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## The BRICS and the Challenge of De-Dollarisation

The papers brought together in the present issue of *Wenhua Zongheng* (文化纵横) seek to throw light upon topics of major interest for the international economy. In particular, the issue takes up the popular and widely discussed matter of de-dollarisation. Is it needed? Is it possible in practice and, if so, in what time-frame? How can or should countries interested in de-dollarisation proceed? Can the BRICS jointly or individually help move this forward? Could China step in to provide its currency, the renminbi, as an alternative to the US dollar?

All or most of these questions are discussed in the papers written by professors Gao Bai (高柏), Yu Yongding (余永定), and Ding Yifan (丁一凡). I have also tried my hand at writing about de-dollarisation three times in the recent past.<sup>1</sup>

See Paulo Nogueira Batista Jr., *The BRICS and the Financing Mechanisms They Created: Progress and Shortcomings* (London: Anthem Press, 2022); Paulo Nogueira Batista Jr., ‘A BRICS Currency?’ (paper, BRICS Seminar on Governance & Cultural Exchange Forum 2023, Johannesburg, South Africa, 19 August 2023), <https://www.nogueirabatista.com.br/wp-content/uploads/2023/09/Aug-2023-On-possible-BRICS-currency.pdf>; Paulo Nogueira Batista Jr., ‘BRICS Financial and Monetary Initiatives – The New Development Bank, the Contingent Reserve Arrangement, and a Possible New Currency’ (paper, 20<sup>th</sup> Annual Meeting of the Valdai Discussion Club, Sochi, Russia, 2 October

2023), <https://valdaiclub.com/a/highlights/brics-financial-and-monetary-initiatives/>; Paulo Nogueira Batista Jr., ‘BRICS Financial Settlements’ (presentation, discussion in remote format organised by the Valdai Discussion Club, 18 March 2024), <https://www.nogueirabatista.com.br/wp-content/uploads/2024/03/Mar-2024-BRICS-Financial-Settlements.pdf>.<sup>FOOTNOTE</sup>

In this prefatory note, I will come back to some aspects of the ongoing debate, trying not to repeat myself too much and addressing at the same time issues raised in the three papers by the Chinese scholars.

As is well-known, de-dollarisation has become a hot topic since 2022, when the United States and Europeans decided to block a large part of Russia’s international reserves in response to the invasion of Ukraine, as described by Yu Yongding. Western officials and experts have traditionally lectured developing countries about the need to adopt ‘confidence-building’ policies and to respect property rights. In retrospect, this is truly amazing. The freezing of Russian assets and the more recent threats to move towards outright confiscation are major ‘confidence-destroying’ steps, doing great harm to the US dollar and the Euro. These actions set off an alarm for countries like China, a major holder of US dollar bonds as part of its international reserves. Any country experiencing conflicts with the US and the rest of the West immediately realised that steps were needed to reduce their reliance on the US dollar and the Western financial system. Efforts were intensified in many parts of the world to use national currencies in international transactions, to build or reinforce alternative payments systems, to rely more on the Chinese renminbi, and even to create a new BRICS reference currency. Undeniably, what we have seen is a major self-inflicted blow by the US and Europe. The three Chinese professors have made in their papers significant contributions to the discussion of all these challenges.

The popularity of the topic of de-dollarisation in wider circles and in the media is not usually accompanied by an understanding of its complexity. There is a widespread expectation that the BRICS will develop, in the near future, an alternative to the US dollar. But is this expectation realistic? Perhaps not.

The complexity of the topic is two-fold – political and technical. On the political side, one could mention two major difficulties: (a) the notorious resistance of the US to giving up what the French in the 1960s called the ‘exorbitant privilege’ of having its national currency – issued and managed according to US national interests – serve as the foremost global currency; and (b) the difficulty of actually bringing the BRICS countries together in this endeavor. Allow me to try to address these two major difficulties, based in part on my practical experience as an

International Monetary Fund (IMF) director, Brazilian delegate in the BRICS process, and later vice-president of the New Development Bank (NDB).

One should never lose sight of the fact that the United States will in all likelihood use all the many instruments at its disposal to struggle against any attempt to dethrone the dollar from its status as linchpin of the international monetary system. They have always done so, beginning from the monetary and financial negotiations that took place at the end of and immediately after the Second World War. Keynes' ideas for an international currency were adamantly rejected by US officials. Later, the US blocked, using its veto power in the IMF, steps that could have led to the institution's Special Drawing Rights (SDR) becoming a full currency of international status. To this day, the SDR remains a sideshow, of almost no relevance outside the IMF. The US views the incipient discussions on de-dollarisation among the BRICS countries with deep distrust and is likely to interfere at every turn to block initiatives and generate dissension among the BRICS. One can ask, for instance, whether India and South Africa will be immune to pressures coming from the US on this matter? My own country, Brazil, is currently following an independent foreign policy under President Lula da Silva, but a future government of a different orientation might well be reluctant to displease the US on such a critical issue.

This brings us directly to the second dimension mentioned above. Are the BRICS sufficiently cohesive as a grouping to tackle this complex challenge? Drawing on my practical experience of the BRICS process, I would caution against being overly optimistic in answering this question. Even when there were only five countries around the table, the difficulty of reaching an agreement on concrete steps, notably in the creation and implementation of the monetary fund of the BRICS (the Contingent Reserve Arrangement, CRA) and of the development bank (the NDB), were truly mind-boggling. First, because of the differences in outlook and national interests between the five countries. Second, sadly, because of the lack of talent and technical competence of many of the officials representing the five countries in these negotiations and in the resulting financial mechanisms.<sup>2</sup>

In my book, *The BRICS and the Financing Mechanisms They Created: Progress and Shortcomings* (2022), I discussed in some detail the negotiations and the first five years of existence of the NDB and the CRA. I came back to the matter in a short paper published in 2023, see Nogueira Batista, 'BRICS Financial and Monetary Initiatives', <https://valdaiclub.com/a/highlights/brics-financial-and-monetary-initiatives/>.FOOTNOTE

This is a harsh statement, I fully realise, but if we are serious about tackling the daunting issues of de-dollarisation and alternatives to the US currency, we need to be realistic and to have a minimum level of self-criticism.

Now, the BRICS expansion, initiated in 2024, will make coordination problems and political vulnerabilities even worse. With nine or ten member countries (depending on whether Saudi Arabia accepts the invitation to join), one can predict that there will be an even greater challenge to move forward on any practical matter. Non-experts, outside observers, and even well-prepared academics are often unaware of these difficulties. Some of them add up the gross domestic products (GDPs) and populations of the BRICS or BRICS+ and conclude hastily that the group has become a great force in the world. Some countries, I believe that China and Russia are among them, want to expand the group even further. In journalistic rhetoric, the expanded BRICS is supposedly set to become a forum for the Global South. This may sound fine, but one could ask: will a large and quick increase in the number of members of the group not ultimately result in the BRICS+ becoming something like a 'UN of the South', perhaps as ineffective as the UN itself?

However, let us not be too negative. The fact remains that the BRICS grouping includes major countries. The four original members – Brazil, Russia, India, and China – are among the giants of the world. China is now the largest economy, in terms of GDP at purchasing power parity, having overtaken the US by a considerable margin. The BRICS countries share a longstanding dissatisfaction with the existing international monetary and financial architecture. Reasons for dissatisfaction have only increased in these initial decades of the 21<sup>st</sup> century. Financial, economic, and political instabilities have risen dramatically, but the West gives no sign of making the adaptations and concessions needed to accommodate the BRICS and other emerging market nations. The dysfunctionality of the dollar-based international monetary system, which dates back to the 1960s, is becoming increasingly obvious.

Thus, we have the duty to try to rise to these challenges. If we cannot do so as a group, perhaps China will take it upon itself to foster de-dollarisation. However, as stressed by Gao Bai, it is not at all clear whether China has the means to and is truly interested in replacing the US dollar with its own currency. For an economy as yet not fully mature in financial terms and in other aspects, the 'exorbitant privilege' may well become an 'exorbitant burden'. Professor Gao has asked the relevant questions. Would China be ready to and interested in making the renminbi a fully convertible currency? This is probably a requirement for it to replace the US dollar to any significant extent. Would China be ready to accept the appreciation resulting from the increase in international demand for its currency? What effects would appreciation of the renminbi have

on China's export competitiveness and balance of payments on current account? Would a large increase in the role of China's currency not conflict with the country's longstanding and successful strategy of cautiously protecting its economy and financial systems from international turbulence? And, last but not least, is China prepared to bear the brunt of the US wrath against anyone that seriously strives to displace the dollar? Because of these and other uncertainties, it is rather difficult to expect China alone to lead the de-dollarisation process.

This brings us back to the BRICS. Assuming that the group will be capable of surmounting coordination problems, political vulnerabilities, and the scarcity of specialised personnel, the effort could be spread among the several member countries. The considerable political and technical burden would then be shared by a number of countries.

Russia, as chair of the BRICS in 2024, has already started working on a review of the international system and possible BRICS initiatives in this area. Little is known about how far the BRICS have managed to move under Russian leadership this year. In any case, it can be expected that Russia, being the main victim so far of the weaponisation of the US dollar and of the Western financial system, will do its utmost to move the agenda forward. Brazil, the next chair of the group, in 2025, will pick up, I hope, where Russia has left off.

## Notes

<sup>1</sup>See Paulo Nogueira Batista Jr., *The BRICS and the Financing Mechanisms They Created: Progress and Shortcomings* (London: Anthem Press, 2022); Paulo Nogueira Batista Jr., 'A BRICS Currency?' (paper, BRICS Seminar on Governance & Cultural Exchange Forum 2023, Johannesburg, South Africa, 19 August 2023), <https://www.nogueirabatista.com.br/wp-content/uploads/2023/09/Aug-2023-On-possible-BRICS-currency.pdf>; Paulo Nogueira Batista Jr., 'BRICS Financial and Monetary Initiatives – The New Development Bank, the Contingent Reserve Arrangement, and a Possible New Currency' (paper, 20<sup>th</sup> Annual Meeting of the Valdai Discussion Club, Sochi, Russia, 2 October 2023), <https://valdaiclub.com/a/highlights/brics-financial-and-monetary-initiatives/>; Paulo Nogueira Batista Jr., 'BRICS Financial Settlements' (presentation, discussion in remote format organised by the Valdai Discussion Club, 18 March 2024), <https://www.nogueirabatista.com.br/wp-content/uploads/2024/03/Mar-2024-BRICS-Financial-Settlements.pdf>.

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