De-Dollarization

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Abstract

De-dollarization is a "significant reduction in the use of dollars in world trade and financial transactions, [as well as] decreasing national, institutional and corporate demand" for United States dollars. (Goldman Sachs 2023; Li Yuefen 2024) De-dollarization has been a persistent theme since the collapse of the Bretton Woods Gold System in 1971 and the rising US national debt. (Cohen 2015) Efforts to minimise reliance upon the US dollar, such as the 1976 introduction of the IMF Special Drawing Right and the 2002 introduction of the Euro, failed to displace dollar dominance. (Eichengreen 2011) The Euro is a currency without a Nation State and the IMF SDR is not a currency used to invoice and settle international trade and financial transactions. However, the decision of the United States to "weaponize" the use of the dollar and to impose restrictions on global payment systems have impelled countries to construct an alternative to the dollar system.[1](Sen 2019) This article first examines the adverse effects of using the US dollar as a global reserve currency. Second, the article examines the application of economic sanctions, specifically against the Russian Federation, to illustrate the probable development of an alternative reserve and invoice currency to co-exist with the dollar. Third, the article posits the conditions necessary to establish a viable alternative to the dollar and then examines efforts to promote alternatives to global payment systems such as SWIFT, and to build a new reserve currency.[2] The article concludes: [1] the imposition of economic sanctions compels target countries to create alternative financial systems and settle international trade in national currencies; [2] establishing a new reserve currency out of whole cloth is a formidable task and lacks a recent historical counterpart, [3] the renminbi is the likely currency to rival, not displace, the US dollar.

Keywords: dollar supremacy; Bretton Woods; reserve currency; BRICS; economic sanctions

[1] "The term 'weaponization' is apt as it explains how a relatively neutral but essential facility—the dollar and its accompanying payment system—have been turned into a powerful weapon by one UN member state against another member state" without the approval of the UN Security Council. [Sen] If the Russian Federation, and other sanctioned countries subject to the policy of the US, want to survive as sovereign Nation States, they must develop an alternative reserve currency as well as alternative cross-border payment systems. "As of today, Washington's sanctions policy punishes 22 nations". Monica Hurst and Juan Gabriel Tokatlian, The end of dollar supremacy, IPS Economy and Ecology (16 May 2023)

[2] Three related issues must be parsed: the technology of payment systems, the establishment of a reserve currency, and invoicing transactions in national currencies.

Introduction

The architects of the 1944 Bretton Woods Conference formally bestowed upon the US dollar its hegemonic status as the world's global reserve and invoice currency. (Steil Benn 2013) The new international monetary system was soundly based in economics. The dollar was linked to gold, other currencies were linked to the dollar, the US economy comprised the largest share of global GDP, and New York City was the world's financial centre. Circumstances subsequently and fundamentally changed. First, President Nixon de-linked the dollar from gold in 1971. Second, the United States' share of global GDP declined from 40% in 1960 to 24% in 2019.[3] (Visual Capitalist) Third, the percentage of US currency held as global official reserves fell from 73% in 2001 to 59% in 2021.[4] (IMF Blog 2021) Fourth, the GDP of emerging and developing countries [e.g., China, India, and Russia] increased their share of global GDP collectively surpassing that of the United States. Fifth, the United States weaponized both the dollar and the US financial system to promote its foreign policy.[5] (Nolke Andreas 2022) Discontent with the US dollar's supremacy is widespread and geographically diverse. (Yuefen Li 2024) This article examines the negative effects of using the dollar as a global reserve currency. Second, it demonstrates why economic sanctions promote the pursuit of an alternative reserve currency. Third, the article posits the conditions necessary to establish a viable alternative to the dollar and then applies the "Eichengreen Criteria" to the renminbi and to a proposed BRICS+ new reserve currency.

Adverse Effects

"In the US, monetary policy is set by the Federal Reserve, which acts on its congressional mandate for price stability and full employment". (Sen) Decisions to stimulate economic activity, for example through interest rate reductions and quantitative easing, can have significant spillover effects for other economies. Likewise, decisions to restrict economic activity, for example interest rate hikes, have the capacity to destabilise currencies and financial markets around the world. (Sen) Illustrative is a single example: the 2022 decision of the Federal Reserve Board to raise US interest rates. That decision unleashed a chain reaction of events for foreign markets. An isolated decision of the Federal Reserve Board to raise US interest rates prompted "shifts in global currencies, bonds and equities" because global markets and prices for assets around the world are linked together. (Rennison & Smialek 2022).

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[3] See, Visual Capitalist Retrieved from https://www.visualcapitalist.com/u-s-share-of-global-economy-over-time/.

[4] In 2024, the share of US dollar reserves held by central banks is 57%. IMF Currency Composition of Official Foreign Exchange Reserves retrieved from https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4.

[5] The term "weaponised" refers to the totality of economic sanctions imposed upon entities and individuals in the Russian Federation that started in 2014, expanded in 2022, and continue to evolve. The economic sanctions are not found in a single comprehensive text. Rather, they are found in a series of Executive Orders implemented by the US Department of State and the US Treasury Department and found in supporting legislation. E.g. *Countering America's Adversaries Through Sanctions Act*, Public Law 115-44 (2017).

The decision to raise US interest rates demonstrates the “ripple effects” of using a single national currency as the world’s global reserve and invoice currency. First, the US dollar is strengthened relative to other currencies as foreign investors seeking higher rates of return increase the aggregate demand for dollars.[6] The corollary and opposite effect is depreciation of foreign currencies. Because foreign currencies are weakened, imports invoiced in US dollars become more expensive. If the imported goods are fundamental to the economy, such as energy and food, the increased price of imports may lead to domestic inflation. Fourth, foreign governments having debt denominated in US dollars bear increased costs to repay their loans. Fifth, since the yield on foreign sovereign debt rises, it is more costly for foreign governments to borrow in a dollar denominated debt market.

The repercussions do not end there. Central banks of other countries may use their foreign reserves to bolster the value of their currencies. However, this intervention may fail or be short-lived as illustrated by the case of Japan in 2022. The Japanese government spent more than $20 billion buying back its own currency. In spite of this currency intervention, the Japanese yen depreciated more than 23 percent for the year 2022. (Rennison & Smialek) The Bank of Japan continued its buying spree of Yen in 2024 purchasing within a two-week period more than $60 billion but the intervention did not stop the decline of the Japanese currency. (Mikolajczak 2024) In 2022, South Korea, Taiwan, the Philippines, Vietnam, and India disclosed currency interventions during this period. Noteworthy is the purchase by India’s central bank of $43 billion of rupees. Nevertheless, the value of the rupee declined by 10% against the US dollar. Central bank not only spend down their US dollar reserves but also spend more of their non-US dollar reserves, such as the British pound and Euro, as these currencies likewise have fallen in value as a result of US monetary policy.

The effects on the US bond market and domestic commercial banks are equally important. “The question for the United States is whether the rising dollar will come back to bite it by chipping away at demand for American government debt …”. (Rennison & Smialek) In efforts to bolster their currencies, central banks may sell their US treasury holdings. If countries like Japan, China, and India engage in aggressive selling, US holders of American government debt may also sell forcing the Federal Reserve to purchase “bonds at a tremendous scale to restore the proper functioning in the world’s most important debt market”. *Ibid*. Rising interest rates also decrease the value of existing US debt held by commercial banks. Any doubt about the stability of a commercial bank may lead to its failure as demonstrated by Silicon Valley Bank [SVB] in 2023. SVB was heavily invested in US treasuries and Mortgage-Backed Securities. “When the Federal Reserve hiked interest rates in 2022 to combat inflation, SVB’s bond portfolio started to drop” in value. (Hetler 2024) When customers of SVB began to

[6] In addition, if foreign investors have qualms about the stability of other economies, the inflow of capital into the US may be augmented further strengthening the US dollar and weakening the value of foreign currencies

withdraw deposits due to problems in the technology sector, SVB sold their debt at significant loss and collapsed.

This behaviour of US monetary policy has been labelled "the Imperial dollar". (Soros 1984) High budget deficits are financed with foreign funds attracted by high interest rates. The high budget deficits stimulate economic growth and the high interest rates keep the dollar strong. "The US enjoys the best of all possible worlds: strong economic growth, low inflation, budget deficits financed with an influx of foreign goods and foreign capital". (Akinci, Benigno, Pelin & Turek 2022) Akinci *et al* called this circuitry the "Imperial Circle 1.0" that ended with the Plaza Accords. The subsequent "Imperial Circle 2.0" makes the dollar "the dominant macroeconomic variable" in global trade. "In the new Imperial Circle, the strength of the dollar translates into slowing global trade and global growth that makes the dollar outperforming as the US economy is less exposed to global trade reinforcing the strength of the dollar". [*Ibid*.]

In short, the United States has the authority to create US dollars and to manage its domestic economy without being compelled to consult countries likely effected by US domestic decisions. The use of a national currency as a global reserve currency, combined with floating exchange rates, confers upon the US central bank the ability to roil foreign markets and disturb the relative prices of money. A legacy of the Bretton Woods system of fixed exchange rates (1944–1971) is that most countries continue to trade, borrow, invest and operate in US dollars, and to use US financial institutions. Dollar developments hence have leverage over countries dependent on its currency to settle international trade transactions and to hold US dollars as foreign reserve currency. "The monetary policy of other countries does not matter to the same extent", including the Bank of England and the European Central Bank. [Sen] In 2024, about 50 percent of global contracts were invoiced in US dollars. (Sen)[7]

Economic Sanctions

The United States and the European Union started imposing sanctions against the Russian Federation in 2014 when the Republic of Crimea and the City of Sevastopol reunited with the Russian Federation. (Burke, John J.A. 2017) Excepting Crimea, the economic sanctions were not imposed *per se* upon Russia as a sovereign Nation State but imposed upon designated individuals, institutions, and government agencies domiciled in Russia. In 2022, in response to Russia's military conflict with Ukraine, the US, EU, and other cooperating partners broadened the coverage of the original sanctions and introduced new sanctions. The intended effect was to damage the Russian economy and destabilise the incumbant government.

[7] "Compared to dollar usage, accounting for about 50 percent of global contracts in 2024, "the footprint of other currencies in global markets is far more limited. The euro accounts for about 22–24 percent, with others (the yen, sterling, and Swiss franc) all in single figures". [Sen]

The economic sanctions repose upon complex sets of legal measures not found in official consolidated texts. The legal measures also are frequently amended thereby making them difficult to parse and interpret.[8] In the aggregate, the sanction regimes prohibit designated Russian individuals, institutions, and governmental entities from conducting transactions with US and European counterparts.[9] Conversely, they prohibit US and European individuals, institutions and governmental entities from doing business with designated Russian counterparts. This section focuses upon only three components of the combined sanction regimes: [1] SWIFT, [2] US and European clearing and payment systems, and [3] assets of the Russian government held in accounts in the US and Europe.

The Society for Worldwide Interbank Financial Telecommunication [S.W.I.F.T. or SWIFT] was established in 1973 as a cooperative company (société cooperative) in Belgium. SWIFT's primary role is that of a message carrier and platform used by financial institutions to exchange standardized messages or communications essential to complete international transactions. The SWIFT messaging system uses a proprietary "syntax" to ensure the authenticity of information, to provide secure channels for transmission, and to reduce errors in operation. The history of SWIFT from a technological perspective is unremarkable, but the result is exceptionally remarkable. SWIFT is a private company holding a monopoly on a virtual platform required for financial organizations to make cross-border transactions and its operations are "overseen" by a self-appointed group of Nation States: the G10. (SWIFT Corp. R. §4.4)

SWIFT does not "move" money. Rather it allows users of the system to transmit instructions using standard message protocols. Banks then debit or credit customer accounts to complete international payments usually through the correspondent banking system. The decision to ban select Russian banks from the SWIFT platform followed from compliance with EU Regulations, since SWIFT is incorporated in the European Union. SWIFT stated, "Diplomatic decisions taken by the European Union, in consultation with the United Kingdom, Canada and the United States, bring Swift into efforts to end [the Ukraine conflict] by requiring us to disconnect selected banks

[8] In the United States, the principal legal instruments are: Executive Orders, Federal legislation, and Executive Branch decisions. In the European Union, the EU Regulation is the principal legal instrument while in the United Kingdom it is statutory instrument called "The Russia (Sanctions) (EU Exit) Regulations." In thr United States, the legal justification for imposing economic sanctions against Russia derives primarily from the US law entitled "The National Emergency Act" found in Title 50 [itself entitled "War and National Defence"] of the United States Code, specifically Subchapter III, sections 1601-50, and secondarily from the International Emergency Economic Powers Act, also found in Title 50 of the USC, specifically sections 1701-07. Remarkably, neither law defines the terms "national emergency" or "international economic emergency". Excepting required reports to Congress, the laws give the President of the United States carte blanche to declare "national emergencies" in response to any event or threat, whether real or imaginary to whatever is conceived as national security.

[9] In the EU, the legal framework comprising economic sanctions against the Russian Federation repose upon EU Regulations and Council Decisions with justifications based upon the Treaty of the Functioning of the EU. Some decisions of the European Council are: [1] 2014/145/CFSP of 17 March 2014, [2] 2014/386/CFSP of 23 June 2014, amending Council Decision No 145, and [3] 2016/982/CFSP of 17 June 2016 amending Decision 386, and extending the extant sanctions to 23 June 2017. Two primary regulations are: Consolidated Regulation [Council Regulation (EU) No 692/2014 of 23 June 2014 (EU) and [2] Council Regulation No 825/2014. The Regulations are predicated upon Ch. 2, Title V. of the Treaty on the EU and Art. 251 of the TFEU.

from our financial messaging services. As previously stated, we will fully comply with applicable sanctions laws." (SWIFT 2024)

The decision to ban Russia from SWIFT did not *per se* cripple Russia's ability to make cross-border payments. Alternative methods of communication with foreign customers and counterparties are available. The "instructions conveyed via SWIFT can be communicated by a variety of means, including the telephone and internet". (Eichengreen 2022) Rather, the decision made it more difficult and expensive for Russian financial institutions to make cross-border payments. The decision also cemented SWIFT as a political instrument of the G10 in stark contrast to its claim that "Equality, diversity, mutual respect and global cooperation are the bedrock Swift stands on, and the ideals we stand for as a global and politically neutral cooperative." In short, banning Russia from SWIFT sent a signal to the world that the United States and cooperating partners stand ready to use SWIFT and Western financial institutions to achieve US and European foreign policy objectives.

By contrast to SWIFT, the U.S. Clearing House Interbank Payments System [CHIPS] poses a formidable obstacle to circumvent. CHIPS is owned by the Clearing House Payments Company, LLC [Payments House], a private company established in the State of New York. (Thralls Jerome 1903) The Payments Company is owned by an association of banks and its history dates back to 1853. CHIPS was founded in 1970 by eight members of the New York Clearing House Assocation and is a subsidiary of the Payments Company. CHIPS clears and settles large value payments denominated in US dollars. About 50 banks, both US banks and US branches of foreign banks, particpate directly in CHIPS. These banks may act indirectly for non-particpating banks.

CHIPS is a "netting engine" that "settles payments between banks over the course of the trading day." (Eichengreen 2022) "Netting" consolidates multiple payments, transactions or positions among financial institutions during a single day. The aim of "netting" is to calculate single amounts arising out of all transactions to simplify the settlement of myriad individual transactions taking place bewteen the members of the clearing house. CHIPS uses FEDWIRE (the Federal Reserve's real-time gross settlement system) to finalise transactions and limit the number of fund transfers. Banks send payments from their accounts held at the FED to the CHIPS's account held at the FED. Payments settled through CHIPS are denominated in US dollars.

While CHIPS is mainly used for settlement of domestic transactions, CHIPS may be used for international payments. Assume a small US bank wants to make a cross-border payment. That bank first transfers the funds to a member of CHIPS. The "participating bank" then transfers the funds to the US branch of the foreign bank. If the beneficiary of the payment has an account at the "same directly participating bank", then the bank credits the beneficiary's account in its home country. If not, the US branch of

the foreign bank uses the correspondent banking system to complete the payment to the beneficiary's foreign account. "In this case, both the small US bank initiating the payment and the foreign bank of the ultimate recipient are indirect participants in the clearinghouse." (Eichengreen 2022)

Nevertheless, CHIPS is unlikely to be used to make cross-border payments to a Russian bank. The legal peril of undertaking such a transaction provides an incentive to establish a policy of "no-dealing" with any institution or transaction remotely related to Russia. The same rationale applies to the Clearing House Automated Payment System (CHAPS) in the United Kingdom and equivalents in the European Union. Prudence dictates a wholesale policy of exclusion. The U.S. Department of State warns that businesses "risk severe civil and criminal penalties in navigating the raft of economic sanctions, export controls, and import restrictions imposed on Russia by the United States and its allies and partners".[10] (U.S. Department of State)

Finally, the US, EU, and UK have "immobilised" the assets of both the Russian government and of designated "persons". The EU has frozen all accounts of Russian deisgnated individuals and companies /organisations [exceeding €28 billion] and has blocked EU held foreign exchange reserves of the Russian central bank [€207 billion]. The United States has frozen about $5billion of Russian central bank assets. The UK has frozen about £18 billion of private assets of Russian account holders and about £26 billion of Russian central bank assets. The US has introduced legislation empowering the President to confiscate and repurpose the Russian assets located within the US.[11] The EU has published a report entitled "Legal Options for Confiscation of Russian State Assets to Support the Reconstruction of Ukraine".[12]

Consequently, the Russian Federation must develop an alternative to the dollar payment system to survive as an independent Nation State untethered from the global agenda set by the US and G10. Other countries, individually or collectively, also may pursue a non-dollar international reserve and invoice currency as they risk economic sanctions if they pursue objectives disfavoured by the United States. The message of

[10] The risks arise not only from US, EU, and UK economic sanctions but also from counter-measures taken by the Russian Federation. "After each new US sanction, Russia makes a retaliatory move". Mikhail Karataev, *Russia's financial bridges bring new compliance riks for US banks*, The Banker Dec. 14, 2023.

[11] H.R. 8038 entitled "21st Century Peace through Strength Act'', introduced 17 April 2024, and passed the House of Represenatives 20 April 2024. The "Bill" does not set forth a legal foundation for seizure of the assets, but empowers the President to coordinate with the G7 and other countries to establish an "international mechanism" to establish an international fund known as the "Ukraine Compensation Fund". Sec. 102(7) contains the conclusory statement, "the repurposing of Russian sovereign assets is in the national interests of the United States and consistent with United States and international law".

[12] European Parliament Study P.E. 759.602 February 2024 found at: https://www.europarl.europa.eu/RegData/etudes/STUD/2024/759602/EPRS_STU(2024)759602_EN.pdf. Public international law, like any legal system, does not contain "right" answers but permits the construction of legal arguments to support advocacy for conflicting positions. See, Richard A. Posner, *The Problems of Jurisprudence*, 197-219 (1990 Harvard University Press)

the US and coordinating partners to Russia is stark: conform or fail. Language of the U.S. Department of State provides unequivocal support for this conlusion.[13]

Preconditions for Reserve Currency

An international reserve currency arguably cannot be spun out of thin air. A "reserve" currency "results from a country's position as a great power" (Eichengreen 2011) and is defined by characteristics: [1] held in significant quantities by central banks of foreign countries and large financial institutions, [2] used to settle international trade and financial transactions when the parties to the trasnactions are unrelated to the "issuer", [3] dominant in the foreign exchange market, and [4] accounting for a substantial stock of international debt securites, denoted the "Eichengreen Criteria".[14] A reserve currency is "attractive because the country issuing it is large, rich, and growing". (*Ibid*.) The country "standing behind" the currency "is powerful and secure". (*Ibid*.) A "reserve" currency therefore cannot come into existence by "*fiat*".[15] It is supported by an economic infrastructure such that gives rise to an 'international demand' for the currency.[16]

History appears to support this view. In the past few centuries, there have been only two dominant global reserve currencies: the British Pound Sterling and the US dollar. Both currencies were established by "great powers", having global financial centres: London and New York respectively, offering deep and liquid markets in which to trade financial instruments, and provided a currency held by foreign cental banks and used to settle international transactions. The economic history of the two "great powers", and the limitations of the Euro, provide empirical data for Eichengreen's claims.

Nevertheless, history may no longer be on the United States's side. An asymmetry exists between the economic weight of the US and the dominant role of the US dollar. At the end of World War II, the US share of global GDP was approximately 45%; only the dollar was freely traded. (*Ibid*.) The US economy accounted for 50% of global industrial production. There was no comparable economy in the world. The strength of the US dollar and its function as a global reserve and invoice currency rested upon this economic foundation. By contrast, the current US share of global GDP is less than 24%, the US share of world trade is less than 10%, the US has a negative

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[13] In a section entitled "Sanctions and Economic Measures", the U.S. Deaprtment of Dstate remarks, "Russia will feel this pain. Putin and his cronies will feel this pain. It will accumulate over time. We've targeted Russia's largest banks—cut them off from the U.S. financial system and frozen their assets. They are blacklisted globally and the Russian financial system—its principal connection to international trade and investment—has been tarred. Our export controls choked off Russia's vital technological imports." [emphasis: the State Department]. The quotation is taken verbatim from the website of the U.S. Department of State found at: https://www.state.gov/united-with-ukraine/.

[14] The term is the author's and is used since the criteria listed is based upon "Exorbitant Privilege".

[15] The preconditions for a reserve currency are taken from *"Exorbitant Privilege: Rise and Fall of the Dollar"*, Barry Eichengreen [Oxford Univ. Press 2011].

[16] The criteria are referred to as "Eichengreen's preconditions".

Net International Investment Position, and the national debt to GDP ratio is 121%.[17] "There is a fundamental asymmetry between the shrinking exposure of the "real" U.S. economy to global developments versus the growing global role of the U.S. dollar". (Akinci, Benigno, Pelin & Turek)[18]

Assuming the validity of these "preconditions", the Chinese renminbi is the likely candidate for an alternative reserve and invoice currency. China is the second-largest economy in the world.[19] China "is the world's largest exporter by value and second only to the United States in the value of its imports". (Eichengreen 2022) China sources the most foreign direct investment [FDI] in the world and is virtually equal to the United States as an FDI destination. (*Ibid*.) China, like the US in the early 20th centiry, is encouraging the use of its domestic currency in cross-border trade and finance. In pursuit of creating a new "reserve" currency, China established a national clearinghouse: the Cross-Border Interbank Payments System (CIPS), an entity incorporated in China and supervised by the People's Bank of China. According to the IMF, the renminbi is the third-largest trade financing currency, the fifth-largest payment currency, and is a Special Drawing Rights currency. (Guo, Kai 2019)

CIPS is designed to obviate "the need to first purchase dollars in order to exchange renminbi for foreign currencies". (Eichengreen 2022) CIPS is modelled after CHIPS as a clearing and payment system and after SWIFT as a financial telecommunications system. Like CHIPS, the Chinese inter-bank payment system has direct and indirect participants. Direct particpants must be incorporated in China and subject to the supervision of the central bank. As of May 2024, CIPS had 140 direct participants; most particpants are overseas branches of the Bank of China or Chinese banks. However, direct particpants include HSBC, J.P Morgan Chase, Citibank, Deutsche Bank, BNP Paribas, and Mizuho Bank.[20] The number of indirect particpants is 1377. Participating banks are found in all developed continents. Unlike CHIPS, CIPS is not a netting mechanism but is a real-time gross payment and settlement system.

These developments are necessary but insufficient to create a reserve currency. While China has a large economy and is arguably a "great power", the renminbi is not widely used in global transactions. The renminbi accounts for about 6% of global trade settlement while the US dollar accounts for about 50%. (SWIFT) The renminbi accounts for less than 3% of world central bank reserves while the US dollar is lightly less

[17] For US debt/GDP [2023] ratio see: https://fred.stlouisfed.org/series/GFDEGDQ188S; for Net International Investment Position [2023] see: https://www.bea.gov/data/intl-trade-investment/international-investment-position (-19.1 trillion); for US share of global GDP and share of world trade, see, O. Akinci, G. Benigno, S. Pelin, and J. Turek, *The Dollar's Imperial Circle*, Fed Res. Bank N.Y. Staff Reports, no. 1045 (Dec. 2022)

[18] A second asymmetry is the insulation of the US economy from world developments versus the substantial impact of dollar developments on trading partners. [*Ibid*.]

[19] Get IMF data.

[20] The list of direct participants is found on the CIPS website at: https://www.cips.com.cn/en/about_us/about_cips/direct_participants_list/index.html.

than 60%.[21] (IMF 2023; Gopinath, Gita 2024) "Despite geopolitical risks, the latest data show that the U.S. dollar remains dominant. According to SWIFT, it accounts for over 80 perrcent of trade finance." (Gopinath) While economic sanctions are reshaping trade relations and a "China leaning bloc" is increasingly relying on the renminbi and increasingly reducing reliance on the US dollar, the renminbi does not yet appear to have the leverage to displace the incumbant US dollar. (*Ibid*.)

China is not the only country competing with SWIFT and the US dollar. In 2014, the central bank of Russia introduced the System for Transfer of Financial Messages [SPFS] In January 2024, the Russian Central Bank announced that 557 financial institutions and firms in 20 countries had connected … to SPFS". (Logirus 2024) Russian financial institutions must use "domestic services and technologies to conduct transactions". (Vedomosti 2023) SPFS also is used for the payment card "Mir", introduced in 2015, and now used in 50% of payment card transactions in Russia, since VISA and Mastercard left the market in 2022. Trade with Iran, another sanctioned country, have led to discussions of merging SPFS with its Iranaian anologue, SEPAM.[22] (Rodeheffer Luke 2024) But, SPFS is designed to assure "financial and technological sovereignty" from Western dominated institutions and to establish an alternative payment system to SWIFT.

Since its inception, BRICS has expressed its dissatisfaction with the extant international monetary system.[23] A consistently stated aim: revise the international monetary system.[24] (Saaida Mohammed 2024) In 2023, President Vladimir Putin broached the subject of creating a new "international reserve currency" as part of the agenda of the Annual Summit to be held in Kazan, Russia in October 2024 hosted by the Russian Federation. Some observers speculate that a BRICS "international reserve currency" and new multi-sided payment system will be announced at the 2024 Annual Summit. () According to these speculations, the reserve currency would be a "digital currency" backed by a basket of BRICS national currencies. Transactions would be recorded using blockchain based digital ledger technology.[25] (Pistilli Melissa 2024) Without detail, it is impossible to assess the potential of a BRICS currency to succeed as a reserve currency.[26]

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[21] See, https://data.imf.org/regular.aspx?key=41175.

[22] See, https://jamestown.org/program/russia-builds-alternative-to-swift-as-part-of-digital-sovereignty-push/

[23] BRICS is the name of the *partnership* founded by Brazil, Russia, India, China, and South Africa. [emphasis added] *See* the document entitled "BRICS Membership Expansion: Guiding Principles, Standards, Criteria and Procedures" issued in 2023. In addition to the countries covered by the acronym, BRICS now comprises Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates.

[24] Burke, John J.A., Workings of the Financial System, Part 1, ch. 5 (forthcoming 2024)

[25] See, *How Would a New BRICS Currency Affect the US Dollar?* (Updated 2024), Pistilli Melissa Investing News Network found at https://www.nasdaq.com/articles/how-would-a-new-brics-currency-affect-the-us-dollar-updated-2024.

[26] BRICS hopefully have learned from prior mistakes. In 2015, the New Development Bank and the Contingent Reserve Arrangement were established. However, they were "cut and paste" models of the World Bank and IMF respectively. More ironic, they were funded in US dollars. In 2015, Bitcoin and Ethereum had already built digital currencies using decentralised digital ledger technology thereby setting a precedent to use new technology to establish "creative institutions".

However, the spectre of a new reserve currency raises questions. Assume the new currency comprises a basket of currencies drawn from BRICS member States. Assume further that the new currency is digital and built on blockchain. The technology is not new. Bitcoin was the first network to establish the existence of a cryptocurrency produced by adherence to its native protocol. Bitcoin also used a decentralised database in the form of "blocks" cryptographically linked together to assure tamper resistance. Digital money also is not new. Most money is digital in the form of commercial bank deposits or in the form of commercial bank reserve accounts held at the central bank. Mainstreaming this technology, as Central Banks are doing with CBDC, is not innovative and does not *per se* provide an advantage for a newly minted reserve currency.

Equally unclear is the institutional framework of the proposed new currency. The existing BRICS institutions – the New Development Bank and the Contingent Reserve Arrangement – are unsuitable. The NBD was created to make loans to finance development projects. The CRA was created as a lender of last resort but was neither implemented nor fully funded. Both ironically were funded in US dollars though the NBD is moving toward national currency projects. Fundamentally, the question arises why a "newly minted" currency based upon a basket of currencies would appeal to users, investors, and governments to stake out a position among existing reserve currencies.[27]

Conclusion

The "Eichengreen Criteria" for a global reserve and invoice currency are persuasive, though not set in stone. The bottom line is that a "global reserve currency" must have demand from governments, institutions, and individuals. A "reserve currency" must have a practical function to settle international trade and finance transactions. Second, it must have an investment function related primarily, although not exclusively, to a deep and liquid bond market to drive further the demand for the currency. Third, it must have a foreign exchange function to incentivise central banks to hold the currency both as a store of value and as a backstop to protect the value of national currencies. The renminbi comes closest to meeting these three functions. China has a large and growing economy. The renminbi is already a recognised reserve asset held by the IMF and foreign central banks. However, the renminbi falls short particularly with respect to the investment function as the Chinese bond market is under-developed and China still

[27] Alternatively, it may be time to revive, with modifications, the concept of "Bancor" – an international currency, not based on any national currency, serving only as a unit of account for an International/Regional Clearing House. Designed with new technologies, a re-invented Bancor may have the potential to compete with the US dollar as it corrects a fundamental flaw of Bretton Woods 1944 – using a national currency as a global reserve currency. However, Keynes designed Bancor to solve the balance of payments problem. Except for China's relationship with the United States, the balance of payments is not the major concern of BRICS.

imposes capital controls. The disparity between China's economic size and the limited use of the renminbi is fundamentally asymmetric. Nevertheless, the US and the EU have pushed countries into a corner by using Western dominated financial systems as instruments of foreign policy. The threat of economic sanctions is sufficient "writing on the wall" to incentivise countries like China to seek an alternative monetary system. Countries that have already adopted de-dollarisation policies like Brazil and countries subject to punitive economic measures like Russia and Iran would support the initiative: "The Dollar Still Dominates, But De-Dollarization Is Unstoppable". (Yuefen Li)

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