



## EDITORIAL: BUSINESS STANDARD

**GENERAL STUDIES 3: ECONOMY**

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**TOPIC: PAYMENT SYSTEMS & RUPEE**

### BRICS payments system:

#### A real threat to dollar?

It is a necessary risk mitigation strategy in an uncertain world

#### BRICS+ and US Response

- The **BRICS grouping** has faced scrutiny from the **US under the Biden administration**, particularly due to its **de-dollarisation efforts**.
  - The BRICS nations (Brazil, Russia, India, China, South Africa) have been working towards reducing their dependence on the US dollar for international trade.
  - The US government, under President Joe Biden, has closely monitored these developments as they pose a challenge to the dollar's global dominance.
- **US President Donald Trump** announced a **100% tariff** on BRICS+ if the bloc proceeds with reducing reliance on the US dollar.
  - In response to BRICS' plans to trade in their own currencies, former US President Donald Trump proposed imposing heavy tariffs (import duties) on goods from BRICS nations.
  - The US sees de-dollarisation as a direct economic threat since it could weaken the demand for US dollars globally.
- BRICS' de-dollarisation efforts gained **momentum with its 2024 expansion**, particularly with the **use of alternative payment systems** that helped Russia counter economic sanctions after the Ukraine crisis.
  - In 2024, BRICS expanded by adding new members, strengthening its economic influence.
  - Russia, which faced Western sanctions due to the Ukraine war, used BRICS' alternative payment networks to bypass restrictions imposed by the US and Europe.
- **China's push to internationalize the Renminbi (RMB)** has further **intensified US concerns**, given the growing **trade and tech competition** between the two countries.



- China has been making efforts to promote its currency (RMB) for international trade instead of using the US dollar.
- The US views this as a competitive threat, particularly as it coincides with China's rise as a global technology and manufacturing powerhouse.

## BRICS+ Expansion and Economic Significance

- Originally coined by Goldman Sachs, **BRIC (Brazil, Russia, India, China)** was established as a formal inter-regional grouping in **2009**.
  - The term "BRIC" was first introduced by the investment bank Goldman Sachs to describe the world's leading emerging economies.
  - Later, these countries formed a formal alliance to promote economic cooperation.
- **South Africa** joined in **2010**, making it **BRICS**.
  - With South Africa's inclusion, the alliance became BRICS, expanding its influence to the African continent.
- The **2024 expansion** included **UAE, Egypt, Ethiopia, and Iran**, along with the introduction of a "**partner country**" category.
  - BRICS expanded its membership to include four additional countries, increasing its representation in the Middle East and Africa.
  - A new category of "partner countries" was introduced, allowing certain nations to collaborate without full membership.
- In **January 2025**, **Indonesia** also formally joined, increasing BRICS membership to **10 full members** and **nine partner countries**, collectively called **BRICS+**.
  - Indonesia, one of Southeast Asia's largest economies, officially became a full member in 2025.
  - With 10 full members and nine partners, the expanded bloc is now referred to as "BRICS+".
- The **economic power of BRICS+**:
  - **55% of the global population**.
    - More than half of the world's population resides in BRICS+ countries, giving it significant demographic influence.
  - **40% of global GDP (PPP)**.
    - When measured in purchasing power parity (PPP), BRICS+ nations contribute nearly 40% of global economic output.



- **25% of global merchandise exports.**
  - BRICS+ countries account for one-fourth of total global exports, highlighting their role in international trade.
- The expanded **BRICS+** aims to represent the **Global South** and **challenge Western economic dominance.**
  - The bloc positions itself as a voice for developing nations, particularly those in Asia, Africa, and Latin America.
  - It seeks to provide an alternative to Western-led economic institutions like the IMF and World Bank.

## Objectives and Challenges of BRICS+ De-Dollarisation

- BRICS+ aims to establish a **cross-border payment system**, minimize **trade barriers**, and facilitate **trade settlement in local currencies.**
  - The goal is to create a financial system that allows member countries to trade without using the US dollar.
  - This includes lowering trade restrictions and promoting the use of domestic currencies in transactions.
- While these efforts have caught Western attention, several **practical challenges exist**, such as:
  - **Diverse political systems and economic disparities** among BRICS+ nations.
    - BRICS+ includes countries with different governance models (democracies and authoritarian regimes).
    - Some members are developed economies, while others are still developing, making it hard to establish uniform policies.
  - **The global dominance of the US dollar in central bank reserves, foreign currency trading, and international trade invoices.**
    - The US dollar is the world's primary reserve currency, widely used in trade, investments, and government reserves.
    - Replacing the dollar with BRICS+ currencies would require major structural changes in global finance.
  - **Potential risks of economic conflict with the US**, which remains **India's and China's largest export market.**
    - Many BRICS+ countries, particularly India and China, rely on the US as a key trading partner.



- Completely shifting away from the dollar could risk diplomatic tensions and economic losses.
- **Contradictions between BRICS+ goals and members' aspirations for greater influence in existing global financial institutions.**
  - Some BRICS+ members still seek to gain more power within existing global institutions (IMF, World Bank) rather than creating an entirely new system.

## China's Alternative Financial Infrastructure

- China has **developed an alternative financial system** to counter the **US-controlled SWIFT system**, including:
  - China has been working on creating its own global financial networks to bypass the Western-dominated SWIFT system.
- Though **RMB accounts for only 2% of global cross-border transactions**, its usage is **growing regionally**, particularly in **Asia, Latin America, and Africa**, due to:
  - Despite its small global share, the use of the RMB is rising in countries that have strong trade ties with China.

## India's Role in Local Currency Trade Settlements

- India is actively signing **MoUs with UAE, Malaysia, and Indonesia** to enable **trade settlement in local currencies**.
  - India has been promoting the use of local currencies in international trade, reducing reliance on the US dollar.
- This arrangement allows:
  - **Exporters/importers to invoice in their domestic currencies**, reducing **settlement costs and delays**.
    - Businesses can now complete transactions in their own currencies, making trade faster and more cost-effective.
  - Integration with **India's Unified Payments Interface (UPI)** for **faster digital transactions**.
    - India's digital payment infrastructure, particularly UPI, is being integrated into cross-border trade.

## Digital Payment Infrastructure & Regulatory Challenges

- BRICS+ countries are working on a **digital wallet and QR-code-based payment system** to facilitate **trade in local currencies**.



- The initiative aims to create a **unified digital payment system** to make trade transactions seamless.
- Key challenges include:
  - **Ensuring compatibility and interoperability** among national digital payment systems.
    - Different countries have their own payment systems, and making them work together is complex.
  - **Developing a common regulatory framework** aligned with **individual national laws**.
    - Each BRICS+ country has different financial regulations, which must be harmonized for the system to function effectively.

## Strategic Importance of BRICS+ Cross-Border Payments

- In the face of **economic uncertainties, sanctions, and tariff threats**, BRICS+ sees an **alternative payment system as a risk diversification strategy**.
  - BRICS+ aims to protect itself from Western economic sanctions and trade restrictions by building its own financial system.
- Whether BRICS+ can **successfully reduce dependence on the dollar** will depend on its ability to **build strong financial infrastructure and regulatory coordination** among its diverse member states.

**Source:** [https://www.business-standard.com/opinion/columns/brics-eyes-alternative-payment-systems-but-dollar-dominance-looms-125012901638\\_1.html](https://www.business-standard.com/opinion/columns/brics-eyes-alternative-payment-systems-but-dollar-dominance-looms-125012901638_1.html)