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Hopes, misgivings over ‘BRICS currency’

NEW POSSIBILITIES. Trade blocs, new technologies may spur countries to develop a parallel global payment system alongside the dollar-based one

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The BRICS Summit, chaired by Russia, was held from October 22-24 in Kazan. On its website (*https://brics-russia2024.ru/en/*) there is an interesting read on “currency and bank card transactions” for the delegates: “It is not possible to withdraw roubles/foreign currency at an ATM or receive cash at a point of sale using Mastercard or Visa cards issued outside of Russia...these cards can also not be used for the payment of goods and services in Russia,” and adds, “only cash in US dollars or euros can be freely exchanged for cash in roubles in most banks in Russia.”

In some sense, the arrangement symbolises the hegemony of the US dollar in international transactions. It is, thus, no wonder that BRICS has reignited the debate on the global financial architecture and the role of the dollar as the international standard currency. The BRICS declaration says:“We recognise the widespread benefits of faster, low cost, more efficient, transparent, safe and inclusive cross-border payment instruments built upon the principle of minimising trade barriers and non-discriminatory access. We welcome the use of local currencies in financial transactions between BRICS countries and their trading partners.”

At the Kazan summit, a symbolic BRICS banknote was unveiled to emphasise the focus of BRICS on creating an alternative international payment system. The Russian President, however, mentioned that BRICS nations do not want to fight the dollar but are keen on preparing an alternative cross-border payment system.

These concerns are not new. The use of the dollar as the standard currency leads to an asymmetry in the global financial architecture. While the present system gives the US a significant advantage of paying for its imports in its own currency and borrowing huge amounts at a low cost, other countries often need to adjust their policies to the movements of the dollar arising out of the US monetary and fiscal policies. Moreover, during the past few years, the US has been weaponising this privilege to achieve its geopolitical objectives.

Since the Ukraine war, several Russian banks have been barred from the SWIFT network, the leading financial messaging system for cross-border payments involving the dollar. As the dollar is the dominant medium of international trade, this sanction has affected Russia’s ability to participate in international trade. Other BRICS members like China and Iran are also facing US sanctions of varying degrees against them.

Finding an alternative to the dollar is not easy. No single currency has all the desired characteristics to emerge as a viable competitor to the dollar. As former Treasury Secretary Larry Summers reportedly said, “You cannot replace something with nothing. What other currency is preferable to the dollar as a reserve and trade currency when Europe’s a museum, Japan’s a nursing home, China’s a jail, and Bitcoin’s an experiment?” Besides, as the former US Fed Chairman Ben Bernanke has pointed out, as the incumbent standard currency, the dollar has the advantage of massive “network externality”, as cross-border payment infrastructures are built around it.

Admittedly, certain economic and technological developments may encourage countries to develop a parallel global payment system that may co-exist with a dollar-based system. The rapid economic rise of some of the BRICS countries has led to a rebalancing of global economic power. China has replaced the US as the largest trading country in the world, and the share of BRICS countries in the global economy has surpassed that of the G-7 countries.

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CROSS-BORDER PAYMENT

Therefore, enough international trade happens among the BRICS countries to make a parallel cross-border payment network viable. In addition, global trade is increasingly getting fragmented into regional blocs and geopolitical alliances. The emergence of mega trade blocs like the Regional Comprehensive Economic Partnership (RCEP) involving 15 Asia-Pacific economies and alliances like the BRICS may facilitate the use of alternative currencies within and among the blocs. Thus, a supra-national currency like the proposed BRICS currency can be potentially used as a vehicle currency in international trade.

Recent technological and financial innovations may support such an alternative framework. Technological innovations like the Distributed Ledger Technology (DLT), cryptocurrencies and CBDCs will likely make the development of required cross-border payment infrastructure easier. Notably such a system has already been explored by the Bank for International Settlements (BIS). The BIS experimented with a project called mBridge in 2021, with a view to use digital currencies in conjunction with central banks to make cross-border payments faster, simpler and cheaper. *The Economist* magazine of October 31, 2024, reports that the while the mBridge platform has been phenomenally successful in reducing transaction time and cutting down marginal cost of transaction, the BIS has decided to withdraw from the project. Reportedly, this decision to withdraw has curiously come after the Russian President spoke about adopting the mBridge architecture for the BRICS currency.

The West does not want to relinquish the advantage it has in global financial architecture. On the other hand, the BRICS countries must develop the legal, regulatory and supervisory frameworks for the BRICS currency. While technology may help, it may require significant policy coordination and cooperation among the participating nations. As the BRICS countries often have conflicting geopolitical ambitions, their coming together on a common platform will be complicated. It is unlikely that the West will be helpful in such situations.

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