

CHALLENGES AND PERSPECTIVES TO THE BRICS IN REFORMING THE INTERNATIONAL MONETARY AND FINANCIAL SYSTEM

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Abstract: *This paper aims to discuss major challenges and opportunities to the BRICS countries in their attempts to reforming the international monetary and financial system. It analyzes the ongoing processes and trends in the global economy as well as the potential of the emerging economies acting as a political and trading bloc to establish a multipolar monetary system. The author argues that the transition from a unipolar to a multipolar monetary system has already started. Nevertheless, it is difficult to predict how long it will take to transform the existing international monetary and financial system. BRICS countries face big challenges and issues on their path to reform the international monetary and financial system. At the same time the economic power and potential of the bloc are perceived as important advantages which create opportunities to achieve its goals.*

Keywords: *international monetary system, global economy, BRICS, dollar, international currency, yuan, trading bloc, international financial organizations*

JEL: *F30, F52, F55,*

Introduction

The international monetary and financial system has been undergoing significant changes and transformation due to the deepening and accelerating processes of fragmentation and disintegration of the global economy since the outbreak of the global financial crisis in 2008. The division of the world into rival blocs has become a distinctive feature of the global political and economic order particularly since the beginning of the Covid-19 pandemic². The war in Ukraine has further exacerbated this trend.

A leading role in the ongoing transformation in the global economy as well in the international monetary system has been played by the emerging economies and particularly by the BRICS.

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² See Aiyar, S. et al. (2023)



BRICS is a grouping of Brazil, Russia, India, China, and South Africa. Since 2009, they have become a geopolitical bloc as their governments meet annually at formal summits and they coordinate multilateral policies. They represent over 42% of the global population, 30% of the world's territory, 23% of GDP and 18% of the global trade. BRICS cooperation takes place under three pillars - political and security, economic and financial as well as cultural cooperation. It aims to promote peace and to establish a more representative, fairer international order, a reinvigorated and reformed multilateral system as well as to achieve sustainable development and inclusive growth. Six new countries will become full members the BRICS from 1st January 2024. In August 2023, it was announced that Argentina³, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates had been invited to join the bloc⁴.

This paper aims to discuss major challenges and opportunities to the BRICS countries in their attempts to reforming the international monetary and financial system. It analyzes the ongoing processes and trends in the global economy as well as the potential of the emerging economies acting as a political and trading bloc to establish a multipolar monetary system. The author argues that the transition from a unipolar to a multipolar monetary system has already started. Nevertheless, it is difficult to predict how long it will take to transform the existing international monetary and financial system. BRICS countries face big challenges and issues on their path to reform the international monetary and financial system. At the same time the economic power and potential of the bloc are perceived as important advantages which create opportunities to achieve its goals.

The first part briefly presents the history as well as the economic development of the BRICS. The second part focuses on the BRICS' institutions (New Development Bank, Contingent Reserve Arrangement) and their role to expand the bloc's economies and to become an alternative to the Western bloc and institutions (International Monetary Fund and World Bank). Moreover, it discusses the main initiatives and actions of the BRICS to de-dollarize the global economy. It also discusses the major challenges and perspectives to reform the existing international monetary and financial system.

³ In December 2023 the new President Javier Milei announced that the decision to join the bloc had been revised and he withdrew the country from the planned entry into BRICS.

⁴ See XV BRICS Summit Johannesburg II Declaration BRICS and Africa: Partnership for Mutually Accelerated Growth, Sustainable Development and Inclusive Multilateralism, South Africa, 23 August 2023

1. Theoretical and analytical framework

In a narrower sense, the international monetary system is the complex of international rules and understandings which have evolved in an effort to ensure, by international agreement, a fair and efficient method of conducting international transactions. In its widest sense, the international monetary system includes the broad network of banking and commercial practices through which day-to-day international transactions are undertaken. The pricing of international shipments, the extension of credit, and the settlement of accounts take place in terms of many currencies (IMF, 1965)⁵. The primary goals of the international monetary system is to provide means of payment acceptable to economic actors of different nationalities as well as sufficient liquidity and to correct global imbalances.

In Cohen's monetary pyramid, international currencies are at the top of the pyramid (called *top currencies*). These are currencies that serve most of or all cross-border purposes and whose popularity is universal. As table 1 shows, they are used at two levels in the international monetary system - private and official (public) performing the three main functions of money - a medium of exchange, a medium of account and a store of value⁶. The use of a currency in international trade is explained by the dominant currency paradigm. According to it, the stability of trade stems from the fact that import and export prices are set in a common currency due to the low sensitivity of these prices to exchange rate changes and volatility. The dominant currency paradigm has three key characteristics: pricing in the dominant currency, price complementarity, and imported inputs used in production. However, it makes international trade highly dependent on fluctuations in exchange rates, respectively on the appreciation and depreciation of the dominant currency. Thus, the appreciation of the dollar against other currencies results in a trade decrease between countries in the rest of the world, without affecting US trade⁷.

At the public level, international money plays the roles of a currency anchor, an intervention currency used by the central banks to intervene in the foreign exchange market, as well as a reserve currency in which they hold their foreign exchange reserves. These functions reflect the so-called "exorbitant privilege" that the dollar has enjoyed since the end of the WWII in the framework of

⁵ International Monetary Fund Annual Report 1965, <https://www.elibrary.imf.org/display/book/9781616351779/Ch02.xml>

⁶ See Cohen (2015)

⁷ See Gopinath, Boz, Casas, Díez, Gourinchas, Plagborg-Møller (2020)



the Bretton Woods currency system (1944-1973)⁸ and up to now. In brief, the exorbitant privilege enables the US to run up huge current account deficits without substantially worsening its international investment position. In good economic times, capital transfers come to the US, and during crises, wealth flows from the US to the rest of the world, i.e. the US provides insurance to other countries (the so-called exclusive duty)⁹.

Table 1 Roles of international currencies

| Functions of money | Public sector | Private sector |
|---------------------------|---|---|
| Unit of measurement | Currency anchor/fixed exchange rates | Invoicing of trade/pricing of financial assets |
| Means of exchange | Foreign exchange market interventions/lender of last resort | Cross-border payments for commercial and financial transactions |
| Store of value | International reserves | Dominance of financial assets/cash |

Source: Cohen, 2015

In the paper dollarization of the international monetary system is perceived as the process by which the dollar dominates the international monetary system and fulfills all the functions of the international currencies, being a hegemonic currency. Conversely, the de-dollarization of the global economy entails a reduction in the share and the role of the dollar in the international trade and finance as well as a decrease in the countries' dependence on the US currency. Recently, many countries have announced and pursued de-dollarization to reduce risk exposure to the US dollar and US sanctions. De-dollarization implies a diversification from the dollar and it is seen as a means to help countries to achieve greater geoeconomic and geopolitical autonomy and /or to increase their global influence. In this regard, it is noteworthy to explore the pathways to de-dollarization and in a broader terms to reforming the international monetary and financial system by the BRICS coalition.

In a recent study Zoe Liu, Papa (2022) applied “Pathways to De-dollarization” framework to explore the BRICS’ de-dollarization activities. The research found that the BRICS members have demonstrated an unambiguous consensus and a strong commitment to promoting the use of local currencies in international settlements and building a nondollar alternative global financial infrastructure. The BRICS have implemented both “go-it- alone” and “reform-the-status-quo”

⁸ The dominant role of the dollar in the international monetary system was established after the WWII. The Bretton Woods agreements (1944) aimed to create a new international monetary system in order to solve the problems of the interwar period: protectionism, devaluations, unstable exchange rates and crisis. The adoption of a gold-dollar standard based on the convertibility of the dollar into gold at a ratio of \$35 to one ounce of gold under capital controls and fixed but adjustable exchange rates provided the opportunity for countries to maintain currency stability, independence of monetary authorities and to achieve full employment. Moreover, the IMF was established at the centre of the political structure of the post-war monetary system to provide liquidity to its member states to deal with temporary current account problems and stabilise their national currencies.

⁹ See Gourinchas, Rey, Govillot (2017)



strategies to de-dollarize their economies. The first one, “go-it-alone” de-dollarization strategy refers to actions to establish and govern new nondollar-based institutions and market mechanisms. The establishment of the BRICS financial infrastructure through the New Development Bank and Contingent Reserve Arrangement enables the coalition members to diversify currency risks and maintain open access to the global financial system when facing US sanctions and to create an alternative or parallel system which is independent of the US dollar and of the leading Western powers. In contrast, “reform-the-status-quo” initiatives refer to the coalitional efforts to renegotiate the rules of the existing system and to diversify the representation of their currencies and economies in the system.

This paper outlines and discusses the major challenges and opportunities to the BRICS to de-dollarize and reform the existing global monetary and financial system on the basis of the institutional perspectives and market activities that the BRICS coalition have developed and implemented since the bloc’s emergence in 2009.

2. Brief overview of the BRICS history and economic development

At the height of the global financial crisis in 2009, Brazil, Russia, India and China held their first annual meeting in Ekaterinburg, where they came up with common priorities for the further development of the global financial system, international trade, sustainable development, etc. Reforming international financial institutions has been central to the final declaration, which stated:

“We are committed to advance the reform of international financial institutions, so as to reflect changes in the global economy. The emerging and developing economies must have greater voice and representation in international financial institutions, whose heads and executives should be appointed through an open, transparent, and merit-based selection process. We also believe that there is a strong need for a stable, predictable and more diversified international monetary system” (Joint Statement of the BRIC Countries’ Leaders, 16 June 2009, Yekaterinburg).

In 2010, South Africa became the fifth member of BRICS. The crises and the war in Ukraine have caused deep geopolitical changes which have led many developing countries to request BRICS’s accession in order to join the efforts to reform global politics and economics. In this regard, the

first major expansion of the bloc will take place in 2024. Six new countries will become full members the BRICS from 1st January 2024: Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates.

The BRICS countries discuss and coordinate multilateral policies in the fields of economy, trade, finance, peace and security, culture, human rights, development, etc. At the annual summit in August 2023, they pledged not only to reform the Bretton Woods institutions and to have a greater role and leadership in them for emerging and developing economies, but also to promote the use of local currencies in international and inter bloc trade¹⁰. This decision represents an important step not only to reduce dependence on the dollar, but also to create a common currency in the bloc in the long run, an idea already launched by Russia and Brazil. Although the creation of a common currency seems a hardly achievable goal due to the great heterogeneity and political and economic differences and interests of the member states, the coalition has a huge economic potential, which, combined with political will and agreement between them, can turn them into a leading center of world politics and economics. The BRICS have become the rising power de-dollarization coalition

The data in Table 1 shows that the BRICS member states, together with the newly acceding countries, not only have huge territories, but also have 46% of the world's population. The BRICS countries' share in the global GDP for 2023 is expected to reach 29.3% (Table 2). The leading economic power is China, which forms 18.4% of world GDP, followed by India with 3.6% and Russia and Brazil with 2% each. China is far ahead of the other countries in the bloc, which inevitably turns it into the main rival of the USA in the global economy.

Table 2 Territory and population of BRICS Countries, 2023

| Country | Area of territory (1 000 sq. km) | Population | Share of global population (%) |
|--------------|----------------------------------|---------------|--------------------------------|
| Brazil | 8 510 | 216,422,446 | 2.7 |
| Russia | 17 125 | 144,444,359 | 1.8 |
| India | 3 287 | 1,428,627,663 | 17.8 |
| China | 9 600 | 1,425,671,352 | 17.7 |
| South Africa | 1 221 | 60,414,495 | 0.8 |
| Saudi Arabia | 2 149 690 | 36,947,025 | 0.5% |
| Iran | 1 648 195 | 89,172,767 | 1.1% |
| Ethiopia | 1 104 300 | 126,527,060 | 1.6% |
| Egypt | 1 001 450 | 112,716,598 | 1.4% |

¹⁰ See XV BRICS Summit Johannesburg II Declaration BRICS and Africa: Partnership for Mutually Accelerated Growth, Sustainable Development and Inclusive Multilateralism, South Africa, 23 August 2023

| | | | |
|-----------|-----------|--------------------|--------------|
| Argentina | 2 780 400 | 45,773,884 | 0.6% |
| UAE | 83 600 | 9,516,871 | 0.1% |
| Total | | 3.7 billion | 46.0% |

Source: The world fact book <https://www.cia.gov/the-world-factbook/countries/ united-arab-emirates/>, Joint Statistical Publication BRICS 2023

Table 3 BRICS countries GDP, share of global GDP, GDP per capita

| Country | GDP (USD billions) 2023 | Share of global GDP (%) 2023 | GDP per capita (current prices/US\$) 2022 |
|--------------|-------------------------|------------------------------|---|
| Brazil | 2,081 | 2.0% | 8 938 |
| Russia | 2,063 | 2.0% | 15 504 |
| India | 3,737 | 3.6% | 2 451 |
| China | 19,374 | 18.4% | 12 741 |
| South Africa | 399 | 0.4% | 4 635 |
| Saudi Arabia | 1,062 | 1.0% | 44 300 |
| Iran | 368 | 0.4% | 15 000 |
| Ethiopia | 156 | 0.1% | 2 300 |
| Egypt | 387 | 0.4% | 11 600 |
| Argentina | 641 | 0.6% | 21 500 |
| UAE | 499 | 0.5% | 69 700 |
| Total | 30,767 | 29.3% | |

Source: IMF projections for 2023, <https://www.visualcapitalist.com/visualizing-the-brics-expansion-in-4-charts/>, Joint Statistical Publication BRICS 2023, Data for new BRICS members is for 2021, The world fact book <https://www.cia.gov/the-world-factbook/countries/argentina/#economy>

China is the largest exporter in the world, with its share representing 14.4% of global exports. According to the data of the World Trade Organization, with the expansion of BRICS, the share of all the BRICS countries in global exports will increase to 25.1%. The new member states, the United Arab Emirates and Saudi Arabia, will have the greatest contribution to increasing the share of total exports, while Ethiopia will make the smallest contribution.

Table 4 Total amount of exports and share of global exports of BRICS countries, 2022

| Country | Exports (USD billions) | Share of global (%) |
|--------------|------------------------|---------------------|
| Brazil | 334 | 1.3 |
| Russia | 532 | 2.1 |
| India | 453 | 1.8 |
| China | 3,594 | 14.4 |
| South Africa | 123 | 0.5 |
| Saudi Arabia | 410 | 1.6 |
| Iran | 73 | 0.3 |
| Ethiopia | 3.9 | 0.02 |
| Egypt | 49 | 0.2 |
| Argentina | 88 | 0.4 |
| UAE | 599 | 2.4 |
| Total | 6,259 | 25.1 |

Source: World Trade Organization 2022, <https://www.visualcapitalist.com/visualizing-the-brics-expansion-in-4-charts/>

It is noteworthy that the BRICS countries possess vast reserves of natural resources and are major producers and exporters of basic commodities and minerals, in the world. Table 3 shows that they produce over 43% of the world's oil, with Saudi Arabia and Russia as the leading

producers, securing respectively 12.9% and 11.9% of global oil production in 2022. Iran has been the fifth largest producer of crude oil in OPEC, as well as the third largest producer of natural gas in the world in recent years. Thus the BRICS countries can exercise strong political and economic influence on global processes and trends.

Table 5 BRICS countries oil production, 2022

| Country | Thousand barrels per day | Share of global (%) |
|--------------|--------------------------|---------------------|
| Brazil | 3,107 | 3.3 |
| Russia | 11,202 | 11.9 |
| India | 737 | 0.8 |
| China | 4,111 | 4.4 |
| South Africa | 0 | 0 |
| Saudi Arabia | 12,136 | 12.9 |
| Iran | 3,822 | 0 |
| Ethiopia | 0 | 4.1 |
| Egypt | 613 | 0.7 |
| Argentina | 706 | 0.8 |
| UAE | 4,020 | 4.3 |
| Total | 40,454 | 43.1% |

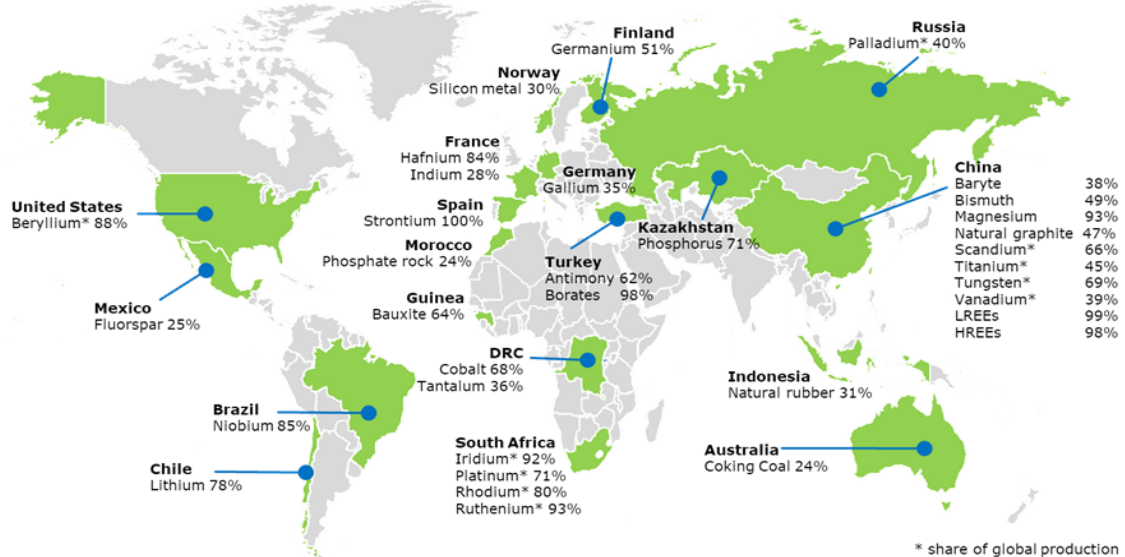
Source: Energy Institute Statistical Review of World Energy 2022, <https://www.visualcapitalist.com/visualizing-the-brics-expansion-in-4-charts/>

The green, energy and digital transition and, accordingly, the sustainable development of economies are strongly dependent on the availability and supply of a number of minerals and raw materials in the world. The BRICS countries possess the largest reserves of critical minerals, on whose extraction and supply depend not only the EU countries, but also the rest of the world. According to the report of the International Energy Agency (2023) China has extracted 70% of the global graphite and rare earths and 15% of the global lithium. China is also the world's leading producer of copper, as well as nickel, cobalt, lithium and other rare minerals. Furthermore, China has processed 45% of the global copper, 20% of global nickel, 67-69% of global cobalt, 70% of global lithium, 100% of global graphite as well as 90% of global rare earths (neodymium, praseodymium, dysprosium and terbium). The geographical distribution of planned refining projects for key minerals, during the period 2023-2030, reveals the following: China and Argentina dominate the market for lithium as China has 49% and Argentina has 16% of the global lithium, China prevails also in refined cobalt (36% of the global volume) and Brazil plays an important role in refined nickel (3% of the global production).

Russia had the world's largest proved natural gas reserves at 1.32 quadrillion cubic feet, accounting for nearly 20% of the global total in 2020. It owned also the second largest gold reserves at 6,800 tons, or more than 12% of global total in 2021. Furthermore, it was the world's third-largest crude oil producer at 12% of global supply in 2020 and oil reserves were the world's sixth largest at an estimated 107.8 billion barrels. (BP, 2022)

The EU countries do not have key raw materials and this makes them extremely dependent on imports from other countries in the world. Raw materials and minerals of critical importance to the EU economies are provided by countries outside the Union. They are mainly used for the production of electric vehicles, in industry, communications, space, defense, etc. The European Union is highly dependent on critical raw materials supplied primarily by: China provides 100% of the EU's supply of heavy rare earth elements, South Africa provides 71% of the EU's needs for platinum, Russia for palladium, Brazil for niobium¹¹. In this regard, the fulfillment of the EU's strategic goals and interests inevitably requires close relations and partnership with the BRICS countries. The political opposition, the imposition of sanctions, the protectionist and discriminatory measures against BRICS countries could hinder the European industry and sustainable development.

Figure 1. Biggest supplier countries of critical raw materials to the EU



¹¹ <https://www.consilium.europa.eu/en/infographics/critical-raw-materials/>

Out of the 34 critical raw materials identified, a specific strategic raw materials (SRMs*) list (17 strategic raw materials proposed by the Council) has been created for the materials expected to grow exponentially in terms of supply, which have complex production requirements and thus face a higher risk of supply issues. Among them: lithium, manganese, natural graphite, cobalt, nickel, copper, etc.

Last but not least, the reserves of key natural resources such as water, timber, etc., which the BRICS countries possess, are also of crucial importance for the world economies. For example, China has the world's greatest hydropower potential. Brazil has huge reserves of gold, iron, oil, uranium as well as timber. Furthermore, it has enormous installed capacity of hydroelectric power production.

The competition and struggle for natural resources between developed and developing countries worldwide has increasingly intensified in recent years, especially in the context of the negative consequences and effects of the pandemic, the energy crisis, inflation, wars. From this point of view, the relations between the BRICS and other countries have become a key factor for the development of world politics, global trade and finance.

3. De-dollarization of the global economy by the BRICS

3.1 BRICS financial institutions as an alternative to the US led global financial institutions

The BRICS countries have launched several initiatives aimed at the de-dollarization and reforming of the global financial system since 2009 and especially since the beginning of the war in Ukraine in 2022 amid the imposition of sanctions, the energy and commodity crisis and the peak in global inflation. The BRICS bloc has established the New Development Bank to de-dollarize development finance. The New Development Bank (NDB) was established in 2014 to mobilize resources for infrastructure and sustainable development projects in emerging and developing economies. Bangladesh, the United Arab Emirates and Egypt have become also members of the NDB.

The NDB has an initial authorized capital of USD 100 billion, which is divided into 1 million shares with a par value of USD 100,000 each. The voting power of a member is equal to the proportion of its subscribed shares in the capital stock of the Bank. The Bank's subscribed capital is USD 50 billion, of which USD 10 billion is deposited by the five founding countries. The shareholding structure allows the founding members to have equal voting power while none of them holds veto power over any matter. However, its funding capacity has so far been

limited compared to the International Bank for Reconstruction and Development (IBRD), which is the largest development bank in the world.

Table 6 Shareholding structure of the New Development Bank

| Country | Number of shares subscribed | Shareholding (% of total) | Subscribed capital (amount billion USD) | Exercisable votes |
|--------------------|-----------------------------|---------------------------|---|-------------------|
| Brazil | 100,000 | 18.98 | 10,000 | 100,000 |
| Russia | 100,000 | 18.98 | 10,000 | 100,000 |
| India | 100,000 | 18.98 | 10,000 | 100,000 |
| China | 100,000 | 18.98 | 10,000 | 100,000 |
| South Africa | 100,000 | 18.98 | 10,000 | 100,000 |
| Bangladesh | 9,420 | 1.79 | 0,942 | 9,420 |
| UAE | 9,420 | 1.79 | 0,556 | 9,420 |
| Egypt | 11,960 | 1.79 | 1,196 | 11,960 |
| Unallocated shares | 473,060 | - | 47,306 | 473,060 |
| Total | 1,000,000 | 100.000 | 100.000 | 1,000,000 |

Source: New Development Bank

In May 2023, the New Development Bank held its annual meeting in Shanghai, during which its President Dilma Rousseff has affirmed that the bank's major goal is the de-dollarization of the global economy. Its short-term purpose is to offer 30% of NDB loans in local currencies by 2026. By diversifying its use of currencies, the NDB not only seeks to weaken the bloc's dependence on the dollar, but also aims to helping developing countries avoid painful exchange rate fluctuations and financial risks.

On May 18, 2022, the NDB priced a 3-year CNY 7 billion Bond in the China Interbank Bond Market. The transaction is the largest ever Panda Bond issue by a Multilateral Development Bank (MDB). It has a cumulative total of RMB 30 billion bonds issued under its RMB bond programmes in the China Interbank Bond Market, which makes the Bank the largest and the most prodigious MDB issuer in China¹². Furthermore, on August 15, 2023, the NDB issued 1.5 billion ZAR bonds in the South African bond market to be used to fund infrastructure and sustainable development projects in South Africa. The NDB's strategy is to increase its presence in the local capital markets of its member countries, to fund its robust portfolio of local currency loans¹³.

The BRICS countries established also the Contingent Reserve Arrangement (CRA) in 2015 to provide support to developing and emerging countries through liquidity and precautionary

¹² <https://www.ndb.int/news/new-development-bank-issues-cny-7-billion-bond-in-china-interbank-bond-market/>

¹³ <https://www.ndb.int/news/ndb-issues-zar-1-5-billion-bond/>

instruments in response to current or future short-term balance of payments pressures. The BRICS members are allowed to borrow from the CRA's collective pool of US 100 billion of reserves through swaps using their national currencies. At the same time, the CRA is dependent on the IMF. The individual commitments of each country is as follows: China – USD 41 billion; Brazil – USD 18 billion; Russia – USD 18 billion; India – USD 18 billion; South Africa – USD 5 billion. Nevertheless, for the time being, CRA is unable to replace the IMF, as only 30% of CRA funds are available to be used by the BRICS members on demand, while access to the remaining 70% requires agreements with the IMF. According the Treaty for the establishment of CRA the parties shall be able to access resources subject to maximum access limits equal to a multiple of each Party's individual commitment set forth as follows: China has a multiplier of 0.5; Brazil, India and Russia have a multiplier of 1 and South Africa has a multiplier of 2¹⁴. The establishment of the NDB and the CRA has been part of the go-it-alone strategy of the BRICS coalition to create alternative institutions to the Bretton woods ones and to challenge the US global leadership. Meanwhile, it is evident that the emerging financial infrastructure of the bloc doesn't have the capacity to fully break from the existing US dollar-based international monetary system. Moreover, some of the BRICS countries like India have closer relations with the US as well as some, like South Africa and Brazil have been more integrated into the dollar system.

3.2 Major initiatives of the BRICS towards a multipolar international monetary system

Apart from the establishment of the NDB and CRA, the BRICS countries have launched other de-dollarization initiatives related to the development of the following: an alternative payment system to SWIFT, a common payment system, to the increase of intra BRICS trade using local currencies, and to the creation of a common currency. The overall goal is to build a non-dollar international monetary and financial system which better serves their interests and priorities. The BRICS explore the possibility of a common payment network and the plan will be officially discussed in Russia at the next annual meeting of the bloc in 2024. The aim is to foster trade in local currencies as opposed to the U.S. dollar and to avoid the use of SWIFT in international banking transactions. The common payment framework is planned to be integrated with a

¹⁴ Treaty for the Establishment of a BRICS Contingent Reserve Arrangement, adopted in Fortaleza, July 15



BRICS digital currency to de-dollarize the global finance. Moreover, the central banks of the BRICS countries are in a process of developing their digital money which is considered as a strong push towards de-dollarization.

Individual member states have already taken actions to increase their influence and role in global finance. China has launched the yuan oil futures contract, a new financial instrument to de-dollarize the global oil trade. Both China and Russia have developed their own cross-border messaging systems. Since 2014, Russia has been developing its own payment system. Since 2015 China has established a new payment system for clearing payments in yuan. The final, long-term goal is to create a common currency to rival the dollar.

So far, Russia and Brazil have been among the key proponents for a common currency, an idea which has also been recently advocated by the NDB. This raises the question of what this common money could be – whether it will be based on national money and thus be fiat money, like the dollar and euro, or whether it will be a resource-based and backed money, i.e. the monetary emission will be tied to the availability of reserves of certain natural resources and commodities.

It is noteworthy the recent intensification of intra BRICS trade settled in national currencies. In 2023 Brazil and China signed an agreement to trade in their national currencies. China has been Brazil's biggest trading partner for fourteen consecutive years. According to data from the China General Administration of Customs, in 2022, bilateral trade between China and Brazil recorded an annual increase of 8.1%. Brazil is also one of the few countries in the world that has a trade surplus with China – RMB 316.6 billion in 2022. China imports Brazilian agricultural products, such as meat, fruits, grains, and honey.

The trade partnership between Russia and China has also developed since 2022 and especially after they agreed to settle trade deals in yuans. Since the beginning of the war in Ukraine, bilateral trade in yuan rose from 4% to 23%. Data shows that about $\frac{3}{4}$ of bilateral trade has been already conducted in rubles and yuans. The trade volume between Russia and China in the first six months of 2023 has grown by 20% compared to the same period last year. Russia is China's main source of coal, crude oil, and gas imports. Other major part of the exports have been agricultural products. Exports from Russia to China increased by 84% in the first five months of 2023. In the first quarter of 2023, Russia became China's seventh largest trade partner.



In April 2023, Russian officials claimed that more than 70% of settlements in trade between the two countries were already made in national currencies. In June 2023 it was reported that the share of the renminbi in the Forex turnover on the Moscow Exchange increased to 39.8% and had overtaken trading in the US Dollar.

In 2022 the trade between India and China reached an all-time high of US 135.98 billion. China exported mainly computers, smart phones, and semiconductors, while India exported iron ore, refined petroleum, and raw aluminum.

South Africa is China's largest trading partner in Africa, with bilateral trade of US 56.74 billion in 2022. The main products that China exports to South Africa are broadcasting equipment, computers, and coated flat-rolled iron. The main products that South Africa exports to China are gold, diamonds, and iron ore¹⁵.

In 2022 Saudi Arabia have announced that it will sell oil in currencies other than the dollar. It started trading oil with China in yuan.

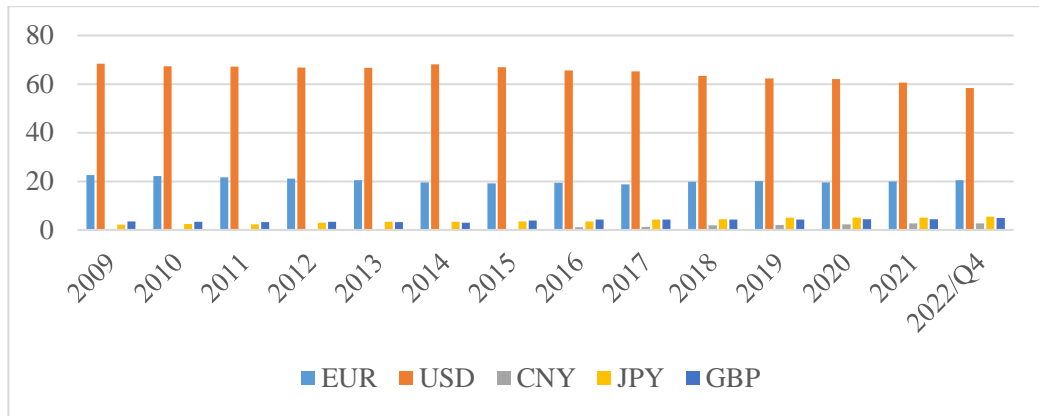
Now, however, let's take a look at the role of the Chinese currency in the global financial system and its potential to displace the dollar in global trade and finance. The dollar continues to be the world's leading reserve currency, far ahead of the euro and other currencies. The chart below presents the share of international currencies in the global official foreign exchange reserves revealing downward trends in the share of both the euro and the dollar. During the period 2009 - 2022, the euro's share declined from 22.6% to 20.5%. The share of the dollar decreased more substantially from 68.4% to 58.4% in the fourth quarter of 2022. The dollar registered the sharpest decline of 2% in 2022, from 60.2% to 58.4%, respectively. Unlike the dollar and the euro the shares of the Japanese yen as well as the British pound increased. It is noteworthy that the Chinese yuan more than doubled its share from 1.1% in 2016 to 2.7% in the fourth quarter of 2022. ¹⁶ However, IMF data from early 2022 shows that its share has not increased significantly¹⁷.

¹⁵ <https://www.silkroadbriefing.com/news/2023/08/21/intra-brics-trade-and-analysis-2023/>

¹⁶ The Chinese yuan has been part in the IMF's basket of reserve currencies since 2016.

¹⁷ The data on official foreign exchange reserves include 149 respondents from IMF member countries, non-IMF countries and other holders of foreign exchange reserves, i.e. they do not cover all countries in the world and therefore the share of the renminbi in global official reserves could be considered as higher taking into account recent trends and decisions of many countries to trade in yuan.

Chart 1 Currency shares in foreign exchange reserves (at constant exchange rates)



Source: IMF (COFER), ECB

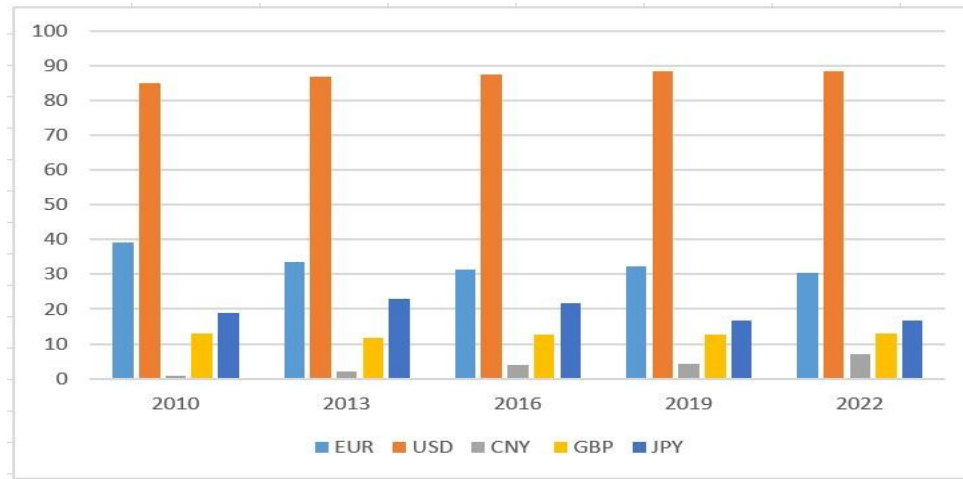
It is interesting to study to what extent sanctions have affected the dollar's role in the global foreign reserves. According to Arslanalp et al. (2022), there is no evidence of an effect of financial sanctions on the currency structure of the reserve portfolios of 80 central banks. Another study argues that the diversification of central banks' foreign exchange reserves has already started as central banks have been buying more gold or hold non-traditional reserve currencies¹⁸. The central banks have made the biggest gold purchases in 2022. Since the beginning of the 21st century, Russia, China and Turkey have become the biggest gold holders among the emerging market economies as well as among the biggest in the world.

The dollar and the euro remain the most actively traded currencies on the foreign exchange market. During 2010 - 2022, the dollar's share of turnover in the foreign exchange market rose from 84.9% to 88.5%, while the euro's share declined from 39.1% to 30.5%. Undoubtedly, the financial and debt crisis of 2008 and the less developed financial market in the EU compared to that of the US have negatively impacted the international role of the euro. At the same time, the share of the Chinese yuan increased most substantially from just 0.9% in 2010 to 7% in 2022. The yuan has become the fifth most traded currency in the world. The European Central Bank (ECB) data shows that in the last quarter of 2022, the euro accounted for 38% of all

¹⁸ Arslanalp et al. (2023) analyze the impact of past financial sanctions on the share of offshore gold reserves of 180 countries. They argue that there has been a statistically significant effect of sanctions in the recent years on the share of gold reserves in the world. At the same time the quantitative effect is small - a country subject to multilateral sanctions increases its gold reserves by about 4 percentage points. In the third quarter of 2022, central banks around the world increased their gold reserves by a record \$20 billion gold in the last 55 years (World Gold Council (2022)). See also Arslanalp, Eichengreen, Simpson-Bell (2023)

international currency payments measured at constant exchange rates, while the dollar fell by 6 percentage points, although it was used in almost 90% of the settlements.

Chart 2 FOREX turnover by currency

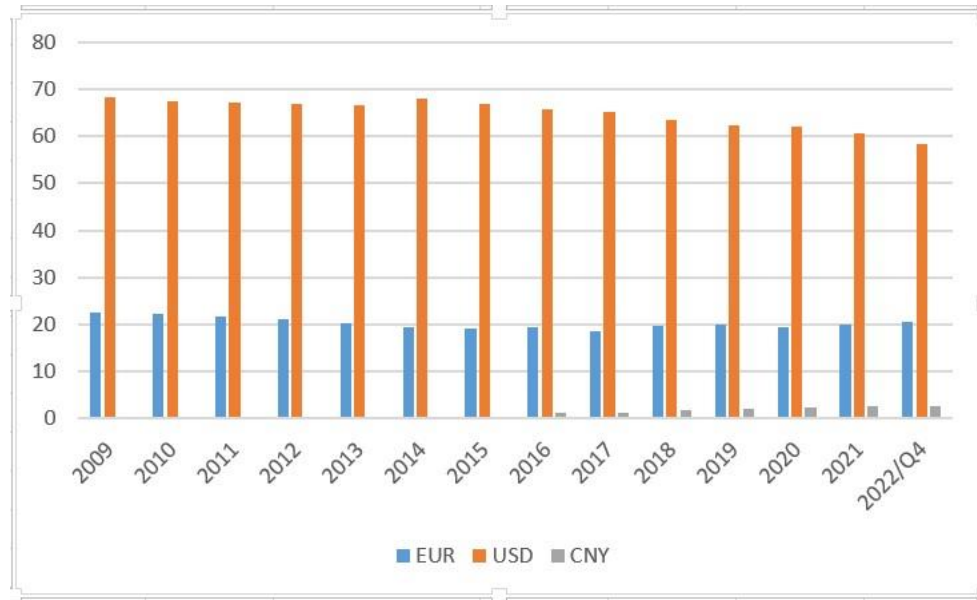


Source: BIS¹⁹

During the period 2009 - 2022, the share of the euro on international debt markets declined from 37.2% to 32.2% while the dollar's share increased from 40.2% to 52.6%. The yuan's share is still insignificant, representing only 0.7% in 2022. In 2022, the euro's share of foreign currency-denominated bond issuance fell to 25%. The dollar's fell more noticeably, by 36% year-on-year, reducing its share of international bond issuance by 5%. Despite these developments, the US dollar continues to be the leading currency for international bond issuance denominated in foreign currencies accounting for more than 57% of the total bond issuance. At the same time, the share of other currencies has increased to around 17%. The most important changes have been recorded in emerging economies, where issuance of US dollar-denominated bonds declined by 55%. Among the main reasons were rising interest rates and higher financing costs in advanced economies, coupled with increased volatility in bond markets.

¹⁹ The statistical data concerns the FX turnover part of the 2022 Triennial Survey that took place in April and involved central banks and other authorities in 52 jurisdictions.

Chart 3 Outstanding international debt securities by currency (broad measure, at constant exchange rates, end of period)



Source: BIS and ECB

The dollar and the euro also dominate the international deposit markets. The share of outstanding international deposits denominated in euros continued to rise in 2022, reaching almost 18%. Despite a slight decline in 2022, the share of international deposits denominated in US dollars remains close to pre-pandemic levels, representing 52% of total international deposits. Furthermore, in 2022, 50% of the international trade was invoiced in dollars. The euro was mostly used outside the euro area - around 60% in exports of goods and services and over 50% in imports of services and goods (ECB, 2023).

Despite the yuan's still small share in international trade, international reserves, international assets and liabilities as well as China's weak financial integration in the international system, there are regional differences in the use of the yuan, driven by other countries' geographical, political and trade ties with China. International renminbi assets and liabilities account for about 4% of global assets and liabilities, compared with the country's 13% share of global trade. Policy measures implemented by the People's Bank of China related to the establishment of bilateral swap lines and offshore clearing banks have played an important role in the internationalization of the yuan since 2008 (Perez-Saiz, Zhang, 2023).

China has agreed swap lines first with neighboring Asian countries, later on with Canada, ECB, UK, etc. In 2022, there were a total of 38 bilateral swap lines for a total of 4 trillion renminbi.

In 2003, China set up the first offshore clearing bank with Hong Kong. In 2020 there were 27 offshore clearing banks in 25 economies. It also created its own cross-border payments infrastructure (CIPS). China is expected to play a greater role in the global financial system even without full financial liberalization, using trade pricing and payments, swap lines, and offshore renminbi markets (CEPR, 2022). This looks increasingly likely amid IMF forecasts that China will be the biggest contributor to global growth over the next five years. Its share in global gross domestic product growth is expected to reach 22.6% of global growth by 2028. Bilateral trade between China and countries subject to US sanctions - Iran, Russia, as well as with Mongolia, Laos, Chile, Turkey and Argentina has been already conducted in Chinese yuan. Argentina signed a currency swap agreement with China worth 130 billion yuan, or USD 19 billion. In July 2023, Argentina, made its first ever payment on its loan to the IMF in yuan worth USD 2.7 billion²⁰.

The development of alternative institutions and markets is a long-term project and requires significant economic and financial resources as well as political consensus and strategies to overcome dollar hegemony. Meanwhile, the BRICS countries follow “reform-the-status quo” strategies to increase access to the existing trading and financial system by using their local currencies.

Conclusion

This paper reveals that the BRICS countries have enormous human and economic potential and resources that can be mobilized to enhance their political and economic role in the global economy and politics and to strongly influence their transformation and future development. The bloc implements two major strategies to reform the international monetary system. The first one, refers to creation of the New Development Bank and the CRAs regarded as alternatives to the World Bank and the IMF. Their efforts to trade in national currencies have been considered as an important step towards reducing the US dollar dependence. Furthermore, they envisage the creation of a common currency in a long term, an idea which is in a preliminary phase of discussion among the coalition’s members. The second strategy includes their struggle to reform of the IMF and the other leading international institutions, taking into

²⁰ Since 2020, the peso has lost about 80% of its value to the dollar. Due to the decline in dollar reserves, it has allowed commercial banks to open accounts and deposits in yuan.

account the weight, role and interests of developing countries. Both pathways to de-dollarize the international economy and finance seek to make them autonomous from the US dollar, to mitigate the risks it carries, both in cases of sanctions and exchange rate volatilities.

Nevertheless, the de-dollarization process faces several constraints such as: lack of a common strategy, significant demographic, economic and political disparities as well as power asymmetries between BRICS members taking into account the accession of six new countries from 1st January 2024, countries' limited capacity to develop and finance their own market infrastructure and instruments, etc. As stated above, the BRICS financial institutions still have a limited capacity to funding development projects as well as to provide loans in national currencies. Last, but not least, geopolitical dynamics and countries' bilateral relations with the US may hinder the anti-dollar coalition. Lon term results depend on the BRICS ability to achieve political consensus on major issues, to elaborate a common strategy to enhancing and improving global governance and to develop a real partnership for multilateralism.

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