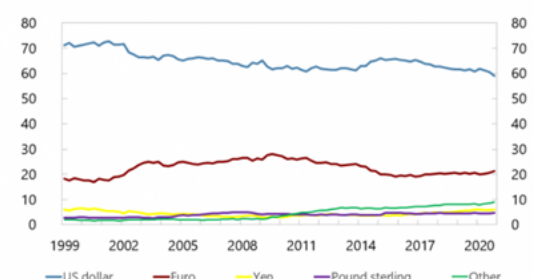
The US dollar has become an international currency thanks to satisfying the criteria outlined by Cohen and Benney's function-agent motivation matrix. It includes two types of agents, namely private and official, on the three functions of money: medium of exchange, unit of account, and store of value. An international currency must perform three functions at the private level - facilitate cross-border investment (the store of value function), act as a vehicle for foreign exchange trading (the medium of exchange function), and act as an instrument for trade invoicing and settlement (the unit of account function combined with that of the medium of exchange). It must function as a reserve currency (a store of value), an exchange rate anchor (a unit of account), and an intervention currency (a medium of exchange) at the official level as well (Kaltenbrunner & Lysandrou, 2017). Looking at the empirical picture, the US dollar continues to dominate in all areas designated to be an international currency, and as opposed to the popular impression that there is an emerging multipolarity in the global currency system, there is hardly any evidence to suggest a higher level of competition according to a 2014 finding. Yet, the COFER database used to determine a country's foreign exchange holdings is insufficient, as not all countries report the distribution of their reserve holdings (Cohen & Benney, 2014), and China started to report only in 2015.

On the other hand, the US dollar assets in central bank reserves dropped by 12 percentage points from 71 to 59 per cent in 2020 since the euro was launched in 1999, while the other currencies, such as the Australian dollar, Canadian dollar, and Chinese renminbi climbed to 9 per cent in the fourth quarter of the same year. Exchange rate fluctuations have been influential in the currency composition of central bank reserve portfolios, and when the US dollar was weak against major currencies, the US dollar's share of global reserves declined in general. However, from a long-term perspective, considering that the value of the US dollar has not broadly changed, yet the US dollar's share of global reserves declined, it can be argued that central banks have been shifting steadily away from the US dollar (Arslanalp & Simpson-Bell, 2021).

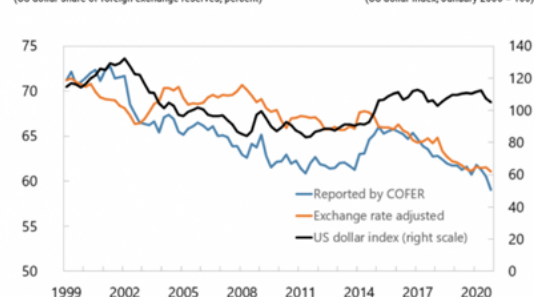
Figure 1: Demand for Dollars by Central Banks

The US dollar's share in global foreign exchange reserves fell to its lowest level in 25 years in the fourth quarter of 2020, driven by exchange rates in the short term and central bank actions in the long term.

(currency composition of global foreign exchange reserves, percent)



(US dollar share of foreign exchange reserves, percent)



Sources: IMF Currency Composition of Official Foreign Exchange Reserves (COFER), US Federal Reserve Board, and IMF staff estimates.

Note: The "other" category contains the Australian dollar, the Canadian dollar, the Chinese renminbi and other currencies not listed in the chart. China became a COFER reporter between 2015 and 2018. See Arslanalp and Tsuda (2015) for an application of the methodology. Interest rate changes may also affect currency shares although these effects tend to be smaller. The US dollar index is the Federal Reserve's Advanced Foreign Economy Dollar Index. The bottom panel uses a different scale to focus on the US dollar share.

Source: International Monetary Fund

In this regard, one of the most notable tenets of the US dollar being an international currency is its global reserve currency status as a strong indicator, and this was realised in the post-World War II era due to a radical paradigm shift in US foreign policy to pursue a global hegemonic project. Mainly economic, this pursuit aimed to bring together diverse regions in the global economic system to revolve around a main centre, that is, the US economy. After the Bretton Woods Conference, pegging the dollar to the gold standard meant that the value of a nation's currency was defined

by the dollars it holds (Costigan et al., 2017). In turn, it enabled the US to have the privilege of financing its external deficits essentially by printing money and lending it abroad, thereby following domestic and foreign policy objectives while not necessarily encountering difficult trade-offs over the short run (Mastanduno, 2009). However, the adjustments such as the depreciation of the pound in 1967, the collapse of 'gold pool' arrangements in 1968, and the elimination of the gold backing for Federal Reserve notes in March of the same year implied the unsustainability of the system and that it was doomed to collapse. The introduction of Special Drawing Rights (SDRs) in 1969 further precipitated President Nixon's closing of the gold window in 1971, and the termination of the Smithsonian Agreement in 1973 led the key currencies to float vis-à-vis the US dollar. The overarching guiding principle for the Bretton Woods was capital controls as a tool to ensure economic and political stability in allies in the aftermath of the Second World War, to promote the reconstruction of the devastated countries, and to drive unaligned countries away from the US enemies, notably the Nazi and communist regimes. According to White and Keynes's economic views, capital flows can destabilise a country by drawing off its investment funds. The US had significant political and national defence motives, and they encouraged and validated the high cost of capital controls to the US. Considering that the US military budget was record-high as compared to the pre-Bretton Woods period, where the former constituted 11.8 per cent of GDP per year and the latter just 1.6 per cent of GDP, it should come as no surprise that the US was keen to cover the high cost of capital controls, as seen complementary to each other in fortifying national defence (Ohanian et al., 2023).

Even though the root causes of the end of the Bretton Woods have been highly discussed, the real determinant seems to be more political reasons than economic ones. The US decided to switch from the liberal international order to a neoliberal order underpinned by the retreat of the welfare state and open capital markets. It was inherently a policy decision, not indicative of a disguised incompatibility between the US national policy priorities and the dollar's global role. Detaching the dollar from gold allowed for a more flexible dollar standard, which encouraged a more dollarised world and eliminated the restrictions that the American macroeconomic policy had borne. In this regard, according to Vernengo, the US could have maintained the gold-dollar parity since a hike in interest rates could be employed to attract the flow of

capital and prevent the demand for gold, which could lead to a higher demand for dollars. Full employment policies could still be pursued (Vernengo, 2021). Yet, the Keynesian Consensus was doomed to demise partly due to the inflationary pressures exacerbated by the quadrupled price of oil. This put an additional burden on industrialised countries, which were already experiencing wage pressures and strengthening of the trade unions (Singer, 1997). Therefore, there came the Washington Consensus, which stemmed from the fact that there was no viable alternative to the US dollar, although central banks continuously questioned the feasibility of the US dollar. Indeed, only the United States enjoyed the required political control over financial institutions that would facilitate the capital flows necessitated by a global reserve currency, and automatically, the US emerged as the sole option for the global reserve despite the hazardous state of US finances. As a result, the US dollar moved to a position of 'global fiat currency' and consolidated its role further (Costigan et al., 2017).

The hegemonic role of the US has gone hand in hand with the global reserve currency status in a mutually beneficial manner. For this reason, it smoothly transitioned from one system to another and still holds onto its unique position as dominating the global financial system. The ensuing dollar debt was to be the vehicle for the new role of New York banks, where they persuaded Saudi and other OPEC governments to bank their new oil surpluses in London or New York banks. These dollar deposits from OPEC, called petrodollars, turned into recycled loans to oil-importing and dollar-hungry developing world economies (Engdahl, 2008). On the other hand, the US dollar unquestionably faced challenges in the balance of payments deficit context starting in the 1960s, and this caused the Eurodollar phenomenon to emerge and spread. It increasingly ramified during the 1970s as the OPEC countries kept many petrodollars in European banks. Especially in the 1980s, the ongoing American trade deficit provided the Eurodollar market with leverage as a prominent sphere of investment and speculation that went beyond the Fed's efforts to have control of the American money supply (Brands, 2011b).

Meanwhile, during the dollar's decline and America's self-doubt, Japan's huge trade surplus with the US prompted the yen to go higher against the US dollar. Following this move, many believed Japan would inevitably emerge triumphantly in the world markets. However, just as the new decade loomed, the Japanese

bubble burst with plunging property prices and economic stagnation, thus marking a dollar rebound in an era where the Cold War hostilities ended (Brands, 2011a). The introduction of the euro, although at first seemed a possible contending factor, similarly did not accomplish what was expected on the world stage. Even though the euro successfully established itself initially, ranking second in global finance and igniting the enthusiasm of global markets, it has since achieved a limited reach within market sectors and regions. To be precise, after five years of the establishment of EMU, the euro's ability to gain traction effectively halted, not to change even when the global crisis erupted mid-2007. If there were ever an opportunity for the euro to flourish, that was the right time, but in reality, contrary to expectations, actors still looked to the greenback and increased their dollar-denominated assets rather than the euro for safety (Cohen, 2011). So, a paradox exists: Although nobody is fond of the dollar standard, governments and private actors in the foreign exchange markets continue to favour its use. Constituting the principal monetary means to ensure that international trade is strongly multilateral instead of narrowly bilateral, it is a survivor "that is too valuable to lose and too difficult to replace" (McKinnon, 2012a).

Yet, the 'exorbitant privilege' that the US has enjoyed, which has allowed the US to borrow internationally at low-interest rates and to pay for its imports and loan servicing in the currency it printed (Hung, 2013) seems to be at a crossroads – effectively situating it not as 'exorbitant'. Pursuing domestic policy objectives while running sustained balance of payments deficits due to this exorbitant privilege does not render as much of a tangible benefit anymore, given the actual or potential competition from the other currencies and America's dwindling share of the global economy. Particularly, the interest rates the US pays on safe assets such as government debt are generally not lower than the interest rates paid by other creditworthy industrial countries. Moreover, even though US firms may encounter slightly less exchange risk in international markets, the dollar still floats against major currencies, and the safe haven aspect of the dollar bears disadvantages for US firms, indicating less competitiveness when the dollar is stronger (Bernanke, 2016).

The US dollar became the de facto standard worldwide due in part to the US economy's rise to prominence abroad and the establishment of domestic institutions,

chief among them the Federal Reserve System, required to sustain the dollar's position on the world stage. The future of the dollar is dependent on how three factors interact: network externalities, or what Barry Eichengreen refers to as 'incumbency advantage,' the distribution of economic power globally, and the existence of alternative national currencies that can assume a pivotal role in the international monetary system. It is believed that the dollar is unlikely to be as important in the twenty-first century as it was in the twentieth and that shifts in the underlying distribution of economic power will predominate (Oatley, 2012). According to Rickards, central bankers and mainstream economists know the risks to international monetary stability posed by the new currency wars and the dollar's weakness. He envisions four possible outcomes for the dollar: gold, special drawing privileges, multiple reserve currencies, and disorder (Whaley, 2011). Embodying the dollar's dominance lies in polarity or systemic concentration, which refers to the international distribution of economic power that can be used to enforce international agreements and police international order. According to these measures, the most recent downward dollar cycle began in 2016 (polarity) or 2017 (concentration), while an upward cycle began in 2020 and stabilised despite the 2022 sanctions against Russia (Norrlöf, 2023). Despite these cycles, the challenge to the dollar's global reserve status remains as an emerging market and developing country central banks look for further diversification in the currency composition of their reserves. Considering polarity and systemic concentration, it further aligns with the long-term power shift to the East – a harbinger of a multipolar world order inevitably shaping global financial markets. Indeed, there have been calls towards creating an international currency by the Eastern actors, especially China, starting on March 23, 2009, when Zhou Xiaochuan issued a statement through the People's Bank of China. It proposes establishing "an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run" instead of the dollar as the primary global currency. Zhou makes a convincing case that as globalisation advances, the domestic financial demands of the country will probably diverge from those of the rest of the globe (McKinnon, 2012a). This sentiment is reflected in a coalitional attitude by BRICS in their de-dollarisation initiatives, which raise the stakes. However, the consequences of such moves remain understudied.



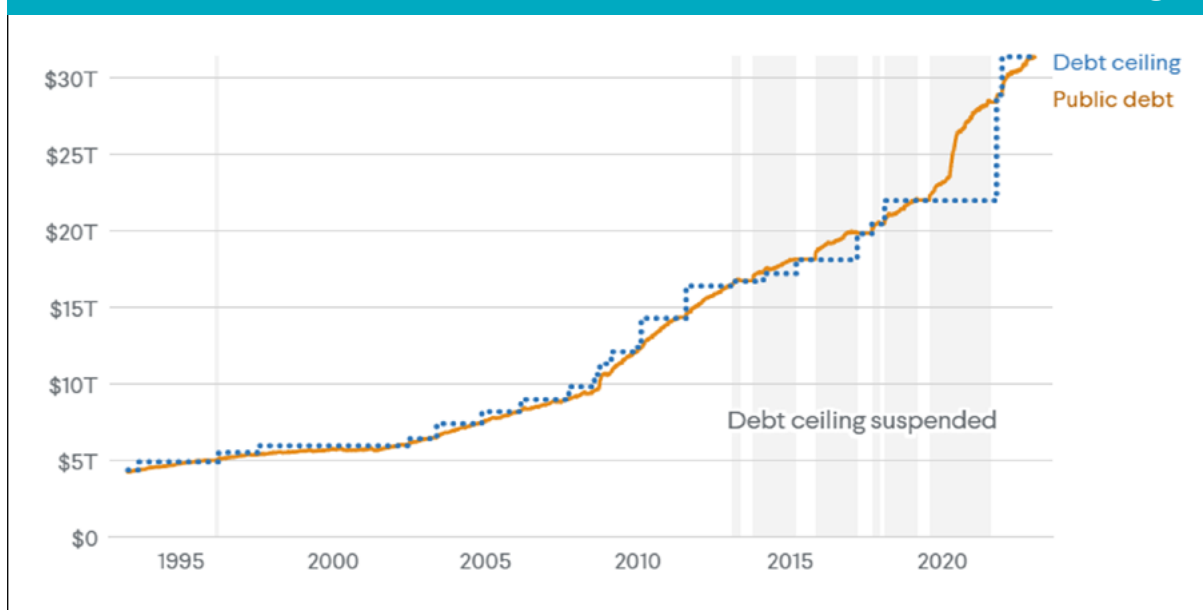
Leaders of BRICS countries pose for a photo at the Sandton Convention Centre during the 15th BRICS Summit in Johannesburg, South Africa, on August 24, 2023. (Iranian Presidency - Anadolu Agency)

BRICS' Efforts Towards De-dollarisation

In August 2023, the BRICS nations gathered in South Africa with the creation of a new joint BRICS currency on the agenda (Vecchiato, 2023). While the BRICS nations have looked to diminish their reliance on the dollar for over a decade, the Western sanctions on Russia have only hastened the trend ('What Are the Sanctions on Russia and Are They Hurting Its Economy?', 2023). This also happens at a time when rising interest rates and the recent debt-ceiling crisis in the US have stirred fierce discussions around the dollar-denominated debt and whether the world's leading economy could ever

default. Hitting the debt ceiling would make it more difficult for the government to finance its operations, including paying for the national defence and pension programmes like Social Security and Medicare, even when short of a default. Reaching the ceiling could result in a credit rating downgrade, higher borrowing costs for businesses and homeowners alike, and a drop in consumer confidence, which could shock the US financial market and tip the country's economy—and the world's—into an immediate recession (Berman, 2023).

Figure 2: U.S. Debt has Sometimes Risen Faster than the Debt Ceiling



Source: U.S. Treasury Department; Congressional Research Service.

As Western countries froze Russia's currency reserves and avoided its oil, Moscow turned to Asia as an alternative crude market, surpassing Saudi Arabia as China's biggest oil supplier last year, giving rise to the so-called petroyuan (Evans, 2023). It, in turn, leads to, as Ray Dalio suggests, central banks being less inclined to hold the dollar while Western sanctions against Russia have exposed new risks to holding the currency. "Dollars are debt. In other words, when one holds a dollar — a central bank — they hold a debt asset," he said. According to him, because the dollar is widely used in global transactions, governments have previously been ready to incur such debt to trade abroad. The dollar is used in 88% of all foreign exchange transactions; however, as China expands its use of the yuan in global trade, the need for the dollar may diminish (De Mott, 2023).

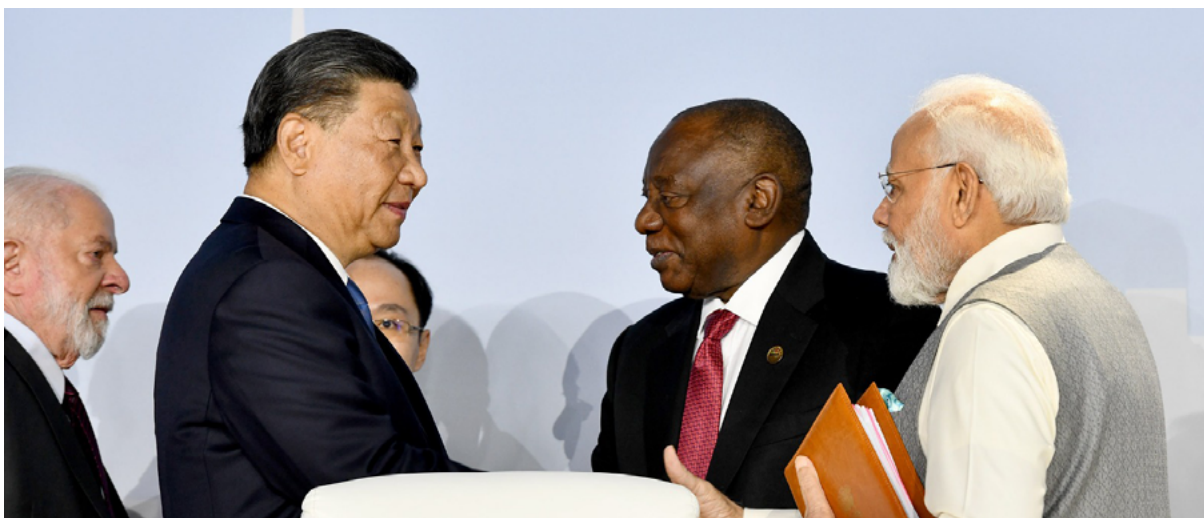
Apart from the trade relations that may affect the reserve status indirectly, last year, a rivalling signal came in the form of an intention to forge a new currency – President Putin indicated that the new reserve currency would be based on a basket of currencies from the group's members: Brazil, Russia, India, China, and South Africa (Glover, 2022). Despite the SDR not being a reserve currency, it would resemble the SDR as a basket of currencies, echoing what Rickards proposed as an alternative – a special drawing privilege. Even if not for a new reserve currency, demand for gold surged to its highest recently – a move attributed to a desire to diversify reserves away from the dollar after the United States froze Russia's dollar-denominated reserves as part of its sanctions against Moscow (Dempsey, 2023). Indeed, China had the second-largest quarterly increase in 2023 at 45.10 tonnes, and the Russian Federation had the fourth-largest increase at 3.11 tonnes (World Gold Council, 2023). This shows the determination of BRICS, led by China and the Russian Federation, to diversify their reserves to the advantage of gold. BRICS countries will continue to be net buyers of gold as they further seek to diversify away from the dollar. On the other hand, the conditions of the individual locomotive countries leading up to this phenomenon are worth examining.

China has not always adopted a de-dollarisation stance, or, at least not in practice. Washington could defend the dollar's short-term appeal (by increasing its value at the expense of a worsening current account deficit) or its long-term stability (by forcing other capitalist economies to appreciate their currencies against the dollar in order to improve the US's current account

balance) before China emerged as a new export-oriented industrial powerhouse. China has a massive trade surplus with the United States and pegs its currency, the RMB, to the US dollar. It is an issue open to debate whether the RMB pegged to the dollar is a blessing or a curse to the dollar hegemony. The fixed exchange rate between the RMB and the US dollar played a role in the worsening current account deficit of the US, even as the dollar weakened.

Additionally, this peg diminished the US' ability to alleviate its current account deficit through currency depreciation. As a significant economic rival to the US outside its security influence, China intentionally diverges from Japan and Germany by resisting pressure to appreciate its currency. Yet, China has consistently been buying large amounts of Treasury bonds to prevent the RMB appreciation against the dollar. This has provided crucial support to the US, aiding in funding the growing federal budget deficit, especially amidst the conflicts in Iraq and Afghanistan (Hung, 2013). Additionally, it was effectively trapped into acquiring more due to its exchange rate objectives in the face of America's zero-rate-interest-rate policy when applied. The conjunction of persistently low American interest rates and a depreciating dollar has spurred substantial outflows of financial capital, often referred to as "hot" money, into emerging markets for nearly a decade after 2008. To curb the appreciation of emerging market (EM) currencies, EM central banks commonly intervene by purchasing dollars using their domestic base money. These interventions have been exceptionally substantial (McKinnon, 2012c).

Unexpectedly, despite encountering political and economic tensions with the United States, China has, to a large extent, unintentionally evolved into a key supporter of the dollar standard. Among its supporting roles for the dollar being reserve currency are first 'the macro stabilisation effect', where since 1994, China has effectively implemented a countercyclical fiscal (credit) policy to maintain a robust GDP growth, providing a degree of protection against cyclical instability originating from the United States. The second is 'the finance effect,' through which China significantly finances substantial American fiscal deficits. If, following China's example, foreign entities collectively stopped purchasing Treasury bonds and other dollar assets, it would lead to a credit crunch in the United States (McKinnon, 2012b). This is not a distant scenario to occur given the sentiments, considering the recent Chinese MFA publication titled 'US Hegemony and Its



Brazilian President Inacio Lula da Silva (L), Chinese President Xi Jinping (2nd L), South African President Cyril Ramaphosa (2nd R), and Indian Prime Minister Narendra Modi (R) attend the 15th BRICS Summit in Johannesburg, South Africa on August 24, 2023. (BRICS / Handout - Anadolu Agency)

Perils', whereby it openly declares the US' economic strength as exploiting the world's wealth through seignorage, as the main source of instability and uncertainty in the world economy, as a preventing factor for international economic and financial organisations to assist other countries through its additional conditions. It also states America effectively employs its economic and financial hegemony to suppress its opponents with economic coercion and makes it a geopolitical weapon (US Hegemony and Its Perils, 2023). It is seemingly a testament to the underlying geopolitical rivalries that paved the way for a more pronounced BRICS currency and shifting reserves.

However, lately, China is grappling with significant capital outflows driven by mounting worries about

economic growth and debt. An estimated \$75 billion left the country in September, marking the most substantial monthly outflow since 2016. This exerts substantial downward pressure on the yuan, trading at approximately 7.3 against the dollar, its lowest point since 2007. As of August, China's holdings of US Treasuries amounted to \$805.4 billion, reflecting a 40% decrease from a decade earlier, as per data from the US Treasury Department, and it seems that Chinese authorities encouraged state-run banks to bolster the yuan against the dollar, leading them to respond by selling Treasuries to generate the necessary funds. (Cho, 2023). Despite the official anti-dollar rhetoric, whether there could be a different picture had there been no speculation in the market that affects the daily reference rates is unclear, given China's currency peg dilemma.

Figure 3: Yuan's Reference Rate Deviates from Actual Rate



Source: Refinitiv

Moving forward, while China's banking and financial system may still be behind, partly due to inadequate property rights protection in its legal system, both are changing, although not necessarily in alignment with a Western model. It is worth noting that historically, anchor currencies have been issued by relatively democratic countries with a strong commitment to the rule of law for at least the past two centuries. However, as a newcomer, China might benefit from transitioning to new digital infrastructures, facing fewer disruptions than established systems. In addition to economic size, military power is also a crucial factor. Currently, the US significantly surpasses China in conventional military capabilities, but this advantage is gradually diminishing and is expected to undergo substantial changes in the next two decades. China seems to be on par with the United States in various emerging military technologies, encompassing cyber and biological warfare and drones (Ilzetzki et al., 2021). These are important considerations for whether China could effectively alter the anchor currency.

Meanwhile, Russian officials have been advocating for de-dollarisation to alleviate the impact of sanctions. Since March 2022, the Russian foreign exchange market has had to function in highly challenging circumstances. Participants in the market had to rapidly adjust their strategies, and the financial infrastructure had to introduce new legislative measures, including categorising non-residents based on their affiliation with friendly or unfriendly countries. One of the main directions of financial restructuring has been de-dollarisation in favour of the currencies of friendly countries, with the emergence of new currency pairs that have now started to be called 'rubleisation'. The attempts to create trading links to integrate the liquidity of transactions in national currencies have ramified the foreign exchange operations with the Chinese yuan, which began to function as a world currency in the Russian market. It became a store of value and a reserve currency, serving as a "safe haven" for the Bank of Russia, financial institutions, and a growing population utilising yuan deposits. Approximately 40 banks provide deposit and savings accounts denominated in yuan. According to VTB, retail clients deposited 4 billion yuan in 2022 (equivalent to 36 billion rubles) (Mishina & Khomyakova, 2023).

On the other hand, one of the reasons for de-dollarisation is Russia's dissatisfaction with the hegemony of the US dollar. Thus, Moscow uses the situation to turn the crisis into an opportunity for development as part of the

strategic rivalry with the US. However, Russia continues to trail behind the United States and developed European countries in terms of the efficiency of market resource distribution. This lag directly reflects factors such as financial stability, the capital market, the size of the economy, infrastructure, and the variety of available financial products. Gold and digital currency are emerging as crucial instruments in the de-dollarisation process. Many countries view gold as a key element in reducing dependence on the dollar, and in recent years, Russia and other nations have actively bolstered their gold reserves as a strategic move for the future. The trajectory of digital currency also plays a pivotal role in shaping the landscape. Central Bank Digital Currency (CBDC) issuance is anticipated to facilitate de-dollarisation. Russia has made notable strides in this domain, with the 2021 enactment of the Russian Law on Digital Financial Assets and legislative efforts in the latter part of the year (Wenhong, 2023).

On the broader coalitional picture, for BRICS to establish itself as a credible de-dollarisation coalition, a crucial requirement is the creation of a strong and cohesive coalition. The evolving de-dollarisation infrastructure within BRICS has not reached a point where its members can entirely disengage from the prevailing US dollar-centric financial system. The de-dollarisation efforts within BRICS are primarily unfolding at a sub-BRICS level and have not attained the requisite economies of scale needed to substantially reduce the dollar's influence on the global financial system. Plus, there is heterogeneity within BRICS, as can be expected from an intergovernmental organisation that puts forward the question of whether de-dollarisation is, in reality, a shared interest. For Brazil, President Lula openly lends support to these initiatives as the Brazilian economy depends on the US dollar for its exports, invoicing at a high rate of 94 per cent despite an export rate of only 17 per cent to the US. Also, Brazil has important trade ties with China, reflected in using local currencies in bilateral settlements.

On the other hand, India and South Africa remained reluctant to champion such a cause to play an explicit role (Zongyuan & Papa, 2022a). India is unlikely to endorse an agreement related to establishing a common currency. The primary challenge within the BRICS alliance stems from the friction between India and China, considered the "biggest pain point" among the five members. As China and India hold significant roles in BRICS, reaching a common ground between them is crucial for realising a common currency within

the group (Tan, 2023). However, it fears it would improve China's dominance in the bloc and further bolster the yuan (Sen, 2023). Indeed, the Indian government considered the Sino-Russian proposal based more on ideological reasons than substantive ones and instead went for a more modest approach of increasing the IMF's SDR. Although this does not necessarily mean India would not seek a reduced reliance on the US dollar, the strategic partnership between the US and India shuts out a possibility for mobilisation towards challenging the dollar. Instead, India has a keen interest in encouraging the use of its local currency in trade and has taken proactive initiatives to explore ways to achieve this goal. On the other hand, even though South Africa failed in promoting the idea of BRICS as a de-dollarisation coalition, it is well aware of the stakes associated with the US dollar's privilege, which in turn led it to go along with the BRICS initiatives to go along with the initiatives promoting the local currencies (Zongyuan & Papa, 2022a).

This heterogeneity in approach indicates that although de-dollarisation is on the agenda of the BRICS members to achieve greater autonomy, dethroning the US dollar is out of reach without broader cooperation to establish a common currency. It would eventually come down to national currencies, most notably the renminbi, to pose increasingly used prospects, particularly in transactions among the BRICS members. Even though whether the US dollar would eventually be overthrown as the dominant currency is not of concern here, BRICS has taken steps in this direction that at least served to reduce the dependence on it. In this regard, under the assumption that there is greater cooperation, be it in using a national currency, establishing a common currency, or building up the gold reserves, the question arises whether it could shift the balance.

Although international transactions, especially outside the West, have started to be conducted in renminbi, there is a high level of inertia about the reserve holdings, where reserve currency status tends to change gradually. Network effects only exacerbate the inertia while creating strong path dependence. The other determining factors are the economic size and dominance of reserve issuers, the credibility of reserve issuers, and the transactional demand of reserve holders. Respectively, these imply that, first, the larger the economy and its role in international trade and financial networks, the more likely its currency will be employed for international transactions and as a reserve asset. Secondly, in theory, reserve assets

should provide a stable store of value over time and be extensively used and traded. This underscores the significance of the policy credibility of reserve issuers and the depth and liquidity of their financial markets. Thirdly, central banks are likely to be influenced in their reserve portfolio decisions by the intended uses of reserves, especially for transactions related to trade and finance, as well as interventions in the foreign exchange market (Iancu, Anderson, et al., 2020).

In the current scenario, gold is particularly worth the attention as it is already being piled up in official reserves – it is considered a secure and attractive reserve asset during times of economic, financial, and geopolitical uncertainty, especially when returns on reserve currencies are minimal, a situation prevalent in recent years. It is widely seen as a hedge against inflation, which has become prominent lately and a valuable diversification tool for portfolios, particularly in volatile environments. Also, it is seen as a secure reserve asset in situations involving financial sanctions and the risk of asset freezes. The move by G7 nations to freeze the foreign exchange reserves of the Bank of Russia raised questions about the potential for holding reserves in a more resilient form to withstand sanctions. However, it has disadvantages – gold incurs high transportation, storage, and security expenses. Its use in transactions is costly, and it doesn't generate interest. And, although returns can be generated through swaps, involving exchanges of gold for currency on agreed dates with private counterparties or central banks, banks involved in these transactions typically require gold to be stored at recognised depositories, such as the Bank of England or the Federal Reserve Bank of New York, reintroducing the risk of sanctions. Therefore, repatriating gold, as done by countries like Russia and Venezuela, restricts its utility in such transactions (Arslanalp et al., 2023). On the other hand, a gold-backed BRICS currency might work towards bypassing such restrictions on holding gold and could effectively attract buyers against such sanctions.

Turning to either renminbi or a common currency in this regard might bear fruit. However, it needs to satisfy the aforementioned criteria for its widespread adoption. Although the BRICS countries are economically significant, BRICS' 'go-it-alone' strategy through both institution-building and market-building that create critical elements for an alternative global financial system is crucial in establishing credibility through institutions. Since bond issuers are legally obligated to pay interest, the solidity of bonds as

wealth containers is typically ensured by robust public governance institutions. These institutions, linked to the overall environment in which agents operate, encompass factors such as the efficiency of the legal process, protection of property rights, judicial independence, and control of organised crime. The US' global contribution stemmed from fairly strong public institutions (Kaltenbrunner & Lysandrou, 2017), on top of the Federal Reserve's measures to calm investors and make sure the dollar flows through the global markets in the face of growing concerns about stability historically. This sort of institutional structure and credible policies are necessary for the de-dollarisation attempts and the debt-issuing countries for trust – however, there are positive developments already in the transaction sphere in the coalition. BRICS members are establishing their global payment infrastructures for international transactions, providing viable alternatives to SWIFT. By expanding their alternative financial infrastructure to other countries and regions, BRICS can garner more support for their system, thereby enhancing their financial and political influence through this alternative framework. Also, The BRICS Pay system is part of BRICS' collective effort to establish a common system for retail payments and transactions between its members. However, BRICS is willing to expand its scope, and non-BRICS countries will also be able to use the platform, promoting local fiat currencies in cross-border settlements. BRICS has also been exploring an unconventional approach to achieve this goal by leveraging blockchain technology to create a digital currency for the BRICS group. In addition to considering the possibility of a collective BRICS cryptocurrency, member countries have been actively developing their individual central bank digital currencies (CBDCs), with the potential to bring about significant changes in the global currency system (Zongyuan & Papa, 2022b). These are particularly relevant because advanced technology platforms could enable new currencies to challenge the advantages of existing ones. The adoption and use of public or private digital currencies may prompt central banks to reconsider the definition and management of reserves in the future. (Iancu, Meads, et al., 2020). Financial links seem to be the key driver of reserve currency holdings, and such technologies can lead to domination in global finance and trade, overcoming the inertia.

Moreover, the coalition of emerging market countries, which has recently extended invitations to Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab

Emirates, could threaten the greenback's dominance due to its increasing influence. With the inclusion of Egypt, Ethiopia, and Saudi Arabia, BRICS could exert influence over 12% of global trade, as these three nations play a crucial role surrounding the Suez Canal—a vital passage for the movement of goods to international markets. Including Saudi Arabia, particularly, could provide a significant advantage to BRICS+. It holds over \$100 billion in US Treasury bonds, contributing to BRICS' total holdings in US Treasury, surpassing \$1 trillion. According to Sullivan, The BRICS+ nations don't have to wait for a shared trade currency to meet the typical technical conditions of a global reserve currency before wielding their newly expanded economic influence against the dollar. If BRICS+ insisted on transactions in each member's national currency for trade, the dollar's global prominence would diminish. A clear replacement for the dollar as a global reserve wouldn't emerge. Instead, various currencies would have increased importance (Sor, 2023). There is already increased use of yuan in global trade with Beijing's trading partners, and its extension can mean an increased network effect that would ramify other areas, such as its adoption as a reserve currency. However, institutions and restrictions still matter and could hinder the process, such as exchange rate regime, limitation of exchange rate fluctuations and interventions, currency restrictions for residents and non-residents on conversion, capital transactions, opening and maintaining accounts, as well as low country ratings (Mishina & Khomyakova, 2023).

Conclusion

The confluence of geopolitical imperatives, economic exigencies, and a shared ambition to recalibrate global financial dynamics has propelled the BRICS nations into a concerted effort to de-dollarise. Against the backdrop of Western sanctions on Russia and the ensuing ripple effects, the recent BRICS summit in South Africa became a crucible for discussions on a joint BRICS currency. This development signifies a collective aspiration to disentangle from the US dollar's pervasive influence in the global financial system.

One of the pivotal catalysts for this de-dollarisation is the strategic manoeuvring of Russia and China, both pivotal members of the BRICS alliance. The Western sanctions, particularly freezing Russia's dollar-denominated reserves, prompted Moscow to pivot decisively toward Asia. The petroyuan, an emergent phenomenon from Russia surpassing Saudi Arabia as China's principal oil supplier, has become a linchpin in the BRICS strategy. This not only reshapes the dynamics of global oil trade but also undermines the traditional dominance of the dollar in this critical sector.

As China expands the use of the yuan in global trade, the allure of holding the dollar as a reserve currency diminishes. The BRICS nations, led by China and Russia, are actively diversifying their reserves, with a notable surge in gold acquisitions. Traditionally seen as a hedge against economic uncertainties, gold emerges as a strategic instrument to reduce dependence on fiat currencies, particularly the dollar. The intentional efforts by these nations to fortify their gold reserves underscore a deliberate move away from the vulnerabilities associated with a dollar-centric global financial system. A common BRICS currency backed by gold could be the endgame in this direction, yet complexities are associated with whether it can be as established as the dollar, with requisite institutions and policies pointing to not-so-promising answers.

China's evolution in this de-dollarisation story went through a lot of plot twists. China has transitioned from being a substantial holder of US Treasury assets and supporting the dollar inadvertently into actively challenging the dollar's supremacy. The intentional decrease in US Treasury holdings and the exploration of digital currencies mark a paradigm shift. The digital currency initiatives, both at the individual country

level and collectively within BRICS, pose a tangible challenge to the conventional norms of the global monetary system. And, given its sheer economic and political significance, the Chinese yuan is further expected to be on the rise. However, whether China could continue this strategy in the face of its export-oriented approach is uncertain, as it has a pegged currency to the US dollar.

The efforts towards de-dollarisation are not without intricacies. The divergence in approaches among BRICS members, exemplified by India's cautious approach, reveals the delicate balancing act within the alliance. The friction between India and China presents hurdles to presenting a united front in challenging the dollar's supremacy. The success of the de-dollarisation agenda hinges on navigating these internal complexities and establishing a cohesive front. Also, institutions are lacking, and it is worth remembering that the BRICS group of states is still a "grouping," and other than the new Development Bank, formerly known as the BRICS Development Bank, it does not have many institutional bodies, which can be particularly detrimental for aspirations.

On the other hand, technological innovations within BRICS, such as the BRICS Pay system and the exploration of blockchain for a collective cryptocurrency, go beyond mere diversification efforts. They signify a forward-looking approach to reshaping global financial infrastructure. These endeavours not only provide alternatives to existing systems but also lay the groundwork for a potential shift in global currency dynamics. The technological advancements within the BRICS bloc may prove instrumental in overcoming the inertia associated with established norms.

Also, the dollar's role would be further undermined with the realisation of BRICS+ and the inclusion of other important actors. It would lose the 'incumbency advantage,' with diminishing network effects, global economic power distribution, and alternative national currencies that can assume a pivotal role in the international monetary system.

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