

LEAST DIRTY

Enlarged BRICS faces uphill battle to dethrone dollar as trading currency

By David Whitehouse

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REUTERS/Amr Abdallah Dalsh

BRICS countries have struggled to reduce their reliance on the dollar and the alternatives remain limited.

The expansion of BRICS to include new members including Egypt and Ethiopia is unlikely to shift the US dollar from its leading role in international trade, experts say.

BRICS has invited six new members, Egypt, Ethiopia, Saudi Arabia, Iran, the United Arab Emirates and Argentina, with the Saudis saying they have yet to decide whether to join.

Brazil's President **Lula da Silva** and Russian Foreign Minister **Sergey Lavrov** have backed the idea of a common BRICS currency for trade, given threatened or actual US sanctions.

Such a currency was not on the agenda at the BRICS summit in Johannesburg, but the summit declaration on 23 August emphasised the need for greater use of local currencies in international trade and settlement, and the strengthening of correspondent banking networks.

The enlarged BRICS bloc will seek to reduce use of the dollar, says [Ahmadi Ali](#), executive fellow at the Geneva Centre for Security Policy.

“Countries like Egypt and Ethiopia feel ignored by the American-led international system,” he says. “They feel BRICS membership will give them greater weight and, perhaps, greater access to development funding.”

Yet to date, Ali says, the attempts of BRICS countries to achieve de-dollarisation have been mixed. The **New Development Bank**, created by the BRICS in 2015 for development lending and de-dollarisation, has “struggled to wean itself off of the dollar”.

Inter-BRICS own-currency trade is estimated by Silk Road Briefing to account for about 30%-35% of the total, with the US dollar and the euro accounting for most of the rest.

From a **South African** perspective, none of the six prospective new members are major trading partners, and the US alone still offers more opportunities than the added countries in terms of merchandise trade, according to research from Jee-A van der Linde, an economist at Oxford Economics Africa.

The idea that the dollar is losing ground as a global reserve currency is exaggerated and talk of a central BRICS currency is “fanciful in our view,” van der Linde writes.

Sanctions ‘weaponisation’

Economic actors everywhere have varying degrees of mistrust for available currencies, and in the absence of a perfect store of value, they end up choosing what they hope is the least bad option.

The new BRICS entrants are likely to “think twice” about backing a renminbi-centred economic coalition given the “very mixed record” of China’s Belt and Road Initiative, says Harry Broadman, chair of the emerging markets practice at Berkeley Research Group LLC in Washington.

Steve Hanke, professor of applied economics at The Johns Hopkins University in the US, argues that the number of internationally dominant currencies in history is very small. “This suggests that all challengers to the dollar, including the proposed, but undefined BRICS currency, will find they face a very difficult task.”

Some argue that the weaponisation of the US dollar via **sanctions** will undermine the use of the currency. Hanke agrees that the use of sanctions by the US does increase the vulnerability of the dollar, but sees no clear substitute.

The euro can’t do it: the eurozone, Hanke notes, imposes virtually all the same financial sanctions on Russia as the US does. For now, he says, “the dollar is the cleanest dirty shirt around”.

The only way to make a new shirt, Hanke argues, would be for the BRICS countries to establish a **currency board**. Such a board is limited to issuing notes and coins freely convertible into a reserve or anchor currency, or commodity such as **gold**, at a fixed rate.

It's a solution which Hanke has championed as a remedy for high-inflation developing countries, as the power of a central bank to fuel inflation by printing currency is removed.

The only BRICS escape route from the US dollar would be to establish a gold-backed currency board, Hanke says. "Then a BRICS currency would be as good as gold."