

BRICS: Geopolitics and monetary initiatives in a multipolar world – how could a new international reserve currency look like?

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The challenges that the BRICS countries face are now much bigger than they were when the group was formed back in 2008. The international context has become much more hostile and dangerous. Three of the member countries – China, Iran and especially Russia – have very difficult relations with the West, to put it mildly. Although this may be controversial, I believe it can be said that these difficulties have been initiated primarily by the United States and other developed countries that increasingly impose trade barriers, restrictions and sanctions of different kinds, including in the monetary and financial field.

From a geopolitical standpoint, the BRICS are a diverse group. Brazil and India, for example, have on the whole good relations with the US, Europe and Japan. India in particular has its own national reasons to maintain some proximity to the US. But Brazil and India realize, of course, the dangers of a situation in which the previously hegemonic countries, the US and its allies or satellites, fiercely resist their relative decline in economic, demographic and political terms – to the point of having a destabilizing impact on all countries.

China is the main source of concern, for obvious reasons. It has become the largest economy in the world, measured in PPP terms, and the truth is that the US views China's rise with suspicion and jealousy. The situation is reminiscent of the one that existed in the decades before World War I. Germany was on the rise and this led to great preoccupations in Britain, the previously hegemonic power. *La perfide Albion*, to use Napoleon's famous expression, articulated a wide-ranging coalition against the upcoming rival that ultimately led to Germany's defeat in 1918. China is, I believe, aware of these precedents. And if I know the Chinese well, they have probably studied the German experience quite carefully. In this respect, they seem to follow Bismarck who once said: "Only a fool learns from his own experience. I prefer to learn from the experience of others".

What role can the BRICS, now with nine countries, play in a world fraught with unprecedented risks? Should the BRICS continue to expand the number of its members? If so, how? What have we learned from our experience with major economic initiatives such as the New Development Bank (NDB), headquartered in Shanghai, and the BRICS Contingent Reserve Arrangement (CRA), the group's monetary fund? How should we proceed with discussions

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concerning matters such as alternative payment systems, the use of our national currencies in external transactions, and especially the possible creation by us of a new international reserve currency? Can the BRICS act together to provide a viable alternative to the US dollar and the existing international monetary and financial arrangements?

These are the topics I intend to briefly address, focusing in particular on international monetary issues and the establishment of a new reserve currency.

BRICS expansion: pros and cons

Although national perspectives differ and the BRICS are a heterogeneous group, we have shown that we can act together. We have created the NDB and the CRA, two financing mechanisms that have significant potential to evolve and contribute to a change in the international financial architecture. These two initiatives have a long way to go and have achieved less than could be expected, but they are there and can be developed fruitfully. The CRA is a small and still unused virtual reserve pooling arrangement, but the NDB has actual physical and practical existence.

The BRICS formation is now expanding. Four new members have come in as of January 2024 – Egypt, Ethiopia, Iran and United Arab Emirates. Argentina rejected the invitation to join. Saudi Arabia, also invited, is sitting on the fence; it has neither accepted nor rejected the invitation and participates irregularly in BRICS gatherings. The four new members would need to be incorporated into the NDB and the CRA. Two of the four have already joined the NDB (Egypt and United Arab Emirates); none have yet joined the CRA.

So now we are nine countries. And it is reported that a large number of other countries would like to join BRICS. How should we view this? The issue is not simple. Expansion has positive and negative sides to it.

On this point, as in other BRICS-related matters, it is important to distinguish political and media hype from the actual on the ground realities of BRICS cooperation. A lot of noise has been made about the rapid growth of the group and the challenge it represents to the G7 and the West more generally.

It is indeed true that the clout of the group can be increased by the entry of new members, especially if they are medium or large size countries. The downside is that the BRICS may become too large and even more heterogeneous than it already is, undermining its capacity to generate practical results. Do we not run the risk of seeing the BRICS become a talk shop? Something like the G77 – a platform for grand speeches and fine words with little true impact on world affairs?

Having participated in the negotiations that led to the NDB and the CRA, as well as in the early years of the NDB as one of its founding members, I can tell you that it was extremely difficult to achieve anything with only five countries around the table, especially because of the tradition of taking decisions by consensus, carried over from the BRICS political formation to the actual working of the NDB – and mind you this was something we had not desired and not foreseen in the bank's Article of Agreements. Consensus, especially if understood rigidly as unanimity, paralyses decision-making.

Well, now consider the existence of nine members – and possibly more. Practical results may elude us. We should thus proceed with caution. Any further expansion better be very

gradual and orderly. One possibility would be to incorporate new countries as strategic partners, and not right away as full members of the BRICS.

Monetary initiatives

This brings me to the main topic I wish to address – the possibility of building alternative arrangements to the US dollar and the Western payment systems, an objective that has been on our minds for some time. Can we work out such arrangements with a larger group of participating countries? With nine members or even more, if further expansion of the BRICS occurs? Let us hope so. But it will undoubtedly be a challenge. And a challenge it would be in any case, even with a smaller number of countries.

The reasons for designing alternative arrangements are clear and there is no need to repeat at length what I and many others have written in recent years. Two points only. First, the dollar, the euro, and the Western payment system have been dramatically misused as political and economic weapons. Second, the fiscal and financial fragilities of the US economy raise legitimate doubts about the feasibility of continuing to rely on the dollar as the hegemonic international reserve currency.

So, we must act. Easier said than done, of course. As the Indian proverb goes: “When all is said and done, more is said than done”. Although the Chinese are an exception to this dictum, I add in parenthesis, since they normally do more than say.

The challenge for the BRICS is, first of all, political – Americans deeply resent any attempt to unseat the dollar and to undermine what De Gaulle in the 1960s called the United States’ “exorbitant privilege” – understood, in short, as the capacity to pay its bills and debts by simply issuing currency. The US is ready to blacklist any country or even person that truly works to create alternatives to the dollar in a practical and effective manner – not talking here about speeches and grand proclamations. And the US does not hesitate to call into action the allies and clients it has within most countries in order to undermine any initiatives of such sort. This is essential to the full understanding of the political economy of BRICS monetary and financial initiatives. China, Russia and Iran are probably immune to these pressures. The same cannot be said of other countries of the BRICS. Even China may hesitate to pick a fight with the US on such a hot topic.

But the challenge is also technical. Constructing an alternative monetary and payment system requires hard and specialized work, as well as prolonged and difficult negotiations. Are we capable of carrying this out? I believe we are. Have we, however, made sufficient progress since the matter hit the headlines? Some progress was made since this group of government officials, scholars and politicians last met, in Johannesburg, in August 2023. But less than could be expected.

Under the Russian presidency of the BRICS, in 2024, there have been partly successful attempts to move the discussion forward. For instance, a group of independent experts has been created, of which I am a member, and in which other economists take part, notably the American economist Jeffrey Sachs, to discuss the reform of the international monetary and financial system and BRICS initiatives. The Executive Directors of the BRICS have also been discussing the matter, under the leadership of the Russian Executive Director in the IMF, Aleksei Mozhin, who also convenes the group of experts. So far, however, not much progress has been made on the issue of monetary reform and the possible creation of a new currency as an alternative to the

dollar. Brazil will be the next president of the BRICS in 2025. Let's hope Brazilians can pick up where the Russians left off.

Transactions in national currencies and alternative payment systems

More progress seems to have been made during the Russian presidency on related matters, such as transactions in national currencies intra-BRICS and also between BRICS and other countries, as well as in the construction of possible alternatives to the SWIFT payment system. Such work is undoubtedly a most welcome initiative that goes some way into ridding us of the excessive dependence on the Western currencies and payment systems.

Nevertheless, it should be recognized that settlements in national currencies by-passing the US dollar and alternatives to SWIFT have their limitations in terms of the main objective which is to de-dollarize and foster a multicurrency system for an increasingly multipolar world.

The crux of the matter is that the existence of an alternative reserve currency is ultimately indispensable to make de-dollarization work. The reason lies in the fact that only accidentally will there be an equilibrium in the balance of transactions in national currencies among countries. An alternative international reserve currency is needed to allow countries to register surpluses and deficits over time. In the absence of this, countries would either revert to some sort of barter – or fall back on the US dollar and other traditional currencies, something that would defeat the whole purpose of the exercise.

An example. Russia has a substantial surplus with India. Trade and other transactions are carried out mostly in their national currencies. Therefore, Russia is accumulating large stocks of rupees. Now, it may not want to hold this currency permanently in its reserves, perhaps because the rupee is not fully convertible and the Russian central bank may harbor doubts about its stability. What are Russia's options? It can try to dispose these excessive surpluses in rupees by seeking investment opportunities in India or by making an additional effort to buy Indian goods and services. It can also use these rupees in third countries that have an interest in obtaining Indian currency due to close economic proximity to India. These alternatives, however, are clearly second best and hark back to the antiquated barter system in which economic agents traded goods bilaterally and sought third parties to dispose of unwanted goods. It was precisely to avoid this inefficient barter system that money was created in the first place to serve as a means of payment, a common standard of value, and an instrument for holding reserves. For the very same reason, the BRICS need a new reserve currency as an alternative to the US dollar and other traditional reserve currencies.

A new reserve currency – the NRC

How could this new currency look like? There are several possible routes. Allow me to sketch out, in conclusion, the route that looks more promising.

Let's call the new currency the NRC, the acronym for new reserve currency. A previous great name was the R5, proposed by Russian economists when the BRICS were five countries and all of their currencies began with the letter R. This name was ruined, however, by the fact that some of the four new members have currencies that do not begin with the letter R. Not a big deal, of course. So, could we then call it simply the BRICS or BRICS + currency? Not possible, unfortunately. Some of the BRICS+ countries are reluctant or even opposed to the idea, India most notably. This is a major barrier, but we can work around it, as I will attempt to explain.

The NRC could have the following characteristics. It would not be a single currency, replacing the existing national currencies of the participating countries. It would therefore not be a euro-like currency issued by a common central bank. The NRC would be a parallel currency designed for international transactions. The national currencies and central banks would continue to exist in their current format, as normal currencies and normal monetary authorities.

The NRC would not have a physical existence in the form of paper money and coins. It would be a digital currency, analogous to the CBDCs (central bank digital currencies) that have been or are being created in a number of countries.

Note in passing that digital format largely replaces the traditional role of banks as intermediaries and creators of means of payment. The CBDCs and the NRC would downplay the role of banks, provided their use is not tied to the possession of an account in a commercial bank.

An issuing bank – let's call it the NRMA, the New Reserve Monetary Authority – could be established jointly by the participating members. The NRMA would be in charge of creating NRCs and also bonds – let's call them the NRBs, new reserve bonds – into which NRCs would be freely convertible. The NRBs would be fully guaranteed by the National Treasuries of the members. This scheme is similar in some respects to the celebrated hyperstabilization of Germany in 1923-1924, achieved by the creation of the Rentenmark as devised by the great but largely forgotten German economist Karl Helfferich.

A first step, that has been advocated for some time by Russian economists, could be the creation of a unit of account for the NRC, an SDR-like basket in which the weight of the national currencies of the participating countries would correspond roughly to their share in the GDP of the group. China's renminbi would have the highest weight in the basket, say 40%; Brazil, Russia, and India, 10% each, for example; and the remaining 30% could be shared among South Africa, Egypt, Ethiopia, Iran, and the United Arab Emirates, assuming that all BRICS+ countries would join.

Well, this relatively simple step could have been taken already. Disappointingly, the Russian presidency of the BRICS in 2024 did not manage to take it until now. Let's see if Brazil manages to do so during its presidency in 2025.

The reason for the slow progress in this area seems to be the lack of consensus. It is reported that India, presumably for political reasons, is against the idea. India – and this is only a conjecture – may be hesitant to displease the US on such a crucial matter. Why? Perhaps because it feels it may need US support in case of a deterioration of the traditionally tense relations with China. Brazil, I note in passing, is also not invulnerable to similar difficulties. In Brazilian society and even within the Lula administration, there are many that look up to the US and have ties with American business and official circles.

I hope that these vulnerabilities and the tensions between China and India will be overcome. But, in the meantime, could we not move forward on the basis of a coalition of able and willing countries? The NRC could be created by a sub-set of the BRICS. The others would join later. This is advisable, in my opinion, but runs up against our entrenched tradition of consensus. If we stick to this tradition, however, we may not get anywhere.

The alternative to something like the NRC would be a gradual replacement of the US dollar by the Chinese renminbi, the currency of the rising superpower. This is already happening

to some extent. Can it continue in a major way? It seems doubtful to me. One thing to remember is that the rising superpower is also an emerging market and middle income country. It has vulnerabilities and concerns not necessarily shared by the US and other high income nations.

What I mean is that in China's case, the "exorbitant privilege" could become an "exorbitant burden". Would China be willing to make the renminbi fully convertible? Would it contemplate giving up the capital account restrictions and foreign exchange controls that protect the Chinese economy from the vagaries of international finance? Would it accept renminbi appreciation as a result of the increased demand for it as an international asset? Would this appreciation not harm the Chinese economy's international competitiveness and dynamism? The trend towards appreciation could be countered by selling renminbi and accumulating additional international reserves. But where would these additional reserves be parked? In dollar, euro or yen denominated assets? Back to square one.

Final remarks

Let us therefore brace ourselves and rise to the task of creating a new reserve currency, a potential game changer in global monetary and financial affairs. In parallel, we should continue with the expansion of transactions in national currencies and with the promising ongoing work on alternatives to Western payment arrangements.

One should keep in mind that the BRICS will be causing disappointment all over the Global South, if they remain in the realm of slogans, speeches and proclamations and show themselves incapable of groundbreaking practical initiatives.

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