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The Difficult Realities of the BRICS' Dedollarization Efforts—and the Renminbi's Role

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Contents

Introduction 1

The Dollar's Role in Emerging Markets 2

BRICS Members' Macroeconomic Concerns About the Dollar 4

How Geopolitical Concerns Push BRICS Members Away From the Dollar 5

The Renminbi's Rise as a Common BRICS Currency 6

The Usage of Other BRICS Currencies in Cross-Border Trade 10

India's Nascent Efforts to Grow the Rupee's Use 12

Conclusion 13

About the Author 17

Notes 19

Carnegie Endowment for International Peace 31

Introduction

The expansion of the BRICS bloc beyond its original members Brazil, Russia, India, China, and South Africa should reignite focus on the group's long-standing interest in reducing the dollar's dominant role across emerging markets. At an August 2023 BRICS summit where Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates (UAE) were invited to join the bloc, frustrations with the dollar were an important topic of conversation.[1] Participants discussed how to make BRICS local currencies' use in commerce and finance within and between emerging markets more attractive than the dollar's use[2]—in other words, how to dedollarize.[3]

For over a decade, such ambitions have been a focus of BRICS policymakers. Yet, today, the vast majority of cross-border transactions involving BRICS members and other emerging markets continue to be invoiced in dollars. Exchanging BRICS members' and recent invitees' local currencies with each other and with other emerging market currencies often requires using the dollar as an intermediary to be done efficiently, and a large share of public and private debt in these economies is dollar denominated. In short, dedollarization faces serious headwinds. Will expanded BRICS membership and a renewed focus by BRICS members on increasing local currency usage change this dynamic? BRICS finance ministers and central bankers were tasked at the August 2023 summit with considering the issues of local currencies' use and payments infrastructure and to report back next year.[4]

Notably, the past few years were marked by significant efforts by BRICS policymakers—particularly in China—to meaningfully increase the use of non-dollar currencies. Some efforts to expand the use of local currencies in trade and finance, especially involving

Russia and Iran, are clearly aimed at creating financial channels less vulnerable to U.S. and European economic sanctions. Yet other efforts are in response to economic challenges associated with recent historic shifts in U.S. monetary policy and public sector fiscal problems in emerging markets; BRICS invitees Argentina, Ethiopia, and Egypt are all confronting destabilizing, economy-wide dollar shortages. As Washington contemplates how best to respond to the geopolitical implications of initiatives aimed at increasing local currency usage across BRICS economies and the bloc's recent invitees, it is important to better understand the varied motivations behind these policy efforts, as well as obstacles to greater usage of the Chinese renminbi and other BRICS currencies in emerging markets.

The Dollar's Role in Emerging Markets

Unlike the world's other currencies, the dollar plays a dominant role in cross-border trade and finance across many "third countries" where it is not the official currency.[5] Indeed, for many emerging markets, the dollar is more stable and more commonly accepted as a medium of payment in cross-border trade than the local currency. Exports from and imports to emerging markets, particularly commodities, are often priced in dollars. External debts in these countries are also often denominated and paid in dollars, reflecting belief in the dollar's future stability and widespread acceptance. Relative to emerging markets' local currencies, particularly in the context of cross-border trade and finance, the dollar often much more completely fulfills the four functions of money, serving as a widely accepted: (1) medium of exchange; (2) unit of account; (3) store of value; and (4) standard of deferred payment.[6]

The dollar's widespread use in these regards is self-reinforcing, preserving its dominant global role and impeding efforts to dedollarize. Although the expanded BRICS bloc would be comprised of countries whose economies together are larger than the U.S. economy,[7] dedollarization efforts will still face major headwinds, in part because of the relatively higher costs and inefficiencies of using many non-dollar currencies in cross-border trade and finance. Across emerging markets, the dollar is still the preeminent medium of cross-border trade and remains integral to financial markets.

Indeed, data from 2022 indicated that the dollar was on one side of the trade for over 97 percent, 95 percent, 94 percent, and 88 percent of Indian rupee, Brazilian real, Chinese renminbi, and South African rand foreign exchange transactions, respectively.[8] Data also indicated that in 2022, globally, the dollar was on one side of the trade for almost 90 percent of all foreign exchange transactions.[9] Currency pairs involving the dollar are generally far more liquid and thus less costly to exchange than emerging market currency pairs. Indeed, no well-functioning markets for directly exchanging many emerging market currency pairs even exist. The dollar is therefore oftentimes used to facilitate exchanges between emerging market currencies.[10] As a result, even when cross-border trade is invoiced in a local currency, the dollar may ultimately play a role in facilitating that transaction.

These dynamics help explain why dollars are often used instead of local currencies in emerging market trade payments. For example, a 2022 article noted that 86 percent of India's exports were dollar-denominated, even though only 15 percent of Indian exports went to the United States.[11] Forty-seven percent of China's cross-border payments (and likely a much higher percentage of cross-border goods and services trade payments) were in dollars in 2023,[12] even though 2021 data showed that only 17 percent of its exports were bound for the United States.[13] Data suggest that a disproportionately high share of South African exports are invoiced in dollars (relative to the share of exports bound for the United States),[14] and nearly all Brazilian exports are invoiced in dollars.[15]

The usage of BRICS local currencies for cross-border trade payments is disincentivized by inadequate financial infrastructure, which impedes the ability or increases the relative cost of these currencies being used in cross-border transactions. One important type of financial infrastructure is a payment-versus-payment, or PvP, arrangement, which helps lower the cost and increase the confidence in exchanges of certain currency pairs.[16] PvP arrangements help ensure that the final settlement of a payment in a currency occurs if and only if final settlement of a payment in another currency takes place; this mitigates settlement risk, which is when one party to a foreign currency transaction fails to deliver currency owed.[17] The rand is the only BRICS currency eligible for settlement by the world's dominant PvP arrangement, which is controlled by a Switzerland-incorporated company that counts major global banks as shareholders and through direct central bank relationships facilitates PvP transactions using central bank liabilities.[18] This PvP arrangement reportedly accounted for over 40 percent of global spot foreign exchange trading volume in recent years, and it can be used to facilitate trading of the rand against seventeen currencies, including the dollar.[19]

For the real and the rupee, local systems regulated by the Brazilian and Indian central banks are able to facilitate PvP foreign exchange settlement, but only against the dollar.[20] The renminbi's ability to be transacted through PvP arrangements is also limited; it can be transacted through a Hong Kong-based PvP arrangement for which a British commercial bank facilitates settlement against the dollar, the euro, or the dollar-pegged Hong Kong dollar.[21] In addition, small, Chinese-government-run PvP arrangements exist for some renminbi pairs with emerging market currencies, including the Russian ruble.[22] Despite these arrangements, data from a 2022 report suggested that around 20–40 percent of renminbi foreign exchange transactions may be exposed to settlement risk.[23]

Another factor limiting BRICS local currency use is that most of the global commodity trade is priced and settled in dollars.[24] This inherently bolsters the importance of the dollar in commodity-dependent economies, such as Argentina, Brazil, Ethiopia, Russia, Saudi Arabia, and the UAE.[25] Indeed, the UAE and Saudi Arabia peg their respective currencies to the dollar. Russia, despite extensive U.S. economic sanctions imposed against its economy in response to the Russia-Ukraine conflict, still used the dollar to settle one-third of exports by the end of 2022 (though Russia's use of the dollar for exports and imports likely declined further in 2023,[26] and the Russian government is taking steps to reduce its usage[27]).[28]

The frequent usage of the dollar in trade reinforces its use in finance.[29] This dynamic contributes to the dollar's global dominance as a standard of deferred payment. For example, in China, nearly half of external debts were dollar-denominated as of December 2022.[30] Likewise, as of mid-2022, over half of India's external debts were reportedly dollar-denominated.[31] Data from 2021 indicated that approximately half of the public debt of Argentina and Ethiopia was denominated in dollars.[32]

Taken together, the above dynamics help explain why so many central banks' foreign currency reserves are in dollars, particularly in emerging markets. Foreign exchange reserves are often used by emerging markets' central banks to, among other things, facilitate the servicing of foreign currency liabilities in the economy, ensure that the economy's foreign currency supply is sufficient to make essential external payments, and influence or stabilize the domestic currency's value.[33] Overall, in 2022, approximately 58 percent of disclosed global foreign exchange reserves were dollar assets.[34] In China and India, that figure was likely around 50 percent,[35] while in Brazil, it was reportedly over 80 percent.[36]

BRICS Members' Macroeconomic Concerns About the Dollar

For years, senior BRICS policymakers have expressed concerns over the macroeconomic impacts of dollar dominance on emerging markets.[37] These concerns have grown louder in response to unprecedented increases in advanced economies' interest rates. This dynamic, South Africa's central bank governor warned in April 2023, means that emerging markets "run a serious risk of becoming permanently more prone to currency depreciation and higher inflation."[38] A November 2023 article posted on a platform hosted by the leading Chinese Communist Party (CCP) political journal stated that recent U.S. monetary policy choices created a "dollar tide" that "seizes the wealth of other countries and forces developing countries to bear the huge economic losses and financial risks brought about by the hegemony of the dollar."[39] A paper published by India's central bank in 2023 argued that there is an "inherent defect" of the dollar's global role, whereby the weakening of the U.S. economy results in "disorder" and disproportionate losses outside the United States.[40]

These perspectives are notable given that three BRICS invitees—Argentina, Egypt, and Ethiopia—are facing severe dollar shortages and high inflation. Dollar shortages reflect an imbalance between the economy-wide demand for and supply of dollars.[41] Dollar shortages in Argentina and Ethiopia were so severe at times in 2023 that black market exchange rates were reportedly nearly double the official rates.[42] In Egypt, the banking system's net foreign assets (a measure of foreign currency shortages) hit a record deficit in June 2023.[43]

High and increasing debt levels in these countries, against the backdrop of rising advanced economy interest rates, make it difficult to successfully address dollar shortages by issuing debt in dollars, as there is little investor appeal.[44] Rapidly rising interest rates in advanced economies have also, broadly speaking, attracted capital away from emerging market assets and helped strengthen the dollar relative to emerging market currencies.[45] This relative strengthening, as well as the Russia-Ukraine war's spillover effects on food and energy prices, contributes to the surging cost of importing dollar-priced commodities in emerging markets,[46] further draining these economies (such as Argentina, Ethiopia, and Egypt) of dollars and exacerbating inflation, as the scarcity of dollars constrains the ability to import food and energy and thus drives up prices.[47] In October 2023, Argentina's inflation rate was 143 percent, Egypt's was 36 percent, and Ethiopia's was 29 percent.[48] (High government borrowing and spending is another important inflation driver.[49])

International Monetary Fund (IMF) programs intended to address these issues are in place in Egypt[50] and Argentina,[51] and one is being negotiated with Ethiopia.[52] However, key policy goals associated with the Argentine and Egyptian IMF agreements have not been reached.[53] Also, the IMF's responses to emerging markets' economic difficulties have long been heavily criticized by some BRICS policymakers.[54] For example, in August 2023, Brazil's president criticized IMF programs for "suffocating" Argentina.[55] In June 2023, Chinese state media suggested that the IMF's current structure advances U.S. "financial hegemony" and increases the debt burden of emerging market economies.[56]

Interestingly, shortly after that statement, the IMF allowed Argentina's government to use renminbi credit made available by China's central bank, the People's Bank of China (PBOC), to facilitate the partial pay down of IMF loans, and an IMF official indicated that renminbi IMF debt repayments could become increasingly commonplace.[57] In October 2023, renminbi credit extended by the PBOC was reportedly again used to facilitate Argentina's partial IMF debt repayment.[58] Some BRICS policymakers seem to see greater local currency usage and non-dollar currency interventions as a remedy to dollar-related economic problems in emerging markets. Indeed, India's commerce secretary branded an effort to facilitate an increase in rupee-settled transactions with emerging markets facing dollar shortages as a way to "disaster proof" these economies; in 2023, Indian officials reportedly engaged in negotiations related to this effort with Egyptian counterparts.[59]

How Geopolitical Concerns Push BRICS Members Away From the Dollar

Across BRICS countries, the dollar and the euro are increasingly viewed as exposed to geopolitical risks associated with increasingly broadening U.S. and European economic sanctions. Specifically, some emerging markets policymakers fear that future U.S. and European economic sanctions could suddenly shut off dominant dollar- and euro-based financial channels used for transacting with important trading partners and/or be used to freeze the dollar and euro assets of a particular emerging market's central bank, major trading partners, or political leaders. These concerns are helping drive an embrace of local currencies. Policymakers appear particularly troubled by unprecedented U.S. and European economic sanctions that froze half of the Russian central bank's gold and foreign exchange reserves,[60] as well as U.S. and European government actions that cut off major Russian banks from the world's dominant financial messaging system, the Society for Worldwide Interbank Financial Telecommunication (SWIFT).[61]

Indeed, in August 2023, South Africa's president implicitly critiqued these actions, expressing concern that "global financial and payment systems are increasingly being used as instruments of geopolitical contestation."[62] A report published by India's central bank was more explicit, stating that India should explore alternatives to the euro and the dollar in part because "having strong foreign exchange reserves . . . in an increasingly polarised world [] no longer seems a sufficient defence against the threat of economic sanctions."[63] Prominent economists at top Chinese research centers have cited concerns over U.S. economic sanctions when endorsing the further build-out of renminbi financial infrastructure and greater renminbi use.[64]

BRICS invitee Iran is already subject to significant U.S. economic sanctions. Importantly, along with China, India, and Russia, Iran belongs to the Shanghai Cooperation Organization, which in May 2023 announced the development of a road map to expand use of non-dollar currencies.[65] Remarks by Russian President Vladimir Putin suggested that these efforts are driven in part by a motivation to blunt the impact of U.S. and European economic sanctions.[66] Likewise, Chinese state media reported that Ethiopia's government was partly motivated to join the BRICS due to threatened U.S. government economic sanctions against Ethiopian leaders.[67]

The Renminbi's Rise as a Common BRICS Currency

Against the backdrop of geopolitical tensions and dollar shortages, new financial channels built upon BRICS local currencies are increasing in use. This is particularly the case for the renminbi, although it is important to contextualize the renminbi's growth. As table 1 indicates, renminbi cross-border payments are still quite limited relative to the dollar, which continues to grow in global use. Meanwhile, the percentage point growth of the renminbi's share of global central bank reserves since 2016 is nearly identical to the Japanese yen's growth(albeit from a much smaller baseline); in 2016 the renminbi (in addition to the dollar, British pound, euro, and yen) was included in the basket of currencies that make up the value of the IMF's foreign exchange reserve asset (called Special Drawing Rights, or SDRs).[68]

Table 1. Use of Renminbi Remains Limited Compared to Other Major Global and Regional Currencies

	Share of SWIFT transaction messages (percentages based on value)			Share of allocated global central bank foreign exchange reserves		
	August 2016	August 2023	Percentage point change	Q4 2016*	Q2 2023*	Percentage point change
U.S. dollar	42.50%	48.03%	+5.53	65.36%	58.88%	-6.48
Euro	30.17%	23.22%	-6.95	19.14%	19.97%	+0.83
Japanese yen	3.37%	3.68%	+0.31	3.95%	5.40%	+1.45
Chinese renminbi	1.86%	3.47%	+1.61	1.08%	2.45%	+1.37

*First and latest quarters for which renminbi data is available.

Sources: "World Currency Composition of Official Foreign Exchange Reserves," International Monetary Fund, last updated September 29, 2023, https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4&sid=1408243036575; "RMB Tracker," SWIFT, September 2016; and "RMB Tracker," SWIFT, September 2023.

The renminbi's growth in cross-border payments largely stems from transactions involving a Chinese party on one side; between 2016 and 2022, its use in China's cross-border transactions grew from around 20 percent to approximately 50 percent (with dollar payments largely accounting for the rest).[69] Trade payments to and from Russia are also helping increase renminbi usage. Data indicated that in 2022, Russian exports invoiced in renminbi grew from near 0 to 16 percent,[70] and although most of the related payments involved Chinese firms, some renminbi trade payments were between Russian entities and Indian, Japanese, or Southeast Asian businesses.[71] Thus, like the dollar, the renminbi is in some instances being used to facilitate transactions between two entities from countries where it is not a local currency.

The renminbi's growing global use is being aided by renminbi clearing banks, PBOC bilateral swap lines, and the Chinese Cross-Border Interbank Payment System (CIPS). Table 2 illustrates the extent to which these instruments of renminbi internationalization exist across BRICS members and invitees. Offshore renminbi clearing banks enable greater renminbi usage by offering foreign entities renminbi accounts outside of China serviced by local people and in the local language, while also allowing those accountholders to, in accordance with the local legal framework, settle renminbi payments directly through that clearing bank rather than through a China-based bank.[72] The PBOC's bilateral swap lines act as a line of credit, allowing other central banks to exchange local currency for renminbi with the PBOC, and enable greater access to renminbi within an economy.[73] These swap lines are intended to facilitate local currency usage in trade,[74] but they can also be used to address central bank foreign exchange reserves shortages during times of crisis[75] and are empirically linked with higher usage of the renminbi by third countries in cross-border trade with Russia.[76] CIPS, which was launched in 2015 and now counts over 100 direct participants and over 1,300 indirect participants globally,[77] meaningfully improved the efficiency of cross-border renminbi transactions relative to previous channels.[78] Average daily CIPS transactions reportedly increased by 50 percent in 2022 after Russia invaded Ukraine,[79] and they increased by about another

25 percent in the first three quarters of 2023.[80] Looking ahead, a number of recent policy developments involving Chinese state-owned banks, PBOC bilateral swap lines, and CIPS could enable further renminbi usage across BRICS countries and invitees.

Table 2. Renminbi Financial Infrastructure in BRICS Countries and BRICS Invitees

	Bilateral swap line with PBOC previously signed?	Chinese state-owned renminbi clearing bank present?	Direct CIPS participant exists within country?
Argentina	Yes	Yes	Yes
Brazil	Yes	Yes	Yes
Egypt	Yes	No	No
Ethiopia	No	No	No
India	No	No	No
Iran	No	No	No
Russia	Yes	Yes	Yes
Saudi Arabia	Yes	Yes	No
South Africa	Yes	Yes	Yes
UAE	Yes	Yes	Yes

Sources: "CIPS全球服务," Cross-Border Interbank Payment System, accessed October 23, 2023, http://www.cips.com.cn/cips/sy/index.html; 中国人民银行, "2023年人民币国际化报告," http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/5114765/index.html; and Perez-Saiz and Zhang, "Renminbi Usage in Cross-Border Payments," 10 and 12.

Brazil's first renminbi clearing bank was authorized by the PBOC in February 2023 and recently began to settle cross-border renminbi payments.[81] Brazil's sole CIPS direct participant (one of two in South America), a Brazilian bank controlled by a Chinese state-owned bank, was also established this year,[82] and in September 2023, the first ever direct real-renminbi commercial transaction took place.[83] With the renminbi accounting for over 5 percent of Brazil's foreign currency reserves at the end of 2022 (more than the euro, and up from zero in 2018),[84] it seems quite likely that Brazilian officials will continue working to grow the renminbi's use in the country.

In Russia, about thirty banks had reportedly joined CIPS as indirect participants by May 2023,[85] and there is seemingly pressure by some Russian industry groups for more Russian banks to join CIPS.[86] Importantly, articles in Chinese media outlets have indicated that CIPS indirect participants could begin to transmit payment instructions via CIPS without using SWIFT.[87] (CIPS indirect participants generally use SWIFT to send payment instructions to the system's direct participants.[88]) Were this to happen, Russian banks blocked from SWIFT would have an important reason to use CIPS to facilitate cross-border payments in renminbi. Similarly, were large Russian banks ever permitted to join CIPS as direct participants (one large Russian bank already expressed interest in doing so), the effect could be similar, as direct participants do not need to use SWIFT to conduct cross-border payments.[89]

Already, according to Russia's finance minister, 70 percent of China-Russia trade was settled in renminbi during the first three quarters of 2023.[90] Russian companies increasingly use renminbi debt financing,[91] and between January 2022 and March 2023 Chinese banks' exposure to Russian banks reportedly quadrupled.[92]

The renminbi's significance in Argentina also grew in 2023, although this trend may soon slow or reverse. In June 2023, Argentina's central bank announced an agreement doubling its swap line with the PBOC to $10 billion.[93] It was through a PBOC swap line that Argentina's government was able to facilitate partial IMF debt repayments with renminbi in 2023.[94] Argentina's central bank also announced in June 2023 that it will allow Argentine commercial banks to open renminbi-denominated customer accounts, one week after its securities regulator allowed the issuance of renminbi-settled securities in the local market.[95] Notably, China's largest state-owned commercial bank says that it maintains over 100 retail-facing outlets across Argentina,[96] and dollar shortages in 2023 were so severe that U.S. firms in Argentina were reportedly considering the renminbi for payments there rather than dollars due to the comparative abundance of renminbi.[97] Despite all these developments, the election of Javier Milei as Argentina's next president in November 2023 could lead to policies that stunt the renminbi's growth in the country—on the campaign trail, he pledged to dollarize Argentina's economy, and his foreign minister-designate has indicated the Milei administration will reject Argentina's invitation to join the BRICS bloc and end various economic deals with the Chinese government.[98]

In South Africa and Egypt, recent initiatives to increase renminbi use were comparatively modest. In August 2023, a major South African bank and China's largest state-owned bank renewed a long-standing partnership that facilitates renminbi use across fifteen African markets through, among other things, short-term renminbi credit facilities and renminbi accounts.[99] Similarly, in 2019, several of Egypt's major commercial banks were permitted to offer renminbi accounts to Egyptian businesses.[100] In October 2023, Egypt's government issued approximately $500 million worth of renminbi-denominated debt (with a large Chinese state-owned bank acting as the lead underwriter), and its central bank signed a renminbi loan agreement worth approximately $1 billion with a Chinese state-run development bank.[101]

Perhaps most significantly, 2023 was marked by a long-anticipated deal in November between the Chinese and Saudi central banks to establish a bilateral swap line, following high-level Chinese-Saudi discussions aimed at facilitating renminbi oil payments to energy suppliers in Saudi Arabia, which reportedly exports approximately 25 percent of its oil to China.[102] Also in 2023, two new Chinese state-owned bank branch offices opened in Saudi Arabia, coinciding with memoranda of understanding and agreements between Chinese state-owned banks and major Saudi firms, as well as Saudi government entities, aimed at growing the renminbi's cross-border use.[103] An October 2023 list of foreign cooperation projects released by the Chinese government in connection with its Third Belt and Road Forum for International Cooperation included a renminbi working capital loan project agreement with a Saudi commercial bank, as well as a memorandum of understanding on global strategic cooperation between a Chinese state-owned bank and a large Saudi energy firm.[104]

The list also included a memorandum of understanding between the PBOC and the UAE's central bank on strengthening digital currency cooperation, as well as a digital currency cooperation memorandum of understanding between a Chinese state-owned bank and a large Emirati bank.[105] An ongoing central bank digital currency project called mBridge co-led by China's and the UAE's central banks reportedly piloted renminbi payments for oil and gas in late 2022.[106] This project also aims to support greater local currency use in cross-border transactions by enabling PvP settlement between the Emirati dirham and the renminbi, among other currencies.[107]

As for heavily sanctioned Iran, the renminbi has reportedly been used to facilitate China-Iran trade since 2012,[108] and a 2022 "25-year comprehensive cooperation" plan between the countries will, according to Chinese state media, "boost the status" of the renminbi in global trade settlement.[109] During an early 2023 meeting in Beijing, Chinese and Iranian officials reportedly again discussed growing the renminbi's cross-border usage.[110] In May 2023, Russian authorities were reportedly considering using the renminbi to facilitate trade with Iran.[111]

The Usage of Other BRICS Currencies in Cross-Border Trade

Compared to the renminbi's growing global use in recent years, changes in the share of cross-border payments made in other BRICS members' and BRICS invitees' local currencies have been relatively smaller. For example, SWIFT data indicated that the rand's share of cross-border payments remained quite low between September 2021 and September 2023, falling from 0.33 to 0.28 percent.[112] (For comparison, South Africa's share of global gross domestic product, GDP, is around 0.6 percent.[113]) Also, as table 3 shows, although the respective dirham and Saudi riyal shares of SWIFT cross-border trade finance payments (not *all* cross-border payments) grew meaningfully since January 2022, overall levels generally remain low, particularly when compared to the UAE's and Saudi Arabia's respective shares of global GDP. Since January 2022, growth in these currencies' share of cross-border trade finance payments has been less rapid than the renminbi's growth in both absolute and relative terms.

Table 3. Selected BRICS Invitees Currencies' Usage in Cross-Border Trade Relative to China's

	Country currencies' share of SWIFT cross-border trade finance transaction messages (percentages based on value)				Share of world GDP (based on PPP)
	January 2022	September 2023	Percentage change	Percentage point change	2023
UAE	0.35%	0.41%	17.1%	+0.06	0.51%
Saudi Arabia	0.37%	0.56%	51.4%	+0.19	1.29%
China	1.92%	5.80%	202.1%	+3.88	18.82%

Sources: "GDP based on PPP, share of world," International Monetary Fund, accessed October 24, 2023, https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD; "RMB Tracker Monthly Reporting and Statistics on Renminbi (RMB) Progress Towards Becoming an International Currency," SWIFT, February 2022; and "RMB Tracker Monthly Reporting and Statistics on Renminbi (RMB) Progress Towards Becoming an International Currency," SWIFT, October 2023.

The data sources used to produce table 3 do not capture cross-border rupee payments, but other data indicated that the rupee accounted for just 1.6 percent of foreign exchange transactions in 2022,[114] despite 2023 data indicating that India's share of world GDP being estimated at approximately 7.5 percent. (By comparison, the same data indicated that the renminbi's share of foreign exchange transactions was nearly four times larger and that China's share of global GDP is two-and-a-half times larger.)[115] SWIFT data also no longer capture ruble cross-border payments, but data from January 2022, just before large Russian banks were shut off from SWIFT, indicated that the ruble's share of all cross-border payments (excluding intra-eurozone payments) was 0.26 percent.[116] Interestingly, between January 2022 and mid-2023, the share of Russian exports invoiced in rubles reportedly rose from roughly 10 percent to over 40 percent.[117] Yet the ruble's use in import invoicing appears to have declined modestly during this time, while the renminbi's use increased.[118]

It remains to be seen whether the ruble's use in exports will rise further, as the renminbi could increasingly be used in trade with Russia rather than the ruble. Indeed, data from a 2023 European Bank for Reconstruction and Development working paper indicated that by year-end 2022 over 5 percent of Russia's imports from third countries were invoiced in renminbi,[119] and as mentioned above, officials have reportedly considered using the renminbi in Iran-Russia trade. Nevertheless, several steps have been taken in recent months to increase ruble usage among BRICS economies and recent invitees. For example, in January 2023, the Russian central bank reportedly began to publish an official exchange rate for the ruble against the dirham and the Egyptian pound.[120] Yet given significant U.S. and European economic sanctions targeting large Russian financial institutions, as well as the ruble's volatility,[121] in the near- to medium-term the ruble is unlikely to be used in transactions *not* involving Russia, as is happening with the renminbi's use by Russia and third country trading partners.

Significant international usage of the riyal and the dirham is also currently unlikely; the dollar-pegged nature of these currencies inherently limits their attractiveness as tools of dedollarization. However, against the backdrop of sanctions-related restrictions on the dollar's usage in trade with Russia, the dirham rather than the renminbi has reportedly become a dominant currency of India-Russia trade, partially in response to Indian officials' discomfort with use of the renminbi by Indian importers.[122] Notably, the mBridge aims to make the dirham's use as a payments currency more attractive by mitigating foreign exchange settlement risk through PvP transactions. Additionally, in September 2023, the UAE's central bank signed a bilateral swap agreement with Egypt's central bank,[123] perhaps to facilitate the dollar-pegged dirham being used to help relieve Egypt's dollar shortages.

India's Nascent Efforts to Grow the Rupee's Use

As for the rupee, a report published by India's central bank in 2023 endorsed much greater rupee use in cross-border trade and finance. It noted that bilateral central bank currency swap arrangements could play an important role helping achieve this end, suggesting that the PBOC's use of these arrangements provides a "blueprint for reducing the dependence on the US dollar for settling trade transactions" without needing to embrace full capital account convertibility.[124] The report also endorsed local currency settlement agreements, which India's central bank is already embracing. In July 2023, the central banks of India and the UAE signed memoranda of understanding aimed at promoting rupee and dirham use in cross-border transactions, and the Indian central bank has reportedly since nudged Indian firms to use the rupee or dirham in cross-border transactions with Emirati firms. (In August 2023, the Indian government announced that a state oil company purchased 1 million barrels of oil from an Emirati supplier in rupees.)[125] In September 2023, Indian officials began negotiations with Saudi counterparts aimed in part at growing local currency settlement in bilateral trade.[126] Indian officials also reportedly seek to sign local currency settlement agreements with the governments of Argentina, Brazil, and South Africa.[127]

Increased cross-border rupee usage could potentially be aided by the growing number of foreign commercial banks permitted to have rupee accounts at Indian commercial banks. By August 2023, the Indian central bank had approved commercial banks from over twenty countries to open such special rupee accounts with Indian banks,[128] up from just three in late 2022.[129] Thirty-four Russian banks were reportedly permitted to open these types of accounts across fourteen different Indian financial institutions.[130] Despite efforts to grow the rupee's use in India-Russia trade, the currency's volatility appears to be an obstacle to its expanded use[131] and is leading Indian refiners to reportedly prefer using other currencies, particularly the dirham, in trade with Russian energy firms.[132] Russian officials' belief that economy-wide rupee accumulation is not desirable, driven in part by concerns over rupee convertibility, apparently contributed to a mid-2023 breakdown of India-Russia negotiations aimed at facilitating greater rupee use in trade between the countries.[133]

It is possible that the rupee could increasingly be used to facilitate India's growing imports from Iran. India's imports from Iran reportedly increased by 60 percent between 2021 and 2022 and by another 5 percent year-over-year during the first half of 2023.[134] At a 2023 meeting with Indian officials, Iranian officials reportedly raised the issue of increasing local currency usage in trade.[135] Also, a May 2023 meeting in Tehran between Indian central bank officials and counterparts from Iran, Russia, and various South Asian countries culminated in an agreement on how the rupee could be used to facilitate local currency settlement via a mechanism called the Asian Clearing Union (ACU).[136] An anonymously quoted Indian government official stated that this transition to rupee usage will in the long run mitigate the impact of recent U.S. government actions aimed at curbing Indian banks' involvement in ACU-facilitated transactions to or from Iranian entities.[137]

Conclusion

As the August 2023 BRICS summit made clear, efforts to increase the use of local currencies are hardly limited to China. India's central bank is seriously working to advance the rupee's use in cross-border trade and finance, and the UAE's central bank is taking steps to increase cross-border dirham usage. At the same time, BRICS currencies face significant limitations to greater cross-border use, particularly between third countries. There are still major concerns over rupee convertibility and volatility, which appear to be preventing its use in trade with Russia. In Brazil and South Africa, currency volatility and the relatively small size of these countries' economies and financial systems detract from their currencies' ability to grow globally as payment mediums and stores of value.[138] The ruble's attractiveness in these regards is hampered by U.S. and European economic sanctions against Russia's financial system. Overall, exchanging BRICS' currencies with other emerging market currencies can often be costlier relative to the dollar and can involve settlement risk due to the lack of financial infrastructure that mitigates such risk. As for recent BRICS invitees, their economies are heavily sanctioned, are on the verge of currency crises, or have dollar-pegged currencies.

Against this backdrop, the renminbi is by far the most commonly used BRICS currency, and a variety of policy efforts in 2023 involving BRICS countries and recent BRICS invitees profiled earlier in this paper signal Beijing's aim to further grow the currency's global use. Nevertheless, the amount of renminbi available outside of China remains quite limited relative to the dollar,[139] and the currency's cross-border usage in payments is greatly eclipsed by the dollar's role (and it could be negatively affected by a weakening Chinese economy). Also, it remains to be seen the extent to which Chinese policies restricting renminbi convertibility will limit the currency's growing use in cross-border trade and finance. Some at India's central bank and some prominent Chinese state-owned bank officials do not view these restrictions as a major impediment to meaningful growth in overseas renminbi use in cross-border payments, because of tools like central bank bilateral swap lines.[140] Yet some economists note that for the renminbi's global use to grow significantly without a major loosening of restrictions on convertibility, then renminbi held outside of China must be easily exchangeable into dollars and the Chinese financial system must maintain access to sizable dollar reserves.[141] (As explained earlier, China's dollar foreign exchange reserves remain substantial, and the vast majority of renminbi trading takes place against the dollar.)

Geopolitical tensions could also ultimately limit the renminbi's uptake. The CCP's October 2023 Central Financial Work Conference signaled that China's leaders seek for the country to become a global "financial power," with Chinese authorities having more political influence over China's financial institutions as well as global financial system rules.[142] Already, the CCP can exert significant influence over the state-owned banks that control most offshore renminbi clearing centers and upon which growing renminbi cross-border financial infrastructure relies.[143] The Chinese government is also developing sophisticated economic statecraft tools,[144] which could ultimately be quite impactful against those who rely upon Chinese state-owned banks to intermediate transactions or hold renminbi assets. In countries where significant geopolitical tensions exist with China, policymakers may be reluctant to embrace the renminbi's growing usage for fear of renminbi assets being frozen and renminbi payments channels being shut off (or surveilled) as tensions rise. Indian policymakers' recent concerns over Indian companies' renminbi payments in trade with Russia could perhaps be driven by such concerns.

Another area of uncertainty that will influence the growth in global use of BRICS currencies—particularly the renminbi—is how Washington responds to the range of policy initiatives aimed at expanding the use of non-dollar financial channels. Some of these channels are increasingly being used to facilitate transactions with regimes and entities heavily sanctioned by the U.S. government, as evidenced by a 2023 remark by the head of Iran's central bank that "the financial channel between Iran and the world is being restored."[145] Complicating any U.S. policy responses is the reality that strategic partners like India are involved in efforts to build out and use such channels. Also, it seems unlikely that U.S. President Joe Biden's administration will take actions that meaningfully target Chinese institutions' ability to facilitate renminbi trade payments to and from Russia; without the ability to pay Russian firms in dollars, many U.S. strategic partners appear to be using these channels.

It also remains to be seen whether U.S. policymakers will put in place meaningful U.S. policy efforts to address the severe dollar shortages facing many emerging markets, outside of actions taken through the IMF and multilateral development banks. In addition to BRICS invitees Argentina, Egypt, and Ethiopia, significant dollar shortages are facing a wide range of African, South Asian, and South American emerging markets.[146] As explained in this paper, in certain emerging markets, interest in and use of the renminbi seems to be occurring as a direct response to dollar shortages.

These dynamics all help illustrate why, as Washington considers how to respond to the renminbi's growing global use, it is important to not only focus on the build-out of new financial market infrastructure for the renminbi, such as digital currencies and CIPS, but also focus on *why* economies outside of China may under certain conditions find the renminbi (or eventually the rupee) an attractive alternative dollar. In the months and years ahead, it will be critically important for Washington to engage with policymakers in emerging markets around the world that are considering efforts aimed at increasing the use of non-dollar currencies and articulate a clear strategy for how the United States' government and private sector can and should respond to the dynamics motivating such efforts.

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