



## BRICS Nations Explore Alternatives to US Dollar

**For Prelims:** [16<sup>th</sup> BRICS summit](#), [Global South](#), [SWIFT Network](#), [Central Bank Digital Currency](#), [Unified Payments Interface](#), [Reserve Bank of India](#), [India-UAE Local Currency Settlement System](#)

**For Mains:** Impact of de-dollarization on global trade and finance, Internationalization of Indian Currency, Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.

[Source: IE](#)

### Why in News?

At the [16<sup>th</sup> BRICS summit in October 2024](#), [BRICS countries](#) discussed increasing the [use of local currencies in trade](#) or to create a new BRICS currency, to reduce reliance on the [US dollar](#).

- In response, **US President-elect Donald Trump** stated that **BRICS nations could face 100% import tariffs if they support a currency to replace the US dollar** as the global reserve currency.
- This has intensified discussions on reducing dollar dependence and creation of a multipolar financial system.

### Why are BRICS Nations Exploring Alternative Currencies to the US Dollar?

- **Reducing Transaction Costs:** Trading in local currencies eliminates the need for **intermediary foreign currencies**, which can lower transaction costs and make trade more efficient between **BRICS countries**.
- **Dominance of the Dollar:** The US dollar currently dominates over **90% of global trade and is central to international reserves**. Relying heavily on the US dollar means that countries are significantly affected by [US monetary policies](#).
  - This can lead to **economic instability** in their own economies, prompting them to seek more control by using their own or other currencies.
  - Many BRICS countries, particularly from the [Global South](#), struggle to access major currencies like the dollar, hindering their ability to import goods, repay debts, and trade internationally.
    - Using local currencies can bypass these challenges, **fostering growth in local markets and boosting trade within the bloc**.
- **Political Motivations:** One of the primary reasons for exploring local currencies is to escape the influence of financial sanctions by the US.
  - For example, the US blocked Russia and Iran from the [SWIFT \(Society for Worldwide Interbank Financial Telecommunication\) network](#), a vital system for international financial transactions, which left these countries searching for alternatives to maintain trade.
  - Avoiding the reliance on the US dollar also grants these countries more sovereignty in global trade and **reduces vulnerability to external economic pressures**.

- **Geopolitical Reasons:** Nations like Brazil, Russia, and India are **seeking greater autonomy from US influence** by promoting currencies like the **yuan and ruble, or even considering a unified BRICS currency**, to reduce vulnerabilities tied to dollar dependency.
  - As emerging economies like China grow, they are becoming major trading partners for many countries. This shift encourages the use of alternative currencies for trade settlements.

## Trade in Local Currencies

- **China's Approach:** China has promoted the use of its currency through **bilateral currency swap agreements as seen in China's trade with Ethiopia**.
  - A bilateral currency swap agreement is a **financial contract between two central banks** to exchange a specific amount of one currency for the same amount of another currency.
  - China's **barter trade model** bypasses traditional currencies by exchanging goods with African countries for local currencies.
    - These currencies are then used to buy goods from those countries, which are exported back to China and converted into renminbi, supporting its currency internationalization efforts.
- **Southern Africa:** The currency of **South Africa (South African Rand)** is essential for cross-border trade in the Southern African Customs Union, where Namibia, Botswana, Lesotho, and Eswatini use it alongside their own currencies, promoting economic integration and reducing reliance on the US dollar or euro.
- **India-Russia:** In response to US sanctions, [India and Russia have been trading in their local currencies \(rupee and rouble\)](#), with 90% of bilateral trade now conducted in these currencies or alternate currencies.

## What are the Potential Risks of Moving Away from the US Dollar?

- **Chinese Domination:** Reducing reliance on the US dollar raises concerns about **increasing Chinese economic dominance**. China is pushing for greater use of the **yuan in international trade**, especially with Russia and other BRICS nations.
  - Within BRICS, **China's dominant economy could lead to disproportionate influence**, potentially overshadowing the interests of other members like India, Brazil, and South Africa, who seek a **multipolar financial system**.
- **Implementation Challenges:** The adoption of a BRICS currency or local currencies faces challenges, as seen in **India-Russia trade**, where banking concerns over US sanctions hinder **large-scale implementation**.
  - Many of the BRICS currencies are **not widely used internationally**, limiting the effectiveness of trading with local currencies.
  - Countries that **primarily export more than they import face** the challenge of accumulating foreign currencies for trade, making the use of local currencies difficult.
- **Liquidity Issues:** The US dollar is **highly liquid** and widely accepted. Alternatives **may not offer the same level of liquidity**, complicating international transactions.
- **Volatility and Exchange Rate Risks:** During the transition away from the dollar, countries may **experience increased exchange rate volatility**.
  - This is especially true for nations with **less established financial markets**. Such volatility can disrupt commerce, investment, and capital movements, creating further economic uncertainty.

## What are the Potential Impacts of a 100% US Tariff on BRICS Imports?

- **Impact on Global Trade:** Such tariffs could force BRICS countries to deepen intra-bloc trade, accelerating de-dollarization.
  - Import diversification to non-US markets could reduce US influence over global trade systems.

- This can lead to a rise in non-traditional reserve currencies like the **Australian dollar**, Chinese renminbi, and others reflecting a gradual move towards a **multipolar global financial system**.
  - This transition **reduces US financial leverage** but increases competition among emerging currencies.
- **Impact on US:** A blanket 100% tariff on imports from BRICS countries would likely hurt the US economy by driving up the cost of imports.
  - The US may see shifts in trade routes, with **imports potentially moving to third-party countries**. This could lead to **higher costs for American consumers** without significantly boosting domestic manufacturing.
  - BRICS countries might retaliate with their **own tariffs on US goods**, further escalating trade tensions and impacting global trade dynamics.
  - US economic dominance stems from the dollar's central role in trade. Growing adoption of alternatives could **dilute its financial influence**, pushing the US to adapt to a diversified global system.

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# BRICS

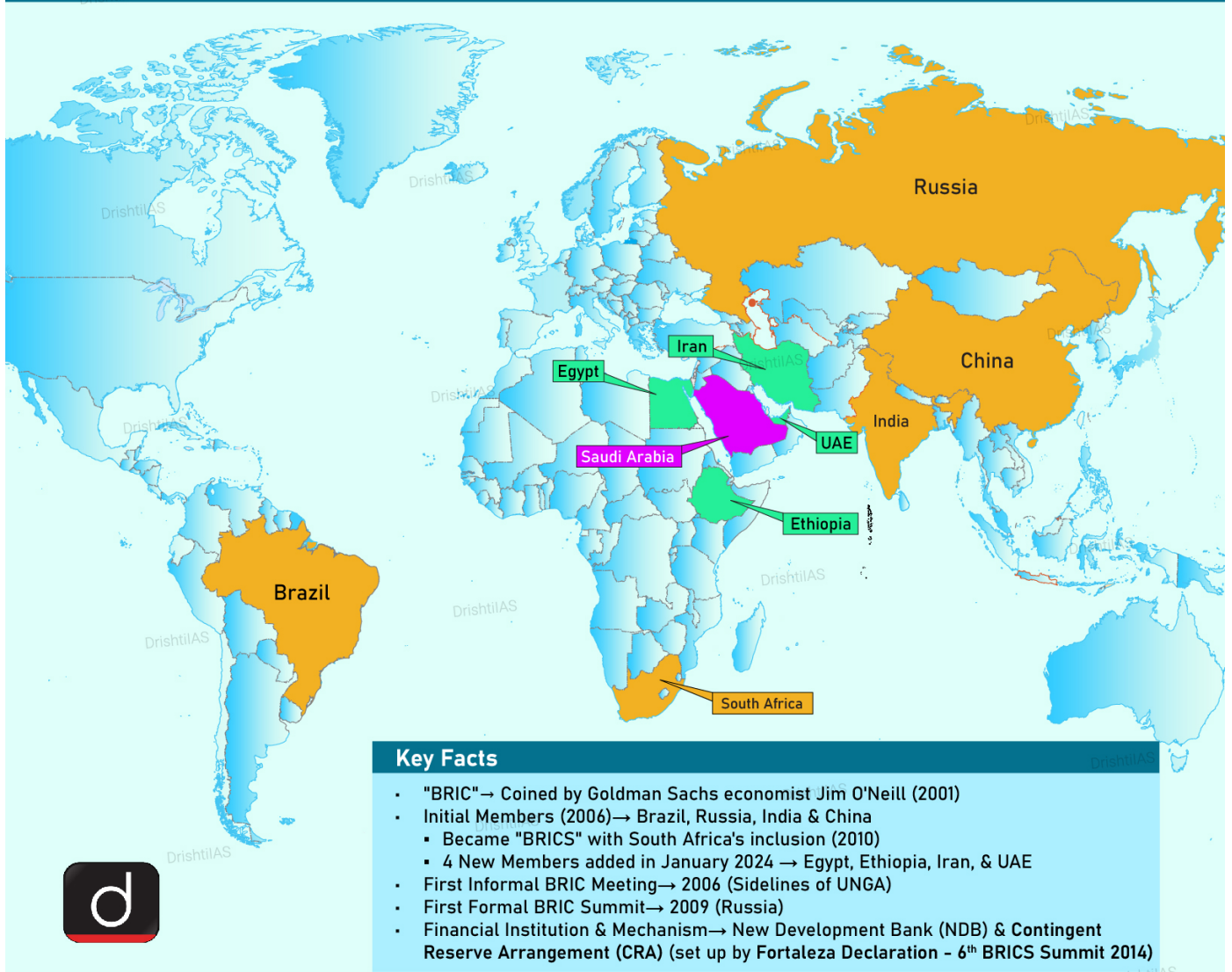
Initial Members



New Members (added in 2024)



Invited to join BRICS (not an Official Member yet)



## What are India's Initiatives to Reduce Dependence on the US dollar??

- **Internationalizing the Rupee:** In 2022, the [Reserve Bank of India \(RBI\)](#) allowed invoicing and payments for international trade in Indian rupees, especially with countries like Russia.
  - This move was in response to US sanctions and aimed at reducing the dependence on the dollar.
  - Initiatives like digital payment systems like **UPI** aim to [internationalize the rupee](#).



# INTERNATIONALISATION OF RUPEE

## MEANING

- Increasing the use of Indian rupee in **cross-border transactions**

## INVOLVES

- Rupee for **import and export**
- Rupee for **current and capital account transactions**

Indian Rupee is fully convertible in current account, but partially in capital account (BoP)

## NEED

- Weaponisation of USD by US (for **sanctions**)
- Wave of **de-dollarisation**
- Increasing **internationalisation of Chinese Renminbi**
- India's **minimal share in global forex market turnover (1.7%)**

## RBI'S EFFORTS

- Indian currency in cross-border trade - key component in **Foreign Trade Policy 2023**
- Mechanism introduced for **rupee trade settlement with 18 countries**
  - Banks from these countries allowed to open **Special Vostro Rupee Accounts (SVRAs)**
- Circular on **"International Trade Settlement in Indian Rupees"** (2022)
- External **commercial borrowings in INR** enabled

## SIGNIFICANCE

- Reduced dependency** on USD
- Lesser need** for holding forex reserves
- Better bargaining** power of Indian business
- Less exposure** to currency volatility

## CHALLENGES

- Rupee not fully convertible
- Less need for other countries to hold INR;  
**India's low share in global exports**
- Rupee may become **more vulnerable to external shocks**
- India's **lesser control on Rupee supply**

## STEPS THAT CAN BE TAKEN

- More **liberalised settlements in INR** (in India and overseas)
- India to **expand its reach** in the global financial market
- Transition to an **export-oriented economy** to **reduce trade deficit**



- Bilateral Trade Agreements:** India has been actively negotiating bilateral trade agreements that include provisions for using local currencies, such as with the **India-UAE Local Currency Settlement System**.
  - This strategic move is part of broader efforts to enhance economic autonomy and reduce dependence on the US dollar.
- Foreign Exchange Reserves:** The RBI has been diversifying its **foreign exchange reserves** by including other major currencies like the euro and yen, reducing the proportion held in US dollars.

## Way Forward

- India's Balanced Diplomacy:** India should diplomatically engage with the US, emphasizing that **diversifying trade mechanisms aims for financial stability**, not as an anti-dollar measure.
  - Highlighting **India's growing economic partnership with the US** can help ease concerns.
  - Accelerating the adoption of the **Central Bank Digital Currency (CBDC)** and internationalizing platforms like the **Unified Payments Interface (UPI)** could bolster India's position.
  - Additionally, India should work with BRICS nations to ensure financial reforms align with

its **long-term economic interests and develop mechanisms** to address trade imbalances by encouraging **Indian exports to BRICS countries**.

- **Digital Payment Solutions:** A reliable, **digital payment system** is essential to efficiently balance currency demand, reduce costs, and ensure the success of local currency trade.
- **Incremental Progress:** Given the complexities, a gradual approach seems most feasible. Countries should start by **conducting some trade in local currencies**, gradually **building the infrastructure and confidence** needed to expand the system.

**Drishti Mains Question:**

Discuss the implications of de-dollarization, focusing on BRICS' role in reshaping global finance. Evaluate the challenges and opportunities for India.

## **UPSC Civil Services Examination, Previous Year Questions (PYQs)**

### **Prelims**

#### **Q. Convertibility of rupee implies (2015)**

- (a) being able to convert rupee notes into gold
- (b) allowing the value of rupee to be fixed by market forces
- (c) freely permitting the conversion of rupee to other currencies and vice versa
- (d) developing an international market for currencies in India

**Ans: (c)**

#### **Q. With reference to a grouping of countries known as BRICS, consider the following statements: (2014)**

1. The First Summit of BRICS was held in Rio de Janeiro in 2009.
2. South Africa was the last to join the BRICS grouping.

#### **Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (b)**