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BRICS + Expansion

De-Dollarisation on the Horizon?

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Executive Summary

Ruy Scalamandré

In light of the recent addition of Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates to the BRICS, the foundation for a currency to rival the U.S. dollar seems to be set. With the new additions, BRICS (better known now as BRICS+) have further increased their influence and control in key geopolitical regions, and perhaps more importantly, over the oil and grain markets. As more and more countries begin signing bilateral trade agreements to conduct trade in their respective currencies, instead of the dollar, the possibility that the dollar may lose its status as the world's reserve currency does not seem totally out of the question.

However, for the possibility of the dollar losing its status as the world's reserve currency, a potential rival must also be able to surpass the United States' military influence and soft power abilities – and not to mention the trust in the dollar for the long-term. Setting the foundations for de-dollarisation is arguably the easy step; the more difficult next step for BRICS+ is to affirm its political power and legitimacy, and to win the trust of its allies. The focus of this report is to analyse the recent developments, mainly the BRICS+ expansion, in the context of the history of reserve currencies and if any past trends are now available in the present. The report covers a wide range of topics in substantial detail, but some of the more prominent points of discussion include:

- The history and political economy of reserve currencies;
- An in-depth mechanistic discussion of the current debt-backed dollar;
- What the BRICS+ expansion and a future BRICS+ currency might mean for de-dollarisation;
- Potential industry-specific impacts of de-dollarisation
- Lastly, projected trends from the short-term to the long-term.

Introduction

Ruy Scalamandré

A reserve currency is a currency that is held and used by nation-states in inter-state trade. Since the Second World War the world's *de facto* reserve currency has been the U.S. dollar; the dollar is used to set commodity benchmarks, it is used in purchasing power parity metrics, and the dollar is the peg for currencies around the world. In unstable economies, where the local currency has lost its value, the dollar is often the salvation for businesses and individuals alike. The importance of the U.S. dollar as the world's reserve currency is not a testament or a reflection of the political and economic prowess of the United States – it is the *product* of one of the most advanced economies in modern history.

Although the vast majority of Earth's current population has not seen a day where the greenback is not the global reserve currency, modern history shows, nothing lasts forever. Before the U.S. dollar, the Great British pound, and the Dutch guilder carried the baton as the world's reserve currency and before them, many others. Indeed, in recent months, certain political developments within the United States and in the international arena have led to speculative claims that the demise of the dollar could be on the cards sooner rather than later. Internally, the intensifying symbiosis of partisan divisions and economic policy are creating systemic debt ceiling crises, and externally, BRICS' recent expansion is seemingly posing a genuine geopolitical threat to Washington's hegemony. With that, challenging the U.S. dollar has been an implicit aim of the BRICS+ member states, especially after the Russian invasion of Ukraine.

In light of these recent developments this report provides a cross-sectional analysis of the contemporary monetary system, the implications of the BRICS+ expansion, what a "BRICS Currency" might look like, and the implications of de-dollarisation in select industries. The purpose of the report is not to speculate nor to make a claim as to when de-dollarisation will "happen" because, in many ways, it is happening already. Rather, the aim is to conduct an historic, macroeconomic, and geopolitical analysis of the present situation and how the de-dollarisation process might evolve in the longer-term.

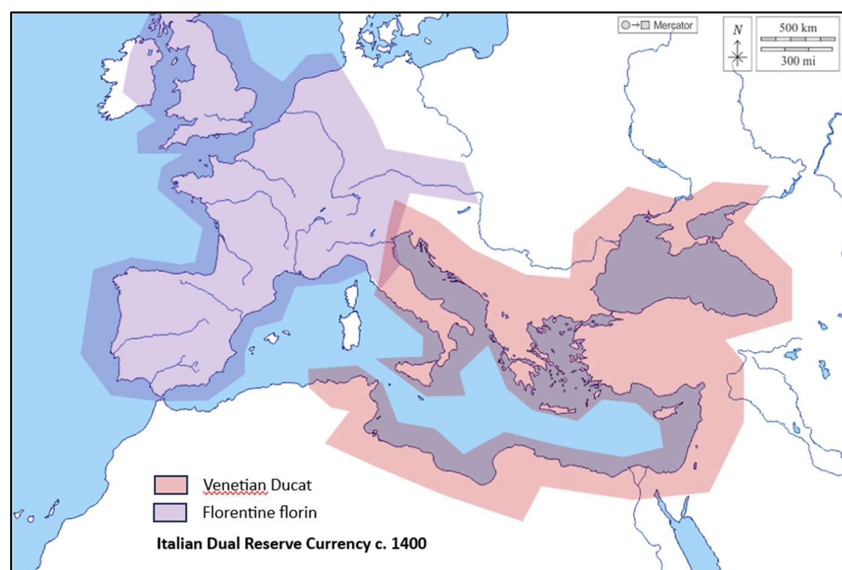
A History of Reserve Currencies: Gold, Empire, and the U.S. Dollar

François Barré & Ruy Scalamandré

A world reserve currency's role is primarily to be held so that it can be used to facilitate international trade and investments across different geographical, cultural, and political areas. As such, the reserve currency of a particular era is typically the one that facilitates the largest trade network, which is itself upheld by a definite geopolitical order ensuring stability and continuity of trade. A history of Mediterranean reserve currencies, bridging Europe and Asia, and eventually encompassing the whole world with colonisation, reveals the requirements to maintain dominant status over long-distance routes. By taking a look at history, we can have a peak on the current and future challenges the U.S. dollar must address, if it aims to remain the dominant trade currency.

In 286 AD, the emperor Diocletian divided the Roman Empire into two sections to prevent its collapse. From this split, the Byzantine gold *solidus* emerged to dominate trade for over 1000 years, against the dramatic devaluation of the Roman *aureus* during the Crisis of the Third Century. However, by 1250, the *solidus*, too, had been significantly debased, leading to a contraction in economic integration between Central Asia, the Mediterranean, and Europe. This void was filled by the Italian city-states, which introduced *quality* gold coins and facilitated trade routes. The Florentine florin was the first European gold coin struck in significant quantities to replace the solidus. The florin quickly spread throughout Western Europe and became widely recognized as the coin used in *trade*, *debt*, and *accounting*. A few decades later, the Venetian ducat, modelled on the florin, was introduced to counter the debasement of the Byzantine hyperpyron. The ducat was used throughout the Levant, Anatolia, the Black Sea, and the Adriatic, circulating simultaneously with the florin in the West.

Map 1: Italian Dual Reserve Currency System



Thus, reserve currency standards are always larger than a single state. The florin, for example, had to meet a standard weight and fineness, despite the fact that not all florins were struck in Florence. However, by the early 15th century, the Rhenish florins had been debased, leading to a distinction between lower and higher quality florins. The debased coins evolved into "guldens," while the higher quality florins were re-issued as ducats. By the mid-15th century, the term ducat had come to encompass much of what was formerly referred to as florin, highlighting that a currency functions as reserve only if it reliably maintains its value, across time and space, against possible alternatives. Otherwise put reserve currencies converge on "hard currencies," which hardness is contingent on volatility-generating variables, such as monetary and fiscal policy, as much as political tension, and corruption.

Eventually, the ducat, too, lost its dominant role in trade by the middle of the 16th century, as the epicentre of currency moved westward, precipitated by the rise of Hapsburg in Spain, and the expansion of maritime exploration. Discovering large reserves of silver in the Americas, the Kingdom of Spain propelled Europe out of the Late-Medieval Depression, as this surplus enhanced imports from Asia, making the Spanish dollar the first global currency. Yet, the accumulation of debts due to the over-reliance on silver shipments, the Dutch War of Independence, and turn to the Indian ocean trade brought about the downfall of the Spanish empire and its currency, too (source). The political and economic troubles that beset the Spanish became the hallmarks of all following declining Empires and dominant currencies, from the Dutch to the French, to the British ones.

Changes in reserve currency systematically followed from a period of new global trade conditions and an overhaul of the previous geopolitical order. Convergence onto a single monetary standard then becomes the natural property of the larger, more efficient, and safer trade network. When trade volumes reach critical mass, the forces of business will select the common currency that provides mutual reassurance for trading partners (IMF, Mussa, 2000). For that very reason, there was never a dominant currency on the Silk Road. Trade along the Silk Road was based on the diffusion of goods through compartmented lands, limiting the beneficial networking effects of currency offered by more direct and protected routes. Conversely, the merchant seafaring culture of the Mediterranean was able to quickly adapt to changing geopolitical circumstances. Shipping routes stayed open even though empires on land underwent upheavals, which in turn pushed demands for more consistent currencies, with transitions in dominance accelerating alongside the pace and scope of international trade.

Dollar Dominance

The post-war emergence of the U.S. as the dominant economic power restructured the international order: The U.S. GDP represented 50% of the world's output and became the leading sponsor of the post-war reconstruction. As a result, the U.S. dollar naturally became the benchmark for international trade following the Bretton Woods agreement, where 44 nations agreed to adopt it as an official reserve currency — backed by gold at a fixed exchange

rate to provide a sense of security for the global economy. However, by the late 1960s, rising inflation, mounting public debt due to the Vietnam War, and domestic spending programs led to growing scepticism about the U.S.'s ability to maintain the peg against speculative attacks, as it financed its debt spending through money printing, but did not have a corresponding increase in gold reserves. In 1971, President Richard Nixon upended the convertibility of dollars to gold, effectively terminating the Bretton Woods system. Despite significant debasement since then, the greenback has remained the world's dominant reserve currency, largely thanks to the overall strength of the U.S. economy, the stability of its political system, the depth of its financial markets, and deeply entrenched trade agreement, notably by offering security guarantees to key commodity exporters such as Saudi Arabia.

Yet, in light of the rise of the BRICS and mounting domestic and foreign criticisms, the economic might and legitimacy of the U.S. has come under direct challenges. The risk of a transition away from the U.S. dollar is further exacerbated by the "exorbitant privilege" currency dominance provides to the U.S. Because the world's imports and exports are settled in dollars, the demand for U.S. dollars is constant and high. This implies that the U.S. enjoys reduced borrowing costs, enabling it to sustain substantial public and trade deficits, all the while reaping seigniorage advantages and upholding a strong currency. It is also immune to financial crises, as economic uncertainty is conducive of capital flight to U.S. assets, meaning that even when the U.S. is a source of global economic instability, it can still benefit from capital inflows seeking safety. Lastly, the widespread use of the U.S. dollar in global transactions gives the U.S. leverage in economic negotiations and sanctions through the SWIFT system. This "exorbitant privilege" cannot be easily dismissed by revisionist powers. History has shown that evolution in reserve currencies follows from shifts in economic and geopolitical influence in the international order. Today, hardly any international relations scholars would deny that we have entered such a period of change.

Poorer nations, especially in the Global South, have been unable to reach levels of monetary stability compared to that of developed economies, due to being indebted to international financial institutions that lend in the dollar. Given that currencies of these economies undergo volatile periods of high inflation and high monetary velocity, it becomes almost impossible to match the purchasing power of the currency owed. Hence, nations of the Global South often find themselves stuck in an endless loop of debt restructuring plans that hinder their growth and development as an emerging power. This becomes an especially prevalent problem while taking world order dynamics into account. The discrepancy in financial authority discussed above, leads to a compounding, domino effect, leading to exacerbating inequality among nations states. This has polarised differences among different polarities, and is the primary reason for this coordinated effort to distribute financial prowess, to prevent what has been seen as a restriction to development. This inequality combined the growing financial and political pressure from BRICS to provide an alternative currency to the U.S. Dollar is something which nations in the Global South would likely use to leverage against the West or abandon it altogether.

The Political Economy of Currencies: Commodity or Debt?

The Oxford Dictionary of Finance and Banking defines "currency" as "(i) any kind of money that is in circulation in an economy; (ii) anything that functions as a medium of exchange". Indeed, this is how most people would define currency. However, a currency (especially a reserve currency) is effectively political mechanism and indicator of sovereignty; a shopper in a supermarket in Manchester uses the same currency as a shopper in London or Bristol, regardless of their personal views of the State or government, they must use the Great British Pound if they want to get by in the United Kingdom.

However, what actually *is* a currency - its intrinsic value or underlying asset - is a bit harder to conceptualise: consumers typically do not haggle for the price of vegetables or petrol. They take the price of most at face-value and come to their own individual conclusions of what makes a good 'expensive' or not, and if any given exchange is worth the advertised value of a good. But the underlying value of a currency is a reflection of (i) a nation-state's ability to enforce their currency as legal tender, (ii) the price mechanism, if any, a currency is pegged to, and (iii) a nation-state's ability to regulate the supply of money. Indeed, these three pillars constitute the basis for monetary sovereignty.

The first of these three pillars is reasonably easy to understand and observe; legal tender is enforced through a nation-state's ability to collect taxes and payments, or issue loans, exclusively in predetermined currencies, effectively creating a *de facto* legal tender. The second and third pillars are where matters get more complicated. Historically speaking, currencies have almost always been backed by some sort of commodity. Although, the Gold Standard is the most-known mechanism for regulating money supply, was actually one of the last commodities in modern times to back major currencies when it began replacing silver as the commodity of choice. The choice of a gold-backed currency, as Roy Sebag explains in *The Natural Order of Money*, lies within the natural scarcity of gold and its relatively low melting point with respect to other precious metals. Scarcity is especially important, as this should theoretically limit inflationary pressures. However, this is a half-truth; if there is scarcity of a commodity which backs a currency, the primary way to create growth or for governments to raise capital would be to sell gold reserves for cash to invest and spend. The resulting increase in money supply and a reduction in gold reserves would lead to an increase in the money supply[1]. A textbook example of how gold-backed currencies are no guarantee of price stability is provided by the Federal Reserve Bank of St. Louis:

[1] If we assume a government has 100 units of currency and 10 units of gold in reserve, the ratio here is 10:1. However, if a government wants to sell gold to obtain more units of currency, they might end up with 120 units of currency and 8 units gold. Resulting in a ratio of 15:1. Money supply increases but so does the market value of money.

> "On April 5, 1933, President Franklin D. Roosevelt ordered all gold coins and certificates of denominations in excess of $100 turned in for other money by May 1 at a set price of $20.67 per ounce. [...] In 1934, the government price of gold was increased to $35 per ounce, effectively increasing the dollar value of gold on the Federal Reserve's balance sheet by almost 70 percent. This action allowed the Federal Reserve to increase the money supply by a corresponding amount and, subsequently, led to significant price inflation."

Another 'weakness' of a commodity-backed monetary system is that commodity scarcity can limit government intervention and spending in times of crisis. Indeed, when the United Kingdom abandoned the gold standard for the first time in 1914, it was precisely to support its war effort and deleverage war debts accrued. Since debt is 'infinite' in a way gold is not, sticking to the gold standard during the First World War would have been fiscally implausible. Similarly, as Barry Eichengreen and Peter Temin explain, "... there now exists agreement among most economists that the gold standard was a key element - if not the key element - in the collapse of the world economy" during the Great Depression.

The alternative to a commodity-backed currency would be a debt-backed currency. The principal difference is that the underlying asset is debt rather than a commodity. More specifically, the underlying asset is an obligation (bond) a government has to repay investors (bond-holders), typically with interest, after a certain period of time. Whilst debt is not 'tangible' in the same way gold or commodities might be - debt serves no intrinsic purpose, whereas commodities do. Thus, debt-backed currencies, in a political sense, are effectively sustained by the trustworthiness of the nation-state issuing the bond to repay bond-holders when bonds mature. What attracts governments to debt-backed systems is that they typically require much less fiscal parsimony than commodity-backed systems. Whereas in commodity-backed systems governments must either change the value of the currency to the commodity or forsake commodity reserves to increase cash reserves. Indeed, by 1971, unprecedented government spending in the United States both at home and abroad effectively forced President Nixon to suspend the gold standard entirely to sustain public spending on welfare and the Vietnam War. In debt-backed systems, governments can be more generous with spending by issuing more bonds (debt) or conducting open market operations (OMOs) when debt piles up. OMOs are a tool for implementing monetary policy through the process of central banks buying and selling securities on open markets to regulate money supply, otherwise known as quantitative easing.

However, the appeal of a debt-backed system is also its primary weakness. Richard Vague explains eloquently the concept of a 'debt staircase' in *The Paradox of Debt*. The 'debt staircase' is a four-stage process; Stage 1 is war debt. War debt is essential for a nation-state to ensure its longevity and, if a nation-state wishes to have a chance of winning a war, it must be incurred. After the war ends, the substantial increased operational capacity of an economy (for example, the postwar boom) incentivises business activity in peacetime and by extension,

stimulates an increase in private debt, culminating in Stage 2 - a ‘debt switch’ where private debt overtakes government debt with respect to GDP. This culminates in Stage 3 ‘debt excess’ which is typically when economies face depressions or downturns. The fourth and final stage is ‘government rescue’ where governments intervene to dampen the socio-economic consequences of economic downturn. This last stage, as Richard Vague notes, is very much a contemporary occurrence, perhaps sustained by the government's ability to enact OMOs and quantitative easing in debt-backed monetary systems. Whilst, in the long-term, the ‘debt staircase’ does lead to sustained GDP growth it must unequivocally lead to increases in debt and sustained inflationary pressures.

To summarise, commodity-backed or debt-backed currencies have no intrinsic benefit over one another, *per se*. They are monetary mechanisms that enable states to behave differently, and they are systems that bring their own sets of risks and opportunities. Whilst in a commodity-backed system total debt is largely limited by the scarcity of the commodity which underlies the value of the currency, governments are often constrained in their ability to intervene during crises. This is not only due to the nature scarcity of the underlying commodity, but because people might hoard the commodity which backs the currency to liquidate in the future. Whilst OMOs and bond-issuing allows central banks and governments to intervene during times of crisis, it inherently implies a guarantee of long-term inflationary pressures.

De-Dollarisation and the BRICS+ Expansion

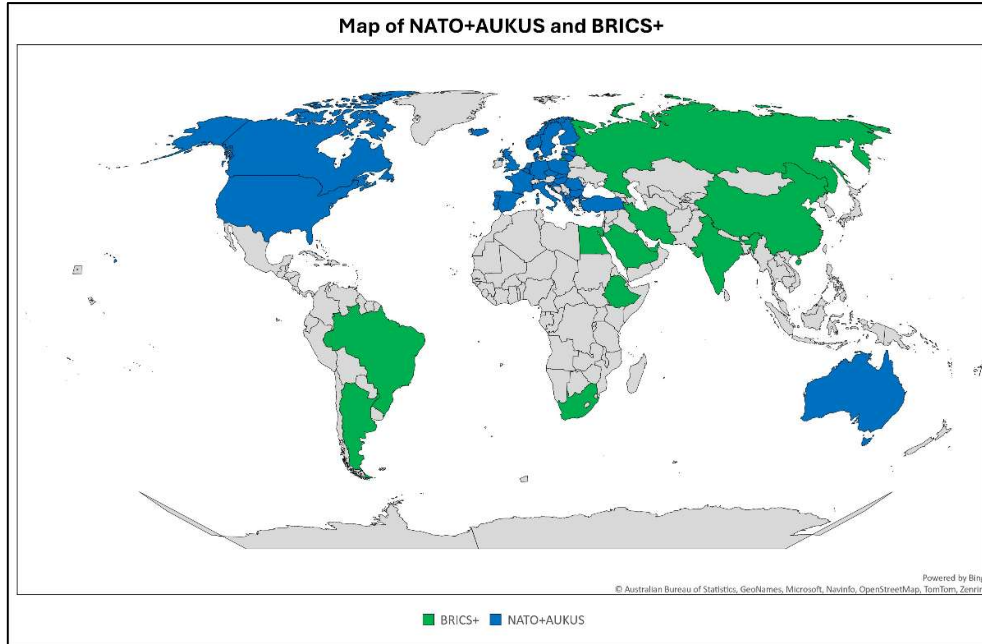
Ojus Sharma, Luc Parrot & Ruy Scalamandré

The status of a 'world reserve' currency clearly gives the host entity an unquestionable advantage in exercising political and financial power. In recent months, BRICS has expressed interest and intent to develop a common currency; and potentially use it to bypass the U.S. Dollar as a standard in foreign exchange for trade and other purposes. In March, during a meeting in New Delhi, Alexander Babakov, deputy chairman of Russia's State Duma, announced that Russia is leading the development of the new currency. Subsequently, in Beijing, Brazil's president, Luiz Inàcio Lula da Silva, expressed his support, questioning why all countries have to rely on the dollar for their trade. These developments challenge the notion that the dollar's dominance is secure due to its position as the primary currency among competing currencies like the euro, yen, and yuan, which are considered less powerful. A BRICS-issued currency would present a new alliance of emerging economies that collectively outweigh not only the United States but also the entire G-7 group in terms of GDP.

Given that BRICS nations account for 40% of the world's population and 24% of its GDP, developing a common currency union will have a significant impact on not only international trade, but also world order dynamics at large. BRICS and their effort to subvert the dollar is just one of many instances of the global south attempting to reduce what they see as a power deficit and maintain a resolute attitude towards approaching matters from a lens of equity and fairness. Despite signalling collective initiative, the BRICS group of nations have experienced stagnation; particularly Brazil, South Africa, and most recently Russia. The bloc has struggled to become the economic giant they once strived to be, and with India and China being the only economies experiencing a period of high growth, their unwillingness to cooperate and teetering relationship becomes a matter of grave concern.

Despite earlier push-back from Brazil against efforts to expand the BRICS group of countries, on August 24 2023 6 new countries joined the bloc, including Saudi Arabia and Iran. Experts viewing BRICS as a potential alternative to traditional diplomatic forums like the G7, must be perceived with caution. Uncertainties regarding the unity among the members and the level of agreement on Babakov's proposal persist, potentially slowing down progress towards a common currency union. Earlier reports suggested India to be among those opposing expansion, in response to which the India Ministry of External Affairs, released a statement hushing the speculation as "baseless" and asserting the importance of unanimity in decision making in this regard. Although the idea of BRICS being successful in creating a new 'world order' sounds implausible, it's not impossible. **Map 2** overleaf shows the new 'borders' of the 'BRICS+' expansion:

Map 2: New BRICS+ Borders with NATO+AUKUS



The complex relationship between India and China is rational. Both drive foreign and monetary policies by weighing pros and cons, and identifying zero-sum games where they ought to be. Considering the state of the world right now, both seem to be in a position where if implemented, a common currency would allow for mutual benefits that simultaneously do not put the other at a disadvantage. Regardless, India-China relations in the near future are what will dictate the potential of BRICS. In other words, BRICS is at an inflexion point, that could either lead to its expansion from a plurilateral grouping of nations, to a multilateral behemoth in an era of stiff competition for appeasing the Global South, or witness itself fall under the heavy weight of stagnation and historical disagreements among members.

A Future BRICS+ Currency

The BRICS+ expansion is a political materialisation of the New Development Bank's (NDB) expansion strategy. The NDB is a development bank founded by the BRICS founding members. The NDB's membership expansion strategy expressly states that the "... NDB was created to be a global institution with a membership base that reflects its focus on EMDCs. As such, the Bank's membership is open to all members of the United Nations". Thus, the most recent BRICS+ expansion is a significant step for the bloc's hypothesised common currency area. The total expansion means that Argentina, Egypt, Ethiopia, the Islamic Republic of Iran, the Kingdom of Saudi Arabia, and the United Arab Emirates will become full-time members of the BRICS. The fact that the UAE, Saudi Arabia, and Iran have all agreed to enter BRICS despite their historical rivalry underscores the legitimacy and soft power that BRICS is able to wield in the Middle East - a region which the United States has worked to keep within its sphere of influence.

Crucially, the incoming nations joining BRICS have one common characteristic: they either produce key commodities or control crucial shipping lanes. Saudi Arabia, Iran, and the UAE are all major oil producers and collectively, along with Ethiopia and Egypt, effectively control the Strait of Hormuz, the Red Sea, and the Suez Canal. In addition to this, Argentina gives the block control over the Strait of Magellan which increases BRICS' influence over key trade routes, and access to the sixth-largest exporter of grains. There are rumoured to be ulterior applications from nation-states to join BRICS+, including Algeria and Mexico. BRICS+'s stronghold on crucial commodities such as oil and grain, as well as key trading routes, reflects the resource-rich nature of the group and aims to capitalise on that advantage by increasing its sphere of influence to critical supply chain areas.

These two factors are what make an alternative reserve currency increasingly legitimate. The hypothesised BRICS+ common currency would most likely be commodity-backed, specifically gold-backed. The idea of an alternative currency to the dollar is one that many of the founding BRICS+ nations, most recently Brazil had proposed a common currency with Argentina, although plans fell through. However, the BRICS+ expansion seems to have given more legitimacy to the U.S. Dollar alternative. However, there is not yet a concrete plan from BRICS+ to roll out a common currency any time soon. Although there is substantial pressure from President Inácio Lula for a common currency (within BRICS+ and South America), most of the efforts to dislodge the dollar have been in the form of settling commodities' trades in non-U.S. Dollar currencies. A notable case is a deal struck between India and the UAE to settle trade between each other in Indian Rupees of Emirati Dirhams. Likewise, Chinese Yuan are increasingly being used to settle trade with Arab nations, and Mohammad al-Jadaan (Finance Minister of Saudi Arabia) has gone on record to state that Saudi Arabia is open to settling trade in any currency.

Nevertheless, the Saudi Riyal as well as all of the currencies of the Gulf Cooperation Council (GCC) remain pegged to the U.S. Dollar. This is not likely to change in the short-term. For one, because the peg to the U.S. Dollar guarantees low transaction and conversion costs between the GCC nations. Secondly, the overwhelming majority of oil trade is still settled in U.S. Dollars. Furthermore, the GCC currencies have been pegged to the U.S. Dollar for so long and the relative currency stability has been pivotal to the region's economic development and growth that moving away from the Dollar peg prematurely would have unforeseeable outcomes. Indeed, the global reliance and omnipresence of the U.S. Dollar is a challenge any and all candidates to a global reserve currency would have to overcome. In the short-term, this would be unlikely if not impossible. That does not mean that it is improbable in the medium-to-long-term; the United States will almost-definitely deal with recurring debt ceiling problems and politics, which have contributed to Fitch's decision to downgrade the U.S.' credit rating. So, as other major economies, such as China and Russia, grow an appetite and habit of settling trades in their own currencies and reducing their holdings of U.S. Treasury Bonds, like Saudi Arabia has done. All of these short-term fluctuations have the potential to decrease the trustworthiness of the U.S. economy and *ipso facto* the U.S. Dollar itself.

Macroeconomic Implications of De-Dollarisation

Azaria Kidane, François Berré & Ojus Sharma

The intricate tapestry of global finance and commerce has long been woven with the threads of the US dollar and through its dominance as the world's primary reserve currency, it has exerted a profound influence on international trade, finance, and geopolitical dynamics. However, the winds of change are beginning to sweep through the international monetary landscape, as a growing number of countries are exploring alternatives to the dollar-dominated system. As nations jostle on the grand stage of global politics for power within a system barely in its infancy, it is easy to overlook the consequences that the process of de-dollarisation might unfurl across various industries, spanning from finance and trade to energy and technology. If the transformation occurs, it is poised to reshape established norms, challenge economic power structures, and potentially usher in a new era in global finance.

Financial Services

The financial services industry is heavily reliant on the dollar as the currency of choice for international trade and investment. As the dollar is the reserve currency of many countries around the world, central banks and other financial institutions hold large amounts of dollars as a safe haven asset. In addition to this, the dollar is the currency that is used to price and trade many commodities, such as oil and gold. A decline in the dollar's dominance could have a number of negative implications for the financial services industry. First, it could lead to increased volatility in currency markets with an increase in demand for alternative reserve currencies whether it be the Yuan, or even digital currencies like central bank digital currencies (CBDCs). This in turn would make it more difficult for financial institutions to operate across borders. Higher cost of business would make it more difficult for them to serve their customers abroad. Due to this we could see a shift in the makeup of the preeminent financial firms to those who are able to benefit from these new currency's exchange rates. For example, HSBC has a huge presence in Asia partly due to the parity between Pound Sterling and weaker Asian currencies. In a world fractured by the rise of alternative reserves currencies, Central Bank's monetary policies paired with a quid pro quo relationship between a State and its Private Banks could become the norm.

Energy

The energy industry, driven by the global demand for oil and gas, is intricately linked to the dollar due to the dollar's role as the primary currency for oil trading. The nations that ultimately control whether the globe stays lit will be leading us through the metaphorical darkness in the case of de-dollarisation, and those that are energy dependent will have no choice but to follow. As oil-producing countries explore alternative currencies for their exports, leading to substantial ramifications for the global oil and gas

markets, investment dynamics in general, and geopolitical power plays. This shift might lead to the establishment of new pricing mechanisms and trade relationships that could challenge the dollar's stronghold. Energy-exporting nations might opt to denominate their oil and gas trades in alternative commodity-based currencies, leading to potential volatility in exchange rates and reshaping market dynamics. While de-dollarisation in the energy sector might not lead to an immediate overhaul, it has the potential to alter the geopolitical landscape by redistributing influence among energy-producing nations. But remember, the US was blindsided by the effects of the co-ordinated power of OAPEC (Organization of Arab Petroleum Exporting Countries) in the 1970s and has already shown the lengths it will go to prevent that from happening again. As the famously (now infamous as the face of this cornerstone in American foreign policy) eloquent President Bush put it, “Fool me, you can’t get fooled again”. Of course, with Saudi Arabia, Iran, and the UAE joining BRICS+, the bloc is progressively obtaining more control over energy markets and oil supply.

Technology

The tech sector, highly interconnected and reliant on international collaborations and supply chains, might experience shifts in its financial underpinnings. Indirect effects could emerge through changes in investor sentiment and global economic stability. As the technology sector thrives on innovation and investment, any disruptions to the broader economic landscape might indirectly influence its growth trajectory. The cost of hardware components, software licensing, and research and development expenditures could massively fluctuate, likely pushing technological advancement even further into the domain of the already developed. Multinational tech giants could find their revenue streams and profitability influenced by changing consumer purchasing power and market dynamics in different regions. Moreover, as financial institutions adapt to new currency regimes, cross-border transactions integral to the tech sector could encounter modified payment systems and settlement processes. De-dollarisation could thus compel the tech industry to reevaluate financial strategies, reshape global market priorities, and prompt novel technological solutions to navigate a world with shifting currency paradigms. As countries diversify their currency holdings, funding for tech startups and innovative projects might undergo adjustments, potentially altering the flow of investments. Especially as more momentum gathers around the push to move to CBDCs, we could begin to see accelerated developments in the field of cryptocurrencies and its many periphery sub-industries.

U.S. Monetary and Fiscal Policy

The U.S. dollar's position as the global reserve currency has been both a blessing and a curse for the U.S. monetary policy. On the one hand, the high demand for U.S. dollar-denominated assets has allowed the U.S. to borrow at lower costs, thereby allowing for sustainably high levels of public spending. On the other hand, it has also led to trade imbalances

and has put pressure on the U.S. to maintain economic policies that are favourable to the rest of the world.

Through the SWIFT system, a significant portion of global dollar transactions is cleared through banks in the United States, even if the U.S. is not a party to the transaction. This has enabled the U.S. to leverage its currency to pursue foreign policy objectives through economic sanctions, freezing foreign dollar-denominated assets, such as in the case of Russia, Iran, or North Korea. However, this has also created a complex balancing act, as unilateral sanctions strained relations with these countries, and their trading partners, forcing them to find solutions circumventing the U.S. blockade. Losing currency hegemony would reduce the U.S. ability to influence foreign policy through economic sanctions. In that context, if the U.S. choses to oppose competing arrangements, such as a BRICS currency, the global economic order could harken back to Cold War-like trade between ideological blocks. On the other hand, if the U.S. recognizes its currency as a public good, it would dissociate security from economic policy. De-dollarisation in that context could potentially help restore the U.S legitimacy on the global scene and usher in a new era of multilateral globalisation.

Conversely, trade imbalances have also generated challenges for U.S. import-competing industries, such as manufacturing. Those industries lose from a strong exchange rate, as only technology, enables them to compete against cheaper foreign labour. Whereas the U.S. used to dominate on technological benchmarks, it is now gradually challenged by export economies, such as China. This issue is central to U.S. isolationist discourses and represents a substantial domestic challenge to overcome. If the dollar were to lose its reserve status, it would overall benefit the current attempt at U.S. reindustrialization, as the deteriorated exchange rate would enable enhanced exports. However, by the same token, it would directly challenge the U.S. ability to refinance its public debt. This challenge is substantial, policymakers would face a dilemma: cutting on social and/or military spending, *or* accept run-away inflation, to support the debt burden. Cutting military expenses would damage the swagger of the U.S. on the international scene, while cutting social expenses or embracing high inflation would likely enhance domestic instability.

Thus, the challenge of de-dollarisation truly is a Catch 22 for the U.S. There is simply no easy way out of it. The more “peaceful” solutions demand to relinquish control on hegemonic power, be it military or economic, while accepting the inherent risk of being fooled into “submission” and paying high political costs at home for doing so. It appears to be an unlikely path for a competitive electoral democracy. The more confrontational paths allow to maintain a modicum of control and prestige, but would further antagonise international partners, with an implied risk of economic warfare and perhaps global trade recession.

World Trade

The rise of China can be attributed to the unipolar world order, ushered post the collapse of the Soviet Union. What's important to note however, is the gradual spread of the 'Chinese playbook' for international development. The increase in emphasis on manufacturing capabilities in East Asia, for instance Japan, South Korea, Taiwan, or even ASEAN, is testament to the role that the boon of globalised demand for international trade, played in uplifting incomes in them. Changing trends, and a shift in world order, might mean that globalisation has peaked. This would render traditional processes of development obsolete, resulting in the need of nuanced undertaking, to facilitate transition from a primary sector economy to a highly specialised industrial ecosystem. India is the greatest case study for this. India has been significantly behind what once was its competitor, China. The Chinese leapfrogged growth, using unipolarity to their advantage, forging close trade links with the West, allowing it to upscale to a middle-income economy. The same model however faces setbacks at a time of rising hostilities and scepticism in the global economy, because of the return of Mercantilism.

India's growth story is not necessarily a missed opportunity, but rather a compelling case for the next 'playbook for development'. India has rejected joining free trade areas like the RCEP (Regional Comprehensive Economic Partnership), and has instead focused on establishing bilateral agreements instead. This is also reflective of the country's strategy of 'strategic hedging', which allows it to amend relationships in the way that suit it best, and in the process avoiding multilateral engagements that may result in a trade deficit. It is worth recognising that every country in the global south does not find itself in a position where it can afford deals of mutual benefit. Predatory lending, disproportionate power balance, and tough calls to balance economic prosperity and human development will persist. Yet, India's remarkable effort to produce a thriving ecosystem of highly specialised industries, with indigenization of technology, facilitated by intellectual property transfer from abroad, is worth noting. Additionally, this also serves as the primary difference between Indian and Chinese approaches to large scale industrialization, where the former focuses on maintaining a domestic capacity for high quality critical industrial goods, and the latter succumbing to an over reliance on external demand has become 'the world's factory', a designation it finds itself difficult to rinse off.

To summarise, de-dollarisation is a natural next step to the multipolar world order, which must be accompanied by a unique trade policy strategy. This must involve developing an industrial ecosystem instead of a focus on cheap manufacturing. Although small countries may be unable to accomplish this due to a lack of scaling capacity, collaboration of regional groupings, post de-dollarisation will be crucial to ensure that the benefits of the hyper-globalised world we see today, do not diminish after the said changes.

Projected Trends

Azaria Kidane & Ojus Sharma

• Short-Term Trends

It is likely that in the near future, foreign exchange markets experience a gradual momentum, towards a more diversified portfolio of currencies, gaining share in trade volumes. In the short term, this may have a significant impact on economies with an export driven growth, particularly China. The 'Chinese playbook' for development, as discussed above, would put the model of heavy reliance on large-scale cheap manufacturing at an increasing risk of vulnerability. Given that international trade volumes have experienced an uneven recovery trajectory post the pandemic, before which it stagnated; it may signal a peak of hyper-globalisation. This would put economies with an emphasis on indigenous growth at an advantage, though this should not be confused with a return to mercantilism. Most likely tariffs will continue to drop, and regional trade will become more lucrative. However, the change would primarily be in the nature of market entry for multinational corporations looking to expand their footprint. In other words, policy emphasis will move towards building a domestic ecosystem, and international competition would become more reserved to highly specialised industries, a great example of which is semiconductors. As the potential for weaponization of trade instruments gains more prominence, scepticism on over-reliance of geo-political adversaries for sensitive technology will become mainstream.

• Medium-Term Trends

After it becomes clear de-dollarisation is not just a fad, we will see for sure what the trajectory of globalisation is. Countries may increasingly conduct trade in their own currencies or in the currencies of their trading partners, leading to stronger regional ties and a rise in the importance of regional powers. This is a shift that we are already seeing occurring with trade deals between China and Saudi Arabia, India and Malaysia, and South Korea and Indonesia, agreeing to carry out transactions in local currencies. However, this transition will necessitate renegotiating existing trade agreements, as well as the development of new financial instruments that accommodate multiple currencies. Risk management, already a vital part of the finance industry, will become even more important as the volatility of cross border trade with less stable currencies than the dollar increases. Eventually, nations will be forced to make a choice as to whether the extra cost of doing trade without the dollar is worth the potential long-term benefits. For some like Russia, the answer may have already been made for them, but for other countries, particularly those who have suffered large capital outflows while already saddled with high foreign debt, the choice may be less clear. Ultimately, the decision will likely be decided for these countries by where they sit in geopolitics. On which side a nation sits in the Sino-American competing spheres of influence will determine whether they stick with the status quo or try to float in uncharted waters.

The impact of de-dollarisation impact on geopolitical dynamics would become increasingly visible in the medium term. The dollar's role as a global reserve currency has afforded the United States significant economic and diplomatic leverage. As de-dollarisation progresses, countries seeking to reduce their vulnerability to U.S. economic policies might opt for alternative currencies. This could weaken the U.S.'s ability to wield economic sanctions as a geopolitical tool, potentially shifting the balance of power towards China's policy of non-interference. Countries seeking to assert greater independence from the dollar might deepen economic relationships with other countries that share their currency preferences. For example, China's Belt and Road Initiative and the establishment of the Asian Infrastructure Investment Bank has already laid much of the groundwork for an alternative order. Both have already played a pivotal role in reshaping trade relationships in central Eurasia, and the same could happen if China entrenches its influence economically through the BRICS in Latin America and Africa.

Europe, specifically the EU, has an interesting path ahead of it. It has walked an increasingly unstable tightrope of balancing its economic ties with the United States and its desire for strategic autonomy. We have already seen leading members of the group, namely France, try and pursue foreign policy goals parallel and, sometimes, at odds with the United States. Given the relative strength of the Euro, de-dollarisation may be a chance for the EU to chart their own path. Especially following the rude awakening the continent has received on its energy security, we could see energy markets transformed in the future with the EU already seeking to diversify its sources. Major producers in Africa and (more-so) the Middle East have already shown an interest in conducting trade in other currencies so, in the event of de-dollarisation, there would be huge shifts in energy partnerships and regional dynamics. Emphasising the use of the Euro in international transactions would provide the EU with more leverage in negotiations and a stronger footing in the global arena. But with internal fractures growing following Brexit, it must stay united in the short-term before we can speculate in the medium or long-term.

- **Long-Term Trends**

In the long-term if the concept of de-dollarisation becomes entrenched, the global financial landscape would be almost unrecognisable, giving rise to a new order characterised by diverse currencies and redefined power dynamics. In the de-dollarized world, the dominance of multiple currencies (potentially in the form of CBDCs), likely the euro, renminbi, rupee, would circulate widely in international trade and finance. Cross-border transactions would be conducted using these various currencies, reflecting a global economic system that some would argue values diversity and fairness, while others would argue promotes division and chaos.

A shift away from the dollar could fuel the rise of decentralised financial technologies, such as blockchain and cryptocurrencies. Nation states, faced with inevitable volatility in the

direct aftermath of de-dollarisation, would direct funding to a diverse range of financial instruments, like digital currencies, to hedge against potential risks and fluctuations. The private sector would likely also stimulate innovation in this sector. The apprehension we saw a century ago at taking currencies off the gold standard is similar to the current uneasiness surrounding a total switch to digital currencies. Granted the massive volatility of some of the most foremost cryptocurrencies is a valid fear to not want to move an entire nation to digital currency, in the long term it is likely that innovation and a greater impetus towards digital currencies could make them more viable options for economies. Furthermore, decentralised systems would democratise access to financial services, enhancing economic participation for previously underserved populations.

Emerging economic powers would have gained influence through de-dollarisation, leading to a more balanced distribution of global authority. Major economies like China, the European Union, India, and others may play pivotal roles in shaping international affairs, fostering either a sense of shared responsibility or factionalism and great power politics reminiscent of the 1800s. Countries with shared economic interests will have come together to collaborate on various fronts, from trade agreements to climate initiatives. It could also be the case that the global economy becomes more resilient to economic shocks due to reduced reliance on a single currency. If nations diversify their reserves and trade partners, this could enable them to weather economic downturns, and when they do inevitably occur, they could remain more localised. However, more currencies do not necessarily mean that globalisation will die. International trade will still flourish and in a multi-currency world better collaborative mechanisms for economic crisis management will emerge, with countries needing to work together to stabilise and rejuvenate economies.

Conclusions

Ruy Scalamandré

The power the dollar wields today was made possible by a strong post-war economy; investment and ownership of key commodities, such as oil, and of course military and political strength with the help of its allies. The United States' involvement and investment in these key areas granted it the ability to be quasi-omnipresent in matters of international politics. This has been evidenced numerous times in the last century in wars in Korea, Vietnam, Somalia, and Iraq. But, even among allies, the United States has imposed its will when necessary – such as the Sigonella Affair of 1985. To hold a reserve currency is the ultimate reflection of economic and political power of a nation-state. It affirms the undeniable political and influence of such a nation-state, at the highest level of power.

With Russia, Saudi Arabia, Iran, and the UAE BRICS+ will enjoy control over significant players in the world oil markets, not to mention the role Argentina's addition will have in increasing BRICS+'s share in global grains markets. Whilst, militarily and economically, the BRICS+ are not likely to reach the levels of the United States in the short-term, Beijing has made meticulous efforts to increase its ownership of foreign infrastructure assets. The process began with the One Belt One Road Initiative and its impacts on FDI outflows from China are visible: in 2012 China's FDI outflow was $87.8bn and in 2022 the figure had risen to $146.5bn. As China looks to decrease its FDI bound to the United States in favour of other nation-states, to build up its international allies. As this process evolves, it will not be long before countries are forced to make a choice if trading without the dollar is worth the potential long-term benefits.

If in the next few years, the various internal and external geopolitical situation, specifically the U.S. economy and the approximation and expansion of the BRICS+ bloc, continues long-term trust in the U.S. dollar could probably deteriorate sufficiently to allow other major currencies such as the euro, renminbi, or the rupee to play a larger role in world trade. This could potentially lead to a "multipolar" world order, where the degree of globalisation witnessed in the last two decades is unlikely to permanence. Rather, major economic blocs such as China, India, and the European Union will play bigger roles in shaping international politics. However, a time horizon on such a change seems unclear. With a large degree of certainty, it can be anticipated that the dollar's purchase over the global arena will decrease by the end of the decade. If by the foundations for the eventual demise of the dollar are laid, it would still be a long time yet until we would be able to speak of the dollar's reserve currency status in the past tense.

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