Forum: Brics+

Issue: The role of the US dollar as a global currency

Position: deputy chair

Introduction

The United States dollar (USD) has long served as the world's dominant reserve currency, underpinning global trade, investment, and central bank reserves. Since the Bretton Woods Agreement of 1944, the dollar's prominence has allowed the United States to wield outsized influence over the global financial system. However, growing economic multipolarity, rising tensions between major powers, and concerns over unilateral US sanctions have sparked renewed debate about the sustainability and fairness of a dollar-centric financial world.

This issue has significant implications for both developed and emerging economies. For BRICS+ nations, continued reliance on the dollar exposes economies to exchange rate volatility, dependency on US monetary policy, and vulnerability to financial coercion. As the global economy evolves, countries are increasingly exploring alternatives—ranging from greater use of local currencies in trade to the establishment of new financial institutions that reduce dollar dependency. If unaddressed, the dominance of the US dollar could continue to entrench economic asymmetries and limit the policy autonomy of non-Western nations.

Definition of key terms

Bilateral trade agreement
A trade deal between two nations allowing trade in local currencies or with reduced reliance on a reserve currency.

Currency swap
An arrangement between two central banks to exchange currencies to facilitate liquidity and trade.

De-dollarization
The process of reducing reliance on the US dollar in international transactions and reserves.

Foreign exchange reserves
Holdings of foreign currencies and other assets by central banks to influence monetary policy and exchange rate stability.

Special Drawing Rights (SDRs)
An international reserve asset created by the IMF, based on a basket of currencies.

General overview

The US dollar plays a central role in the global financial system. More than 50% of international reserves and over 80% of global trade are dollar-denominated. Countries use the USD for oil trade, debt issuance, and foreign investment. This "exorbitant privilege" allows the United States to run large deficits without immediate economic consequences and to use its currency as a foreign policy tool.

Critics argue this creates global imbalances and gives the US outsized control over the economic stability of other nations. When the Federal Reserve raises interest rates, it can trigger capital flight and inflation in emerging economies. The use of the dollar in enforcing sanctions on countries like Iran, Russia, and Venezuela has highlighted the risks of over-dependence.

BRICS+ nations have responded by exploring alternatives. For instance, Russia and China have increased trade in rubles and yuan, while India and the UAE signed agreements to trade in rupees. The BRICS New Development Bank provides an alternative to dollar-based lending. Still, systemic shifts take time due to the dollar's liquidity, trust, and infrastructure.

Challenges to de-dollarization

Efforts to shift away from the dollar face several obstacles. The lack of trust in alternative currencies, limited convertibility (e.g., of the yuan), and underdeveloped financial infrastructure hinder progress. Most global commodities are priced in USD, and many countries prefer its stability in times of crisis.

Opportunities for BRICS+

Despite the challenges, BRICS+ has the economic mass to influence future developments. A proposed BRICS reserve currency, backed by a basket of member currencies, could serve as a long-term alternative. Additionally, investing in cross-border payment systems like CIPS (China) or SPFS (Russia) reduces dependence on SWIFT, which is tied to the US financial system.

Major parties involved

Brazil:
Brazil supports increased financial autonomy and has expressed interest in a shared BRICS currency. It is involved in pilot projects to conduct trade in local currencies, especially with Argentina and China.

China:
China actively promotes the internationalization of the yuan, including through the Belt and Road Initiative. The People's Bank of China has signed dozens of currency swap agreements and is developing a digital yuan to support global use.

Russia:
Following sanctions, Russia accelerated its de-dollarization strategy. It increased gold holdings, moved reserves out of US institutions, and trades oil in rubles and yuan. Russia also encourages deeper BRICS financial integration.

United States:
The US benefits from the dollar's dominance through low borrowing costs and geopolitical leverage. However, its use of sanctions has fueled distrust, and policymakers are aware of slow but significant shifts in global finance.

Timeline of events

1944 July	Bretton Woods Agreement establishes the US Dollar as the global reserve currency.
2009 June	First BRICS Summit held in Russia; members discuss financial multipolarity.
2014 July	BRICS nations establish the New Development Bank as a counterweight to the IMF and World Bank.
2022 February	Western sanctions on Russia following Ukraine invasion accelerate de-dollarization efforts.
2023 August	BRICS+ Summit in Johannesburg discusses a shared digital currency and expanding non-dollar trade.

Possible solutions

1. **Creation of a BRICS+ reserve currency**

One of the most widely discussed long-term solutions is the creation of a common BRICS+ reserve currency, possibly backed by a basket of member currencies (e.g., the yuan, ruble, real, rupee, and rand), or even by commodities like gold. This would allow BRICS+ nations to trade and settle international transactions without using the US dollar, reducing their exposure to US monetary policy and sanctions.

Such a currency could initially be used for trade between BRICS+ countries and, over time, gain international acceptance. The challenge lies in its governance — whether it would be managed by a supranational institution or linked to national central banks — and in ensuring that all member countries trust its value and stability.

2. **Expansion of bilateral and regional trade agreements in local currencies**

BRICS+ nations can strengthen existing bilateral agreements that promote the use of local currencies in trade, such as China-Russia (yuan/ruble), India-UAE (rupee/dirham), or Brazil-Argentina (real/peso). These agreements reduce transaction costs, avoid currency conversion risks, and enhance regional economic independence.

To make this scalable, BRICS+ could establish clearing mechanisms and currency swap frameworks, allowing central banks to provide liquidity in partner currencies. Regional financial hubs (e.g., Shanghai, São Paulo, or Johannesburg) can take the lead in coordinating such agreements and settlements.

3. **Strengthening alternative financial institutions**

Institutions like the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) were created to offer BRICS countries financial tools independent of the Western-dominated IMF and World Bank. Scaling up these institutions — by increasing their capital, diversifying their projects, and enhancing credibility — could encourage more countries to turn to them for loans and development support, instead of borrowing in dollars.

These institutions could also issue bonds in local currencies, fund infrastructure projects tied to regional trade, and create credit rating agencies that counter Western biases.

4. **Development and promotion of central bank digital currencies (CBDCs)**

Several BRICS+ countries, especially China (with its digital yuan), are at the forefront of developing CBDCs. These can be used for cross-border payments that bypass SWIFT and avoid dollar settlements. A shared BRICS digital payment platform could significantly reduce dependency on Western financial infrastructure.

For example, a future system where Russia sells oil to India and settles the transaction in digital rubles or rupees — without touching the US financial system — is a real possibility with CBDCs. However, technical interoperability, cybersecurity, and political trust remain key obstacles.

5. **Investment in financial education and infrastructure**

To support a transition away from the dollar, BRICS+ nations must also invest in domestic financial infrastructure — such as interbank networks, currency exchanges, and reliable financial data systems. Public and private sector actors must also be educated on how to operate in a more diversified currency environment.

Financial education campaigns, stronger regional coordination, and incentives for businesses to invoice and settle in non-dollar currencies will all help shift long-term habits away from the USD.

Suggested resources

IMF Currency Composition of Official Foreign Exchange Reserves (COFER)
https://data.imf.org/COFER
→ Realtime data over hoeveel verschillende valuta's landen aanhouden in hun reserves.

BRICS New Development Bank
https://www.ndb.int
→ Informatie over projecten, leningen en beleid van de bank die bedoeld is als alternatief voor de Wereldbank.

People’s Bank of China – Digital Yuan project
http://www.pbc.gov.cn
→ Informatie over China’s Central Bank Digital Currency, die een belangrijke rol speelt in yuan-internationalisering.

Bank for International Settlements – Cross-border payments research
https://www.bis.org
→ Gedetailleerde analyses over digitale valuta, betalingsnetwerken en trends in internationaal financieel beleid.

Reports from SWIFT and CIPS
→ Zoek naar rapporten over wereldwijde betalingsverkeer trends, met nadruk op alternatieven voor SWIFT.

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