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Transforming currency dynamics
in the BRICS+ Bloc

Lebo Mosebua and Goitseone Maswabi

Centre for Africa-China Studies
University of Johannesburg



UNIVERSITY
OF
JOHANNESBURG



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LIST OF ACRONYMS

APEC	-	Asia Pacific Economic Cooperation
AU	-	African Union
BIMSTEC	-	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BRICS	-	Brazil, Russia, India, China, and South Africa
CIS	-	Commonwealth of Independent States
EEU	-	Eurasian Economic Union
IORA	-	Indian Ocean Rim Association
IMF	-	International Monetary Fund
MERCOSUR	-	Southern Common Market
SADC	-	Southern African Development Community
SCO	-	Shanghai Cooperation Organisation
UN	-	United Nations
WTO	-	World Trade Organisation

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The Centre for Africa-China Studies (CACS)

at the University of Johannesburg
9 Molesey Avenue, Auckland Park
Johannesburg, South Africa

www.cacs.org.za

For enquiries, contact:

Dr. Emmanuel Matambo
Research Director, CACS

Tel: +27 11 559 7675

Email: ematambo@uj.ac.za

Dedollarisation strategies: Transforming currency dynamics in BRICS+ Bloc

By: Lebo Mosebua and Goitseone Maswabi

The global economic landscape has witnessed a significant shift in recent years, with emerging markets and developing nations playing an increasingly pivotal role in international trade and finance. At the forefront of this transformation stands the BRICS+ bloc, a coalition of influential countries united by their aspirations for greater economic autonomy and resilience on the global stage. At the heart of their efforts lies the notion of “dedollarisation,” a strategic move to reduce reliance on the U.S. dollar in international transactions. This shift in currency dynamics within BRICS+ not only reflects their growing economic clout, but also holds the potential to reshape the foundations of the global financial system. Herein, we delve into the strategies and implications of dedollarisation within the BRICS+ bloc, exploring how these countries are working together to redefine their role in the international financial arena.

Historical Context of BRICS

BRICS is a coalition of five prominent emerging markets and developing nations, built upon a foundation of historical camaraderie, solidarity, and common interests. Collectively, these nations - the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People’s Republic of China, and the Republic of South Africa – constitute more than 42% of the global population, occupy 30% of the world’s landmass, contribute 23% of the world’s GDP, and account for 18% of global trade.

BRICS members are leading participants in a multitude of international forums and organisations, including but not limited to the UN, the G20, the WTO, the Non-Aligned Movement, and the Group of 77. Additionally, they actively engage with continental and regional bodies such as the AU, SADC, MERCOSUR, the SCO, APEC, BIMSTEC, CIS, the Collective Security Treaty Organization, EEU, and IORA, among others. BRICS’ extensive involvement in these diverse organisations underscores their significant global reach and influence.

The connections among BRICS countries precede the well-known 2001 Goldman Sachs report that popularised the BRIC acronym, forecasting the surging of BRIC countries as global economic leaders. One of the fundamental principles of BRICS is the shared commitment to reform the global political, economic, and financial framework to be equitable, balanced, and inclusive, firmly anchored in the principles of multilateralism and international law. In this context, the leaders of Brazil, Russia, India,

and China held their first informal meeting against the backdrop of the G8 Outreach Summit in St. Petersburg, Russia, in July 2006.

Subsequently, the BRIC partnership was formalised with the inaugural BRIC Foreign Ministers’ Meeting, which took place in the siderooms of the United Nations General Assembly in September 2006. The first BRIC Summit convened in Yekaterinburg, Russia, in June 2009. South Africa was invited to join BRIC in 2010, marking its inclusion in the coalition, and it participated in the Third BRICS Summit held in Sanya, China, in 2011.

Significance of the BRICS+

The leaders of the BRICS grouping have made a significant decision to extend invitations to six additional countries for alliance membership. South African President Cyril Ramaphosa, who presided over a three-day summit in Johannesburg in August 2023, announced that Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates have all been invited to join the BRICS alliance, with their membership set to take effect on 1 January 2024.

The addition of Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates to the BRICS group could potentially strengthen the position of BRICS in several ways:

1. **Economic Strength:** Several of these new potential members, such as Saudi Arabia and the United Arab Emirates, are oil-rich nations with significant wealth and economic influence. The inclusion of these countries could bolster the economic clout of the BRICS group and potentially increase its collective GDP and trade volumes.

2. **Geopolitical Influence:** Iran, in particular, is a strategically important nation in the Middle East with significant geopolitical influence. Its inclusion could enhance BRICS' standing in the Middle East and improve its ability to address regional issues.
3. **Diversification:** The addition of countries from different regions like South America (Argentina), Africa (Ethiopia), and the Middle East (Iran, Saudi Arabia, UAE) diversifies the geographic representation within BRICS, making it a more well-rounded and globally inclusive group.
4. **Enhanced Trade and Investment Opportunities:** Expanding the alliance to include these countries may open up new trade and investment opportunities for BRICS members. It can also facilitate access to markets in the Middle East, Africa, and South America.
5. **Broader Expertise:** Each of these countries brings its unique expertise, resources, and experiences to the table. This diversity could help BRICS tackle a wider range of global challenges, from energy security to infrastructure development.
6. **Enhanced Energy Cooperation:** The inclusion of countries with substantial energy resources (e.g., Saudi Arabia, UAE) can lead to greater cooperation in the energy sector, such as joint ventures, energy security, and climate change initiatives.
7. **Geopolitical Alignment:** The inclusion of Iran, which is not aligned to the West on certain geopolitical issues, may bring BRICS closer to countries with similar stances, potentially strengthening their collective voice on international matters.

The added membership of the six newcomer countries to the BRICS group set to take effect in 2024, marks a significant development in the group's expansion. The following years will most likely see a series of activities and initiatives aimed at integrating these new members into the BRICS framework and enhancing their participation in the group's collaborative efforts. This could involve negotiations on the roles and responsibilities of these new members, their contributions to the group's goals, and the specifics of their engagement in BRICS activities. It will be important for BRICS to work on building strong relationships with these new members and ensuring that they actively contribute to the group's objectives, further strengthening the position and influence of BRICS on the global stage.

Dedollarisation within BRICS+

The notion of "dedollarisation" refers to the efforts by various countries, including those in the BRICS group, to reduce their reliance on the U.S. dollar in international

trade and financial transactions. This can take various forms, such as using their own currencies in trade agreements, establishing currency swap arrangements, or developing alternative payment systems.

BRICS+ is an extension of the BRICS concept, where additional countries are invited to participate in various capacities. These additional countries may also be interested in dedollarisation efforts to reduce their dependence on the U.S. dollar.

The goals of dedollarisation within BRICS+ or individual member countries, often include reducing vulnerability to U.S. economic and financial policies, promoting their own currencies on the global stage, and fostering more diversified and stable international financial systems. However, the success of dedollarisation efforts can be challenging, due to the entrenched role of the U.S. dollar in global trade and finance.

Promoting their own currencies for international transactions and reducing dependence on the U.S. dollar will be a complex and gradual process for BRICS+ countries. Here are several strategies they can employ:

1. **Bilateral and Multilateral Trade Agreements:** BRICS+ countries can encourage the use of their own currencies in bilateral trade agreements with partner countries. They can also establish multilateral trade agreements within their regional blocs, allowing transactions to occur in their respective currencies.
2. **Currency Swap Agreements:** These agreements involve different countries' central banks exchanging their currencies at an agreed-upon exchange rate for a specified period. BRICS+ countries can enter into currency swap agreements with each other and with other trading partners, providing liquidity in their own currencies for cross-border trade and reducing the need for the U.S. dollar.
3. **Internationalisation of Currencies:** BRICS+ countries can take steps to internationalise their currencies by making them more accessible and tradable on global financial markets. This involves relaxing currency controls, allowing offshore trading, and developing deep and liquid currency markets.
4. **Investment in Infrastructure:** Developing the necessary infrastructure for international transactions in their own currencies is crucial. This includes building efficient payment and settlement systems, creating offshore financial centres, and promoting the use of their currencies in bond and commodity markets.
5. **Promotion of Financial Instruments:** BRICS+ countries can encourage the issuance of bonds and financial instruments denominated in their

own currencies. This can attract foreign investors looking to diversify their currency holdings.

6. **Agreements with International Organisations:** Collaborating with international organisations such as the IMF and the World Bank to facilitate the use of their currencies in international financial operations, can help increase the global reach of their currencies.
7. **Public Diplomacy and Education:** Promoting their currencies globally requires public diplomacy efforts to increase awareness and trust in their currencies. This can include educational campaigns and initiatives to highlight the stability and strength of their monetary systems.
8. **Supportive Economic Policies:** Maintaining stable economic and fiscal policies can boost confidence in their currencies. Low inflation, sound fiscal management, and strong economic fundamentals are essential.
9. **Reducing External Vulnerabilities:** BRICS+ countries need to manage external vulnerabilities that could affect the value of their currencies, such as large current account deficits, excessive foreign debt, or overreliance on foreign capital.

Implications of dedollarisation for emerging markets

Dedollarisation presents both opportunities and challenges for emerging markets in the international trade environment. On the one hand, reduced dependence on the US dollar provides an opportunity for more emerging economies to participate in global trade by reducing their vulnerability to sanctions and trade embargoes that may be imposed by the West. On the other hand, dedollarisation may complicate transactions, making trade more expensive and less convenient – reducing the simplicity that comes with using the US dollar as a medium of exchange.

Talks of a BRICS currency have been gaining momentum over the last decade, with emerging economies seeking to reduce their reliance on the US dollar. However, setting up a BRICS currency would be a monumental task requiring the establishment of a banking union, fiscal union, macroeconomic convergence and a common central bank, among others.

Although a BRICS currency was not tabled as an agenda item for the 15th BRICS Summit held in South Africa in 2023, the importance of encouraging the use of local currencies in international trade and financial transactions between BRICS countries and other emerging markets was stressed at the Summit.

Russia, China, India, Brazil and the United Arab Emirates (UAE) have been the frontrunners in the move towards dedollarisation. In the wake of Russia's invasion of Ukraine in 2022, China's yuan replaced the dollar as the most traded currency in Russia after Western sanctions were imposed on Russia. By the end of 2022, the yuan had already surpassed the euro to become the second most dominant currency in Brazil after the dollar. This followed Brazilian president Luiz da Silva's reiteration of the need for emerging economies to move away from the dollar through the use of alternative currencies. In August 2023, India finalised the purchase of oil from the UAE in rupees instead of the dollar – marking India's first crude oil payment to the UAE using rupees.

Concluding remarks

For more than 80 years, the US dollar has served as the world's primary reserve currency. The call for a global shift away from dollar dominance is not new, nor is it limited to the BRICS+ bloc. Recent geopolitical shifts and rising tensions between the West and emerging market countries have, however, fuelled calls for dedollarisation. While discussions about strategies to replace the dollar have gained traction, the goal is less about replacing the dollar and more about providing the world with diverse trade options. It's important to note that the process of dedollarisation and the promotion of different strategies to realise the reduction of dependence on the US dollar is a gradual process, and the success of these efforts will vary, based on the economic and geopolitical circumstances of each country. In addition, the extent to which these strategies are successful may also depend on the level of cooperation and coordination among the BRICS+ countries and their trading partners.

The US dollar will remain dominant in the foreseeable future, accounting for over 80% of international transactions. However, the move towards dedollarisation will provide a multipolarity of trading options that will especially benefit the BRICS+ bloc and other emerging market economies.

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