

EDITORIAL

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BRICS Currency Initiatives and the U.S. Dollar: Shaping a New Global Financial Order

Relevance to UPSC Syllabus

- **GS Paper 2:** International Relations – Role of global groupings like BRICS in influencing global economic order.
- **GS Paper 3:** Economic Developments – Monetary systems, trade systems, and their global implications.

Introduction

- **Recent Developments:** At the **16th BRICS Summit (October 2024)**, member nations deliberated on increasing local currency trade or creating a unified BRICS currency to reduce dependency on the **U.S. dollar**.
- **U.S. Response:** U.S. President-elect Donald Trump threatened **100% tariffs** on BRICS imports if they proceed with such plans, highlighting escalating tensions over the global financial system's evolution.

U.S. Dollar's Global Dominance

Key Factors Driving Dominance

- **Global Acceptance:** The U.S. dollar is widely used for trade, investments, and reserves.
- **Trade Influence:** Commodities like **oil** and **gold** are priced in dollars, creating constant demand.
- **Financial Market Strength:** The U.S. financial market is the largest and most liquid globally, attracting international investments.
- **Economic Stability:** Trust in the dollar stems from the U.S.'s robust financial systems and economic stability.

Trends in Reserve Currencies

- **IMF Data:**
 - The dollar accounts for **58% of global forex reserves** (2023).
 - The share of non-traditional currencies like the **Chinese renminbi**, **Australian dollar**, and **South Korean won** is increasing.

Why BRICS Seeks Dollar Alternatives

1. Economic and Political Sovereignty

- **Sanction Avoidance:** Nations like **Russia** and **Iran** face restrictions due to dollar-centric sanctions like exclusion from **SWIFT**.
- **Reduced U.S. Influence:** Desire to move away from systems controlled by the U.S., such as the **IMF** and **World Bank**.

2. **Cost Efficiency: Lower Transaction Costs:** Using local currencies bypasses conversion through intermediary currencies, reducing trade costs.

3. **Financial Risk Mitigation:** Over-reliance on the dollar increases exposure to U.S. monetary policies, causing **capital outflows** and economic instability in emerging economies.

4. **Multipolar Financial System:** Emerging economies push for a system that reflects the **shift in global economic power** toward the Global South.

BRICS Initiatives

1. Local Currency Trade

- **India-Russia Trade:** Over **90% of bilateral trade** is conducted in **rupees and rubles**.
- **China's Currency Swaps:** Bilateral agreements bypass the dollar (e.g., trade with Ethiopia).

2. Unified BRICS Currency

- **Digital Currency Frameworks:** Discussions on a **BRICS digital currency** or payment system, such as **BRICS Pay**, to enable seamless trade.

3. Regional Currency Models

- **South African Rand:** Serves as a regional currency within the **Southern African Customs Union (SACU)**.

Challenges to De-Dollarization

1. **Chinese Dominance:** Concerns about China's disproportionate influence due to its larger economy within BRICS.
2. **Limited Liquidity:** BRICS currencies lack the **global liquidity** of the U.S. dollar, complicating international transactions.
3. **Trade Imbalances:** Nations like India face challenges in accumulating **trade surpluses** in local currencies (e.g., India's imports from Russia exceed its exports).
4. **Volatility Risks:** Transitioning away from the dollar increases **exchange rate volatility**, disrupting investments and commerce.

India's Stand and Initiatives

1. Rupee Internationalization

- **Policy Steps:**
 - **RBI (2022):** Allowed invoicing and settlements in rupees for global trade.
 - Over **19 countries** have adopted rupee-based settlement mechanisms.

2. Balanced Diplomacy

- India clarified that its efforts to **diversify trade mechanisms** are not **anti-dollar** but aimed at ensuring **trade resilience**.

3. Strategic Use of Technology

- **UPI Internationalization:** India is expanding its Unified Payments Interface (UPI) to support global payments.
- **Digital Rupee (CBDC):** Accelerating the development of a **Central Bank Digital Currency** to enhance adaptability in global trade.

Potential Impacts of U.S. Tariffs

On BRICS

1. **Increased Intra-BRICS Trade:** Such tariffs may push BRICS nations to deepen trade ties, accelerating **de-dollarization**.
2. **Import Diversification:** Imports may shift to non-U.S. markets, reducing U.S. trade influence.

On the U.S.

1. **Higher Consumer Costs:** U.S. tariffs would drive up prices for domestic consumers.
2. **Weakened Trade Leadership:** Retaliatory measures from BRICS could reduce U.S. dominance in global trade.

Way Forward

Cautious BRICS Reforms

- India must ensure that BRICS currency initiatives do not disproportionately favor China and should address member-specific needs.

Diplomatic Engagement

- Maintain robust **U.S.-India ties** by clarifying that trade diversification promotes **global financial stability**, not anti-Americanism.

Accelerated Financial Reforms

1. Expand **UPI's global footprint** to provide a reliable digital payment mechanism.
2. Expedite the launch of a **digital rupee** for seamless international transactions.

Strategic Trade Balance

- Address trade imbalances within BRICS by promoting **Indian exports** to these nations.

Conclusion

The BRICS efforts to reduce reliance on the U.S. dollar represent a **paradigm shift** in global finance, driven by aspirations for **economic sovereignty** and a **multipolar financial system**. India must:

- Balance its **BRICS commitments** with strategic ties to the U.S.



- Leverage its **digital financial infrastructure** to assume a leadership role.
- Ensure global trade mechanisms align with **long-term national interests**.

While the dollar remains dominant, these developments signify the emergence of a **diversified global financial order**.

MAINS QUESTION

The global financial system is witnessing a shift from dollar hegemony to a more decentralized order with initiatives like BRICS currency proposals. Critically analyse the impact of such a transition on global geopolitics and India's foreign policy.



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