

# The Dollar overthrown: how the BRICS+ interfere in the global financial system

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The Global North's immediate reaction to the Russian invasion in Ukraine is a perfect example of the West's control over the world economy. Just two days before the full invasion on February 24th, the United Kingdom and the United States had already frozen assets of numerous Russian banks, followed by the European Union, Japan, Australia, Canada, New Zealand and, notably, Poland and Thailand on the day of the invasion. Quickly, almost 70% of Russian banking system assets were under sanctions (EU, 2023). Other than the geopolitical consequences of this act, the financial response has raised debate on the level of the western's control of the global market by means of the "weaponization of the dollar", and the BRICS have become crucial players on the way out of the western financial hegemony.

In the globalized world, international trade is the most expressive way to carry out relations between countries, and it's reasonable to think that world powers can not thrive without maintaining good economic relations with big western powers. However, the BRICS expansion signals an advance towards a more dynamic economy that will slowly drift away from the US dollar, in a process called de-dollarization. How would the BRICS+ take part in this?

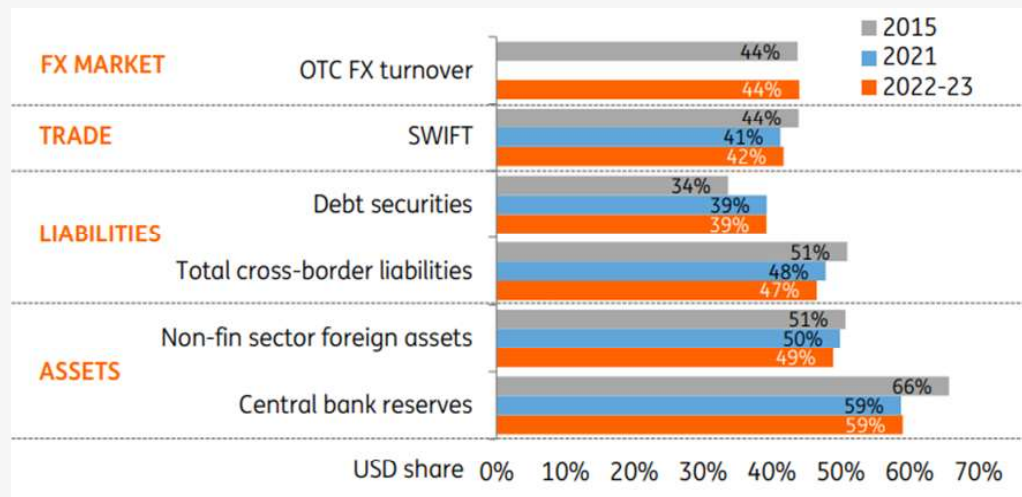
## The role of the BRICS+ on de-dollarization

First, the idea of a common currency, like the Euro is for the European Union, is out of the question for the short to the medium term. According to the governor of the South African Reserve Bank, Lesetja Kganyago, the biggest barriers to a "BRICS currency" include the lack of a strong central bank that possesses power to take disciplinary action against countries that do not match their obligations, not to mention divergence of fiscal policies and macroeconomic levels among the BRICS members, such as different inflation rates (REUTERS, 2023). The last meeting held in August 2023,

did have some discussion on the topic, but the countries are taking concrete steps towards trade made with national currencies. Now, the addition of six new members represents a faster and more feasible approach to commercial and financial systems alternative to the dollar. Before diving into the meaning of this, it is necessary to understand the role of international currencies.

Dollar dominance has been established in three key areas: i) trade and commerce; ii) assets or value reserves; and iii) liability (ING, 2023).

Image 1: De-dollarisation from 2015 to the last couple of years



Source: ING, 2023

This graph shows how the Dollar has indeed lost some space to other currencies from 2015 to the last couple of years, but nothing meaningful enough to say that it is being threatened. In every three of these aspects, the Dollar dominance has maintained solid grounds since the last decade until now. Trade and commerce made via the SWIFT system are still hugely dependent on dollars (more than 40% of it); central banks and other financial institutions around the globe still hold USD as the primary store of wealth; and the currency is still credited as the most liable asset in the financial system today.

To tackle this reality, China is heavily promoting the use of its national currency by establishing agreements with central banks in Chinese yuan renminbi (CNY); this has increased international reserves in the Chinese currency from almost 0% to 2.6% in 2022. Moreover, aside from increasing the participation of CNY in the SWIFT system to a unprecedented

2.3%, China is also backing the establishment of its own payment system alternative to SWIFT, the China Interbank Payment System (CIPS), which already has more than 90 partners (ING, 2023). It is interesting to notice that Russia has been trying to mitigate its isolation by serving as a notable CNY offshore deposit. Since the war on Ukraine began, the Russian exports made with CNY rose from near 0 to 16% in December 2022 (EUROPEAN CENTRAL BANK, 2023). Also, there is data showing that CNY is being used as a mean of transaction to countries that have different local currencies: Indian refiners using the Chinese currency to buy Russian oil (REUTERS, 2023) and the Russian government issuing dividends payment from the Sakhalin oil and gas project in CNY (NIKKEI ASIA, 2023).

Even though the Chinese are leading the BRICS+ on this trend of de-dollarization, as of March 2022, the SWIFT system had ten times the participants of CIPS and represented 40 times the international transactions, keeping it as the paradigmatic financial route. This graphic from the IMF shows the shares of the various currencies around the world, and how the Dollar reserve has suffered minor changes since the war on Ukraine started.

Image 2: World Currency Composition of Official Foreign Exchange Reserves

	2023Q1	2023Q2	2023Q3
Total Foreign Exchange Reserves	12.029.034,23	12.063.170,96	11.901.533,3
Allocated Reserves	11.151.508,59	11.176.115,48	10.981.259,8
Unallocated Reserves	877.525,64	887.055,48	920.274,3
Shares of Allocated Reserves	92,70	92,65	92,2
Shares of U.S. dollars	59,46	59,43	59,1
Shares of euro	19,61	19,75	19,58
Shares of Chinese renminbi	2,57	2,44	2,3
Shares of Japanese yen	5,43	5,34	5,4
Shares of pounds sterling	4,78	4,77	4,8
Shares of Australian dollars	1,99	1,97	2,0
Shares of Canadian dollars	2,43	2,49	2,5
Shares of Swiss francs	0,25	0,19	0,1
Shares of other currencies	3,49	3,61	3,8
Shares of Unallocated Reserves	7,30	7,35	7,7

Source: IMF, 2023.

## A glimpse on two wildcards added to the bloc

Additionally, it is valid to notice the role of the new members in this latest configuration of players, focusing primarily on Saudi Arabia. With roughly 17% of the world's crude oil exports, this addition, alongside the UAE and Iran, amount for almost 42% of the global oil output. Nonetheless, the Saudi currency, the Ryal, is pegged to the USD since the 1980s at the ratio of SAR 3.75/USD, which leaves uncertain speculation on whether they are willing to de-dollarize their economy.

Secondarily, Iran also has shown to be an important player in the scenario of de-dollarization. The Iranian state has been under constant sanction by the U.S. - (related to U.S. citizens detentions and attacks against human rights -) and by the European Union - (related to restrictive measures under the Joint Comprehensive Plan of Action against nuclear weapons -), which effectively redirect their commercial focus to other Global South countries, namely those in the BRICS+.

## Final remarks

Thus, it can be seen that, although the dollar is still predominant and will remain that way possibly for the next couple decades, the efforts to build a de-dollarized economy are being organized and soon will change how multipolar forces interact commercially and financially. The de-dollarization of the world economy means that sanctions and the "weaponization" of USD will not be as effective in the future. As soon as the New Development Bank gathers more resources and is able to finance Global South commerce by serving as a means of reserves and liability for national currencies, we can expect these countries to act more autonomously. Also, a bold - but necessary - speculation around the USA's financial power is if the country will still be able to withstand a national debt of 33,6 trillion USD (US GOVT, 2023) while enacting \$105 billion to fund its security policies such as in Ukraine (\$61.4 billion), in Israel (\$14.3 billion) and Taiwan (\$7.4 billion) (CNN, 2023). The financial power, today, is the key aspect of

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