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What Is Driving the BRICS' Debate on De-Dollarisation?

By Ding Yifan

Ahead of the 2023 BRICS summit in Johannesburg, South Africa, there was much discussion amongst the member countries about whether negotiations would take place at the meeting regarding the development of a BRICS currency and the acceleration of de-dollarisation, that is, the promotion of currency cooperation and reduction in the use of the US dollar. In the end, the country leaders did not specifically discuss the issue of a BRICS currency but passed a resolution on expanding the organisation's membership. Nonetheless, from both historical and realist perspectives, it is in the interest of the BRICS countries to promote de-dollarisation.

Avant le sommet des BRICS organisé à Johannesburg, en Afrique du Sud, en 2023, les pays membres avaient longuement débattu de la question de savoir si des négociations devaient avoir lieu lors de la réunion concernant le développement d'une nouvelle monnaie commune aux BRICS et l'accélération de la dédollarisation, c'est-à-dire la mise en place de mécanismes de coopération monétaire et un moindre recours au dollar américain. En fin de compte, aucune discussion n'a eu lieu concernant cette question, mais une résolution a été adoptée qui prévoyait l'élargissement de l'organisation à de nouveaux membres. Il n'en reste pas moins qu'il est dans l'intérêt des BRICS, d'un point de vue historique et pratique, de promouvoir la dédollarisation.

Antes de la cumbre de los BRICS de 2023 en Johannesburgo, Sudáfrica, se debatió mucho entre los países miembros sobre si en la reunión se negociarían el desarrollo de una moneda BRICS y la aceleración de la desdolarización, es decir, la promoción de la cooperación monetaria y la reducción del uso del dólar estadounidense. Al final, los líderes de los países no debatieron específicamente la cuestión de una moneda BRICS, sino que aprobaron una resolución sobre la ampliación del número de miembros de la organización. No obstante, tanto desde una perspectiva histórica como realista, a los países BRICS les interesa promover la desdolarización.

The Impact of US Dollar Hegemony on the BRICS Countries

Historically, the core BRICS countries (Brazil, Russia, India, China and South Africa) have suffered from the hegemonic role of the US dollar. Throughout its history, Brazil has been exploited by British and the United States' capital, with various methods of profiteering having emerged. After the collapse of the Bretton Woods system, the US dollar has floated freely. Any substantial appreciation or depreciation of the US dollar has spelled disaster for Brazil. US capital has also been able to enter and exit the Indian stock market freely, bidding up prices of certain stocks and then short-selling them. This has brought about huge fluctuations in the Indian stock market and caused some important Indian companies to suffer from excesses and shortages of capital liquidity.

Meanwhile, South Africa, Russia, and China have been subjected to US financial sanctions. The US has imposed fines and sanctions on South African financial firms for alleged money laundering and violations of economic sanctions that the US has enacted against other countries. There are countless examples of US sanctions against the Russian government and various Russian companies. After the war in Ukraine broke out, the United States froze and confiscated the US dollar assets held by several wealthy Russian citizens, and also froze \$300 billion in assets of the Russian Central Bank and threatened to confiscate them to subsidise Ukraine's war effort. Of course, because Russia has threatened to retaliate in kind and confiscate Western assets in Russia, this has not escalated beyond a 'war of words'.

In the past, the United States has accused China of being a currency manipulator because of its significant holdings of US dollar assets and once imposed sanctions on China based on the allegation that China's sharp increase in exports was due to manipulation of the RMB exchange rate. However, it is the US that disproportionately benefits from this relationship. On the one hand, the US imports a large number of manufactured products from China, benefiting from cheap goods to lower its inflation rate; on the other hand, China earns a large amount

of US dollars but has no place to invest them, and so has no choice but to purchase US treasury bills, thereby providing the United States with cheap capital. Despite this double victory, the US wishes to exert further pressure on China. As such, the US falsely complains of China's so-called exchange rate manipulation; in reality, the US wants to force China to accept RMB appreciation and open its financial market, thereby creating an imported financial asset bubble. Thus far, these efforts have been wasted, as China has not yielded to US pressure.

In addition to the core BRICS countries, the organisation's new members have also experienced many entanglements with the US dollar. Saudi Arabia, the United Arab Emirates, and Iran are all producers and exporters of oil and natural gas. In 1971, amid the US dollar crisis, then US President Richard Nixon closed the window for the free convertibility of US dollars into gold so that the US dollar could depreciate sharply. The US dollar is the principal pricing currency for oil, and its depreciation caused oil prices to skyrocket. At that time, oil-producing countries did not have the ability to extract and refine oil. Oilfield development was managed by British and US oil companies, which only paid the oil-producing countries an annual fixed extraction fee priced in US dollars. With the US dollar depreciating and oil prices skyrocketing, the distribution of profits became unfair. The oil-producing countries demanded a new arrangement, but the British and US oil companies refused. After the outbreak of the Arab-Israeli War in 1973, the oil-producing countries jointly launched an oil embargo against Israel and its allies. Only after the first oil shock did the oil-producing countries regain their bargaining power vis-à-vis Western oil companies.

The US Dollar Has Impeded International Cooperation

In an era where the world is moving towards a multipolar order, the hegemony of the US dollar has hindered international cooperation between many countries. Since its 'war on terror', the United States

has discovered that, compared with traditional trade wars, it is much more effective to use the hegemony of the dollar to impose financial sanctions on countries that violate the US-led 'rules-based order'. This logic was detailed by Juan Zarate, a former US official under the administration of George W. Bush, in his 2013 book *Treasury's War: The Unleashing of a New Era of Financial Warfare*. In recent decades, the US has frequently used the dollar as a weapon to impose financial sanctions on countries that it does not like.

The United States relies on its domestic laws to justify imposing sanctions on foreign companies and governments around the world, a practice known as 'long-arm jurisdiction'. On top of this, if non-sanctioned actors do not follow US sanctions against a country and dare to defy Washington's will, they too may become targeted by secondary sanctions. The US dollar settlement system has become an instrument that the US uses to determine who has complied with or defied its bans on doing business with sanctioned countries and to impose costly sanctions on those who are not compliant. The US government has fined many European banks billions of dollars for alleged violations of US sanctions.

In recent years, there has been a growing number of cases in which the United States has abused the use of financial sanctions. As a result, countries with large amounts of US dollar financial assets have developed concerns about the long-term security of their holdings. The case of Iran is instructive. The Iran nuclear agreement was reached in 2015 between Iran and the permanent members of the United Nations Security Council – the United States, the United Kingdom, Russia, France, and China – as well as Germany and the European Union. Under this framework, all nuclear-related economic sanctions against Iran would be lifted, and the country could engage in greater international cooperation. Following the deal, European-Iranian cooperation progressed smoothly, with many European companies strengthening their ties with Iran and conducting settlements in euros. However, after Donald Trump came to power in the US, he abolished the Iran nuclear agreement, re-imposed sanctions on

Iran, and forced European companies to withdraw from the Iranian market. These practices ignited fears in many Middle Eastern countries about their future fate. Historically, the US provided security guarantees to many countries in the region, with these countries obliged to purchase large amounts of US financial assets to provide the United States with cheap capital. If relations between Iran and Arab countries in the Middle East were to improve and US 'security' was no longer needed, would these countries continue to purchase so many US dollar assets? Washington's blatant announcement that it would confiscate Russia's US dollar assets following the outbreak of war in Ukraine has only intensified concerns among Arab countries. Unlike Russia, these countries do not possess nuclear weapons, nor can they match Russia's military capabilities. If the US were to use its 'long-arm jurisdiction' to freeze or confiscate their US dollar assets, they would have no power to fight back.

These experiences pose important questions for BRICS countries, many of which have been subject to varying degrees of US sanctions. If the BRICS countries cannot develop a settlement mechanism other than the US dollar for cross-border cooperation, many more countries may be targeted by US sanctions in the future.

Likewise, despite the successes of the Belt and Road Initiative (BRI) that China launched ten years ago, many Global South countries have fallen into the US dollar trap again. This is because the US Federal Reserve sharply raised interest rates in 2023, which caused capital flight in these countries and made their dollar debt interest rate unserviceable. De-dollarisation is the only choice to ensure the BRI's continued success in the future.

The US Dollar Carries Significant Financial Risks

Even from the perspective of financial asset protection, it is risky for any country to hold too many US dollar-denominated assets. This risk is inherent to fiat money. In the era of precious metals, the basis for issuing currency was precious metal reserves. If there was too much outflow of gold and

silver, it would cause a currency crisis. After the collapse of the Bretton Woods system, the last bastion of the gold standard was destroyed, and the world entered the age of fiat money. The basis of legal currency is government credit; in other words, government debt is the basis of currency. The more debt the government issues, the more currency flows into the market. However, the level of government debt must match the government's fiscal revenue, and the debt must match the size of the economy. Otherwise, debt sustainability cannot be guaranteed, and a debt crisis will erupt. The debt crisis will destroy the confidence of currency holders, thus triggering a currency crisis.

Since the beginning of the twenty-first century, US government debt has climbed beyond any historical record. When George W. Bush left office, US government debt exceeded \$10 trillion; when Barack Obama left office, US government debt had climbed to \$20 trillion; during Donald Trump's four years in power, US government debt rose to \$26 trillion; finally, in the three years of the current administration of Joe Biden, US government debt has exceeded 34 trillion. In 2020, the ratio of US government debt to gross domestic product surpassed 130 percent. As the Federal Reserve has raised interest rates, interest rates on US Treasury bills have risen rapidly. In 2024, the US government's interest payments on the national debt will exceed \$1 trillion, exceeding the official military budget. [1] Such a high level of debt raises concerns that the US government will default sooner or later.

Following the 2008 international financial crisis, US economists Carmen M. Reinhart and Kenneth S. Rogoff published *This Time Is Different: Eight Centuries of Financial Folly* (2009). The book reveals a profound historical truth: when the debt burden of sovereign countries has become too heavy, all of them, without exception, have relied on inflation and currency devaluation to write off their debt and escape the crisis. When the US government's debt reaches such a high level, does anyone still believe that it will be able to escape this historical fate?

In fact, the US government has a long history of breach of contract. In 1971, US debt skyrocketed, and the US dollar was in crisis. President Nixon decided to decouple the US dollar exchange rate from the price of gold. The US dollar depreciated sharply, and the Bretton Woods international financial system collapsed. The background of that US dollar default was the Vietnam War. The rising military expenditures of the United States for the war and the sharp increase in debt caused by the fiscal deficit caused Western European countries to lose confidence in the US dollar. Similarly, after the outbreak of the war in Ukraine, the US continued to allocate funds to provide military aid to Ukraine. The US budget deficit also continued to rise, the financial burden continued to increase, and the national debt quickly exceeded the ceiling set by Congress. Negotiations between the Biden administration and Congress to raise the debt ceiling have become a perennial fixture on the US political scene. Since October 2023, the US has become involved in yet another 'proxy war', supporting Israel's military campaign in Gaza with increasing military expenditures. As the US participates in two simultaneous 'proxy wars', one is left to ask, how long can the US government finance its military excursions?

We can see that there are many reasons for the BRICS countries to choose to strengthen monetary cooperation and accelerate the de-dollarisation process. The development of modern communications and settlement technologies, such as blockchain, has also provided a safer path for BRICS countries to de-dollarise.

[1] In 2022, US military spending reached \$1.53 trillion, more than twice that acknowledged by the US government. See Gisela Cernadas and John Bellamy Foster, "Actual US Military Spending Reached \$1.53 trillion in 2022 – More than Twice Acknowledged Level: New Estimates Based on US National Accounts", *Monthly Review*, 1 November 2023. Available from <https://monthlyreview.org/2023/11/01/actual-u-s-military-spending-reached-1-53-trillion-in-2022-more-than-twice-acknowledged-level-new-estimates-based-on-u-s-national-accounts/>; Tricontinental: Institute for Social Research, "Hyper-Imperialism: A Dangerous Decadent New Stage", *Studies on Contemporary Dilemmas* No. 4 (23 January 2024). Available from <https://thetricontinental.org/studies-on-contemporary-dilemmas-4-hyper-imperialism/>.

History Serves as a Mirror to Illuminate the Direction of Future Development

Although the BRICS countries are eager to de-dollarise, how can they achieve this goal? Historical experience can provide us with certain insights. After the collapse of the Bretton Woods system in the 1970s, the depreciation of the US dollar caused global inflation. Although the value of the US dollar has become unstable, it remains the most used currency in the world due to inertia in currency use. When many countries are accustomed to using a certain currency in international trade and cross-border investment, they are less willing to change their habits. In addition, after the first oil crisis, then US Secretary of State Henry Kissinger engaged in 'shuttle diplomacy', continuously visiting the oil-producing countries of the Middle East. Eventually, he convinced Saudi Arabia to set the US dollar as the only currency for oil pricing, and Saudi Arabia, in turn, persuaded other oil-exporting countries to do the same. The United States has given these countries, which hold large amounts of US dollars, the financial privilege of directly purchasing US treasury bills in the primary market. The oil-producing countries in the Middle East have embraced the idea, and it has been extremely profitable. The trading of oil futures is the world's largest commodity market; once oil was priced in US dollars, a huge demand was created. Other commodity futures trading immediately copied the oil futures market and used US dollars to price. In this way, the demand for US dollars became increasingly important.

The US dollar ascended to the position of the world's largest reserve currency and trading currency. However, as the US dollar lost its anchor of gold, its face value became unstable. The appreciation or depreciation of the US dollar has caused large price fluctuations in the commodity futures market and had a significant impact on other importing countries. In this context, Western European countries created the European Monetary System in 1979 in response to the US dollar crisis. Initially, they chose to float their currencies together against the US dollar, within a certain limit, a system known as the 'floating snake'.

However, because the US dollar continued to depreciate, this system could not solve the problem of inflation imported from the United States. After a period of practice, Western European countries found that West Germany had the lowest inflation rate, so the value of the Deutsche Mark was the most stable. Consequently, the Deutsche Mark was used as the anchor currency of the European Monetary System, to which the currencies of other Western European countries were pegged. Through this practice, Western European countries introduced anti-inflation factors from West Germany, and inflation within the European Community countries stabilised.

Today, the United States is facing a similar crisis. Currency cooperation among the BRICS countries also requires them to find an anchor currency other than the US dollar. Together, the BRICS countries possess the world's largest resource and energy reserves and the most extensive manufacturing capabilities. The exchange of industrial production and resources can be realised through a non-US dollar settlement system. As long as the BRICS countries establish a non-US dollar settlement system, their economic development will be free from the negative impact of the US dollar's fluctuations. However, the currencies of most BRICS members are still, more or less, pegged to the US dollar, and their exchange rates are also unstable. If the BRICS countries want to engage in currency cooperation, the unstable exchange rates between their currencies will be a major obstacle to overcome. Will the BRICS countries choose the RMB as their anchor currency? As the inflation rates in the United States and Europe are already high, their central banks constantly raise interest rates to curb inflation, but the effect is not ideal. By contrast, in China, the inflation rate has been very stable and low for quite a long time, and people instead speak of the threat of deflation. Therefore, as a currency, the purchasing power of the RMB is guaranteed, especially due to China's strong manufacturing capabilities, which may meet the demand for a wider range of industrially manufactured products.

The BRICS countries are representatives of the collective rise of the Global South. If the BRICS countries can successfully carry out monetary cooperation and overcome the constraints of the US dollar, more and more Global South countries will participate in this monetary cooperation mechanism in the future. The global financial system will be transformed, constituting an important aspect of the 'great changes unseen in a century'.

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