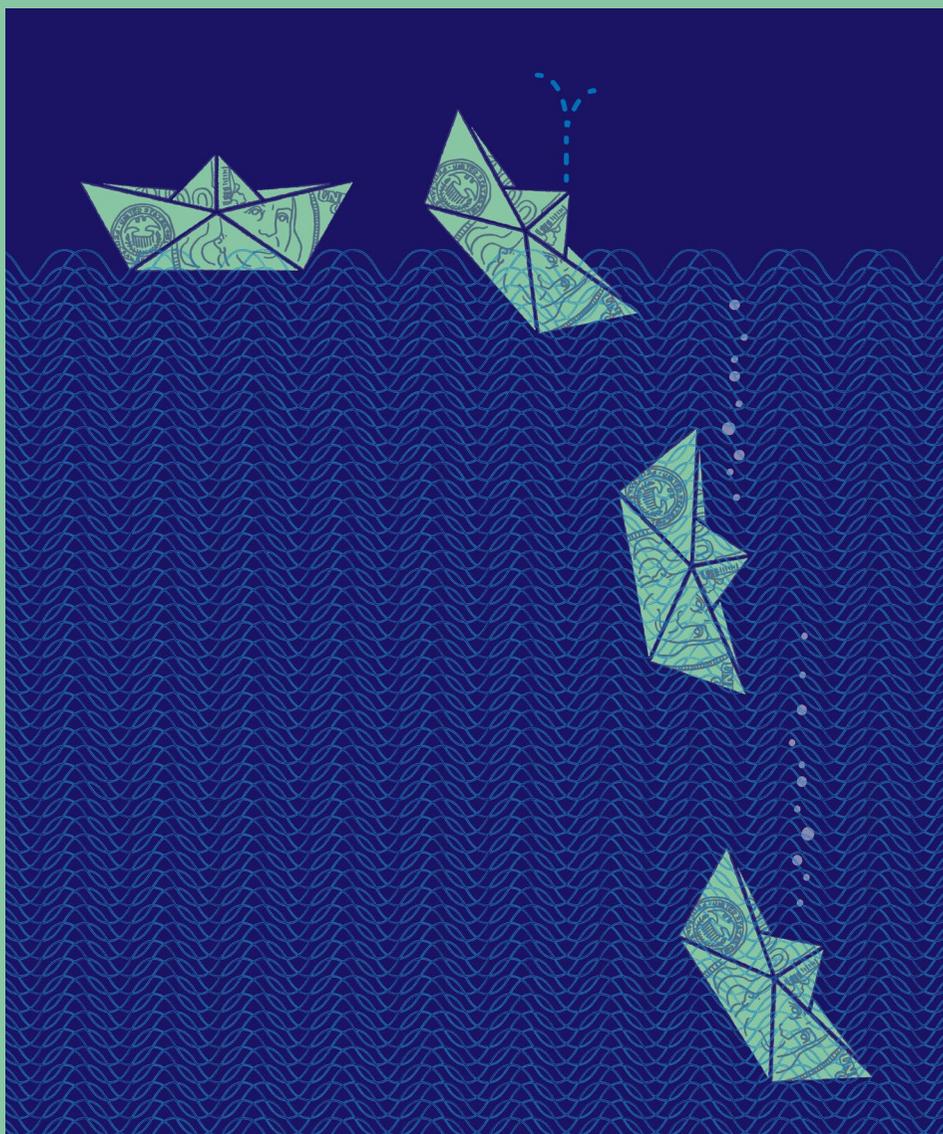


WENHUA ZONGHENG

A Journal of Contemporary Chinese Thought



May 2024 | Vol. 2, No. 1

**The BRICS and De-Dollarisation:
Opportunities and Challenges**

Editorial Board

Tings Chak
Jojo Hu
Jeff Xiong
Vijay Prashad
Ajit Singh

Managing Editors

Ajit Singh
Grace Cao

Coordinators

Ajit Singh (English)
Ines Chen (Español)
Tica Moreno (Português)

Editors

Ajit Singh (English)
Tings Chak (English)
Jeff Xiong (English)
Gisela Cernadas (Español)
Leandro Casarete (Español)
Marco Fernandes (Português)
Luiz Felipe Albuquerque
(Português)

Translators

Nan Hua
Kelly Echiburú
Tica Moreno

Designers

Tings Chak
Christine Cao

Web

Amilcar Guerra
Yingnan Wu

A collaboration between:

文化纵横



tricontinental

Cover art created by Tricontinental: Institute for Social Research.

Paulo Nogueira Batista Jr.

04 | The BRICS and the Challenge of De-Dollarisation

Gao Bai

10 | From De-Risking to De-Dollarisation:
The BRICS Currency and the Future of the
International Financial Order

Ding Yifan

35 | What Is Driving the BRICS' Debate
on De-Dollarisation?

Yu Yongding

45 | China's Foreign Exchange Reserves:
Past and Present Security Challenges

The BRICS and the Challenge of De-Dollarisation



Paulo Nogueira Batista Jr.

is a Brazilian economist, former vice president of the New Development Bank (2015–2017), and former executive director for Brazil and other countries in the International Monetary Fund (2007–2015).

E-mail:
paulonbjr@hotmail.com

The papers brought together in the present issue of *Wenhua Zongheng* (文化纵横) seek to throw light upon topics of major interest for the international economy. In particular, the issue takes up the popular and widely discussed matter of de-dollarisation. Is it needed? Is it possible in practice and, if so, in what time-frame? How can or should countries interested in de-dollarisation proceed? Can the BRICS jointly or individually help move this forward? Could China step in to provide its currency, the renminbi, as an alternative to the US dollar?

All or most of these questions are discussed in the papers written by professors Gao Bai (高柏), Yu Yongding (余永定), and Ding Yifan (丁一凡). I have also tried my hand at writing about de-dollarisation three times in the recent past.¹ In this prefatory note,

¹ See Paulo Nogueira Batista Jr., *The BRICS and the Financing Mechanisms They Created: Progress and Shortcomings* (London: Anthem Press, 2022); Paulo Nogueira Batista Jr., 'A BRICS Currency?' (paper, BRICS Seminar on Governance & Cultural Exchange Forum 2023, Johannesburg, South Africa, 19 August 2023), <https://www.nogueirabatista.com.br/wp-content/uploads/2023/09/>

I will come back to some aspects of the ongoing debate, trying not to repeat myself too much and addressing at the same time issues raised in the three papers by the Chinese scholars.

As is well-known, de-dollarisation has become a hot topic since 2022, when the United States and Europeans decided to block a large part of Russia's international reserves in response to the invasion of Ukraine, as described by Yu Yongding. Western officials and experts have traditionally lectured developing countries about the need to adopt 'confidence-building' policies and to respect property rights. In retrospect, this is truly amazing. The freezing of Russian assets and the more recent threats to move towards outright confiscation are major 'confidence-destroying' steps, doing great harm to the US dollar and the Euro. These actions set off an alarm for countries like China, a major holder of US dollar bonds as part of its international reserves. Any country experiencing conflicts with the US and the rest of the West immediately realised that steps were needed to reduce their reliance on the US dollar and the Western financial system. Efforts were intensified in many parts of the world to use national currencies in international transactions, to build or reinforce alternative payments systems, to rely more on the Chinese renminbi, and even to create a new BRICS reference currency. Undeniably, what we have seen is a major self-inflicted blow by the US and Europe. The three Chinese professors have made in their papers significant contributions to the discussion of all these challenges.

The popularity of the topic of de-dollarisation in wider circles and in the media is not usually accompanied by an understanding of its complexity. There is a widespread expectation that the BRICS will develop, in the near future, an alternative to the US dollar. But is this expectation realistic? Perhaps not.

The complexity of the topic is two-fold – political and technical. On the political side, one could mention two major difficulties: (a) the notorious

[Aug-2023-On-possible-BRICS-currency.pdf](#); Paulo Nogueira Batista Jr., 'BRICS Financial and Monetary Initiatives – The New Development Bank, the Contingent Reserve Arrangement, and a Possible New Currency' (paper, 20th Annual Meeting of the Valdai Discussion Club, Sochi, Russia, 2 October 2023), <https://valdaiclub.com/a/highlights/brics-financial-and-monetary-initiatives/>; Paulo Nogueira Batista Jr., 'BRICS Financial Settlements' (presentation, discussion in remote format organised by the Valdai Discussion Club, 18 March 2024), <https://www.nogueirabatista.com.br/wp-content/uploads/2024/03/Mar-2024-BRICS-Financial-Settlements.pdf>.

resistance of the US to giving up what the French in the 1960s called the ‘exorbitant privilege’ of having its national currency – issued and managed according to US national interests – serve as the foremost global currency; and (b) the difficulty of actually bringing the BRICS countries together in this endeavor. Allow me to try to address these two major difficulties, based in part on my practical experience as an International Monetary Fund (IMF) director, Brazilian delegate in the BRICS process, and later vice-president of the New Development Bank (NDB).

One should never lose sight of the fact that the United States will in all likelihood use all the many instruments at its disposal to struggle against any attempt to dethrone the dollar from its status as linchpin of the international monetary system. They have always done so, beginning from the monetary and financial negotiations that took place at the end of and immediately after the Second World War. Keynes’ ideas for an international currency were adamantly rejected by US officials. Later, the US blocked, using its veto power in the IMF, steps that could have led to the institution’s Special Drawing Rights (SDR) becoming a full currency of international status. To this day, the SDR remains a sideshow, of almost no relevance outside the IMF. The US views the incipient discussions on de-dollarisation among the BRICS countries with deep distrust and is likely to interfere at every turn to block initiatives and generate dissension among the BRICS. One can ask, for instance, whether India and South Africa will be immune to pressures coming from the US on this matter? My own country, Brazil, is currently following an independent foreign policy under President Lula da Silva, but a future government of a different orientation might well be reluctant to displease the US on such a critical issue.

This brings us directly to the second dimension mentioned above. Are the BRICS sufficiently cohesive as a grouping to tackle this complex challenge? Drawing on my practical experience of the BRICS process, I would caution against being overly optimistic in answering this question. Even when there were only five countries around the table, the difficulty of reaching an agreement on concrete steps, notably in the creation and implementation of the monetary fund of the BRICS (the Contingent Reserve Arrangement, CRA) and of the development bank (the NDB), were truly mind-boggling. First, because of the differences in outlook and national interests between

the five countries. Second, sadly, because of the lack of talent and technical competence of many of the officials representing the five countries in these negotiations and in the resulting financial mechanisms.² This is a harsh statement, I fully realise, but if we are serious about tackling the daunting issues of de-dollarisation and alternatives to the US currency, we need to be realistic and to have a minimum level of self-criticism.

Now, the BRICS expansion, initiated in 2024, will make coordination problems and political vulnerabilities even worse. With nine or ten member countries (depending on whether Saudi Arabia accepts the invitation to join), one can predict that there will be an even greater challenge to move forward on any practical matter. Non-experts, outside observers, and even well-prepared academics are often unaware of these difficulties. Some of them add up the gross domestic products (GDPs) and populations of the BRICS or BRICS+ and conclude hastily that the group has become a great force in the world. Some countries, I believe that China and Russia are among them, want to expand the group even further. In journalistic rhetoric, the expanded BRICS is supposedly set to become a forum for the Global South. This may sound fine, but one could ask: will a large and quick increase in the number of members of the group not ultimately result in the BRICS+ becoming something like a 'UN of the South', perhaps as ineffective as the UN itself?

However, let us not be too negative. The fact remains that the BRICS grouping includes major countries. The four original members – Brazil, Russia, India, and China – are among the giants of the world. China is now the largest economy, in terms of GDP at purchasing power parity, having overtaken the US by a considerable margin. The BRICS countries share a longstanding dissatisfaction with the existing international monetary and financial architecture. Reasons for dissatisfaction have only increased in these initial decades of the 21st century. Financial, economic, and political instabilities have risen dramatically, but the West gives no sign of making the adaptations and concessions needed to accommodate the BRICS and other emerging mar-

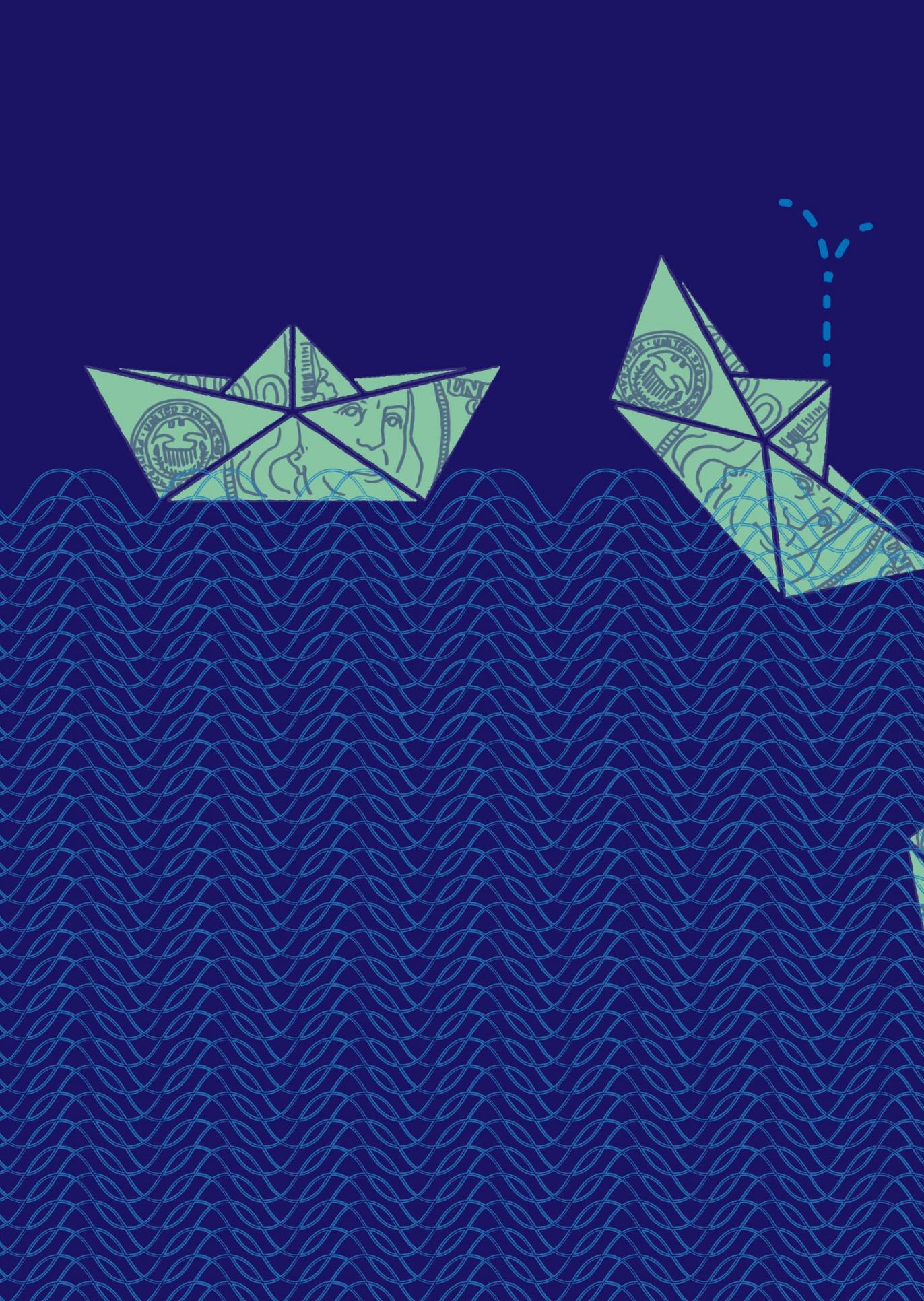
² In my book, *The BRICS and the Financing Mechanisms They Created: Progress and Shortcomings* (2022), I discussed in some detail the negotiations and the first five years of existence of the NDB and the CRA. I came back to the matter in a short paper published in 2023, see Nogueira Batista, 'BRICS Financial and Monetary Initiatives', <https://valdaiclub.com/a/highlights/brics-financial-and-monetary-initiatives/>.

ket nations. The dysfunctionality of the dollar-based international monetary system, which dates back to the 1960s, is becoming increasingly obvious.

Thus, we have the duty to try to rise to these challenges. If we cannot do so as a group, perhaps China will take it upon itself to foster de-dollarisation. However, as stressed by Gao Bai, it is not at all clear whether China has the means to and is truly interested in replacing the US dollar with its own currency. For an economy as yet not fully mature in financial terms and in other aspects, the 'exorbitant privilege' may well become an 'exorbitant burden'. Professor Gao has asked the relevant questions. Would China be ready to and interested in making the renminbi a fully convertible currency? This is probably a requirement for it to replace the US dollar to any significant extent. Would China be ready to accept the appreciation resulting from the increase in international demand for its currency? What effects would appreciation of the renminbi have on China's export competitiveness and balance of payments on current account? Would a large increase in the role of China's currency not conflict with the country's longstanding and successful strategy of cautiously protecting its economy and financial systems from international turbulence? And, last but not least, is China prepared to bear the brunt of the US wrath against anyone that seriously strives to displace the dollar? Because of these and other uncertainties, it is rather difficult to expect China alone to lead the de-dollarisation process.

This brings us back to the BRICS. Assuming that the group will be capable of surmounting coordination problems, political vulnerabilities, and the scarcity of specialised personnel, the effort could be spread among the several member countries. The considerable political and technical burden would then be shared by a number of countries.

Russia, as chair of the BRICS in 2024, has already started working on a review of the international system and possible BRICS initiatives in this area. Little is known about how far the BRICS have managed to move under Russian leadership this year. In any case, it can be expected that Russia, being the main victim so far of the weaponisation of the US dollar and of the Western financial system, will do its utmost to move the agenda forward. Brazil, the next chair of the group, in 2025, will pick up, I hope, where Russia has left off.



From De-Risking to De-Dollarisation: The BRICS Currency and the Future of the International Financial Order



Gao Bai (高柏) is a professor of sociology at Duke University. His main research fields include economic sociology, comparative historical sociology, international political economy, and organisational theory. His published works include *Economic Ideology and Japanese Industrial Policy: Developmentalism from 1931 to 1965* (1997) and *Japan's Economic Dilemma: The Institutional Origins of Prosperity and Stagnation* (2001).

'From De-Risking to De-Dollarisation: The BRICS Currency and the Future of the International Financial Order' (从去风险到去美元化: 金砖货币与国际金融秩序的未来) was originally published in *Wenhua Zongheng* (文化纵横), issue no. 5 (October 2023).

'De-risking' is replacing 'decoupling' as the key word to describe today's international political and economic hotspots. Western countries are emphasising de-risking trade and investment with China at the level of supply chains, while non-Western countries are de-risking their economic ties with the West in response to Western-led economic sanctions against Russia, enacted after the outbreak of the Russia-Ukraine war. The refusal of developing countries to align with Western policy on the war and sanctions against Russia has led to increasing discourse on the Global South's political role on the international stage. The Global South's

rising economic and political influence was highlighted at the 2023 BRICS summit in South Africa, where Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates (UAE) were invited to join the organisation, amid dozens of applicants. The BRICS grouping appears set to become a significant international political and economic platform representing the interests of the Global South, a development that will profoundly reshape the international order.

Western economic sanctions against Russia have significantly impacted the developing economies of the Global South in three main respects. First, Western energy sanctions and decoupling from Russia have disrupted the relatively stable, long-standing supply-demand relationships in the international energy market. When Russian-European energy cooperation ceased, the Russian energy industry was forced to turn to the Asia-Pacific market, exporting oil and gas at low prices. Russia's strategic response has, in turn, placed a lot of pressure on other energy producers, driving fierce competition in the Asia-Pacific market. This competition is altering the geopolitical landscape and the international political and economic balance of power. Second, Western economic sanctions against Russia have led to restructuring of the global supply chain. The withdrawal of Western companies and suppliers from the Russian market has forced Russia to find new sources of numerous goods and components, providing important commercial opportunities for non-Western firms to enter the Russian market. Third, Western financial sanctions have frozen Russia's foreign exchange reserves and confiscated the assets of some wealthy Russian citizens. These measures have triggered concerns in many countries about the risk of holding dollar-denominated assets, prompting them to transfer these assets away from developed countries and to actively seek alternatives to the US dollar, thus becoming a key driver of the current de-dollarisation trend.

This paper examines three aspects of the de-risking efforts of the Global South and explores their impact on the future development of the international economic order. First, the de-risking efforts of the Global South are epitomised by de-dollarisation. Countries of the Global South are attempting to reduce their use of the dollar in international trade by strengthening monetary sovereignty and national economic security. This movement is separating the international trading system from the international financial system, which since the end of the Second World War, has been tightly linked by the key currency, the US

dollar. In the past, the US dollar, as the reserve currency of countries in the international financial system, was used not only for commodities' pricing but also for cross-border trade settlements and inter-bank lending, greatly enhancing the efficiency and convenience of settlements in the multilateral trading system governed by the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO). However, the West's weaponisation of the US dollar has prompted Global South countries to pursue local currency settlements, a dynamic that will likely upend the dollar-dominated system of international trade settlements and payments, weaken or even end the dollar's status as the key global currency, and reshape the international financial order.

Second, although many in the de-dollarisation debate advocate for replacing the US dollar with the Chinese renminbi (RMB) as the new key global currency, this is unlikely to happen in the short term. Most supporters of RMB settlements are large energy exporters with large trade surpluses with China. Although the internationalisation of the RMB is set to take off in the future, unless the weaponisation of the US dollar intensifies or the credibility of the US dollar is destroyed by a severe debt crisis in the US, it is unlikely that the RMB will replace the US dollar in the short term due to various objective conditions. In the present period, it is more likely that the dollar's global status will be weakened by the various de-risking efforts of the Global South countries and that the international financial system will transition from the dominance of the US dollar to the coexistence of several major currencies, including the US dollar, RMB, euro, and the BRICS currency.

Third, in a situation where several major currencies coexist, the greatest common denominator for joint action among the Global South countries is establishing a reference value for settlements in their local currencies and an exchange platform to support such settlements. The great demand for such a valuation reference provides an opportunity for the creation of a BRICS currency. Most Global South countries do not wish to choose sides in global political-economic matters but seek a multipolar world and the creation of international platforms that are more equal and fair, and that better represent their interests so that they can hedge against the risks posed by the current international economic order. In advocating for de-dollarisation, these countries aim to mitigate the various risks posed by the US dollar, not to confront it. Therefore, the traditional perspective – i.e., the international financial system

must have one dominant currency and, since the dollar is no longer viable, it should be replaced by the RMB – may be inadequate in grasping the crux of the global situation, as the world faces ‘great changes unseen in a century’ (百年未有之大变局, bǎinián wèi yǒu zhī dà biànjú).

The Russia-Ukraine war is profoundly changing the international order: on the one hand, Western countries are trying to break away from the unified international economic order led by the United States in the post-Cold War period and return to the landscape of the coexistence of the two confrontational systems during the Cold War period; on the other hand, the Global South countries, through de-risking, have begun to put building a multipolar world into action, which was just lip-service in the past. Whether it is the de-risking of China and Russia by the West or the de-risking of the West by the Global South countries, the common feature is the weakening of the existing Western-dominated international economic order and the promotion of a more multipolar world.

The Impact of Western Sanctions against Russia

This section analyses the relationship between de-risking, de-dollarisation, and the BRICS currency and the impact that Western economic sanctions against Russia have had on this dynamic in the Global South.

(i) International Energy Markets

After the outbreak of the Russia-Ukraine war, both Europe and the United States banned imports of crude oil, refined petroleum products, and coal from Russia, leading to a sharp decline in Russian energy exports to Europe. Russian gas exports plummeted 25.1 percent in 2022 due to European countries’ halting their purchases of Russian gas and the sabotage of the Nord Stream pipeline. Europe’s energy decoupling has forced Russia to accelerate its efforts in Asia-Pacific markets. In 2022, China’s imports of Russian pipeline gas and liquefied natural gas (LNG) soared 2.6 times and 2.4 times to \$3.98 billion and \$6.75 billion, respectively.¹

¹ Erin Hale, ‘How China and India’s Appetite for Oil and Gas Kept Russia Afloat’, *Al Jazeera*, 24 February 2023, <https://www.aljazeera.com/2023/2/24/how-china-and-indias-appetite-for-oil-and-gas-kept-russia-afloat>.

Similar trends have taken place in the oil sector. Prior to the war, in 2021, 8 percent of US oil imports came from Russia; after the outbreak of war, the US banned imports of Russian energy.² In December 2022, the European Union (EU), Group of Seven (G7) countries, and Australia imposed an embargo on Russian oil and a price cap on Russian exports. This forced Russia to reduce the price of its oil significantly and shift its export focus to the Asia-Pacific region. India, China, and Turkey, all major energy consumers, have significantly increased their imports of Russian crude oil.³ In 2022, China's imports of Russian crude oil increased by 8 percent, making Russia the second largest supplier of crude oil to China.⁴ India's imports of Russian oil saw the largest increase, increasing by more than 9 percent in the months following the imposition of the Western embargo in December 2022. In addition, in 2022, China's coal imports from Russia surged 20 percent to 68.06 million tonnes, while India's imports of thermal coal from Russia grew by nearly 15 percent to 161.18 million tonnes.⁵

(ii) Supply Chain Restructuring

Many US-origin technologies have been restricted from being exported to Russia and Belarus. US exporters must apply for licences to export a range of technologies to Russia, including computers, communications equipment, sensors, lasers, navigation, and aerospace and propulsion technology. The sanctions against Russia also restrict the export of products from other countries that use such US technologies.⁶ Since February 2022, European exports to Russia affected by the sanctions have amounted to 43.9 billion euros, including products related to quantum computers, advanced semiconductors, electronic components and software, machinery and transport equipment, energy industry equipment, technology, and services, aviation and space industry goods and

² Rebecca M. Nelson, Christopher A. Casey, and Andres B. Schwarzenberg, 'Russia's War on Ukraine: Financial and Trade Sanctions', Congressional Research Service, 22 February 2023, <https://crsreports.congress.gov/product/pdf/IF/IF12062/4>.

³ '俄罗斯: 2022年天然气出口暴跌, 石油出口却增加' [Russia: Gas Exports Plummet in 2022, Oil Exports Rise], *investgo.cn*, 15 February 2023, <https://www.investgo.cn/article/gb/tjsj/202302/654653.html>.

⁴ Hale, 'How China and India's Appetite for Oil and Gas Kept Russia Afloat'.

⁵ Hale, 'How China and India's Appetite for Oil and Gas Kept Russia Afloat'.

⁶ Nelson, Casey, and Schwarzwzenberg, 'Russia's War on Ukraine: Financial and Trade Sanctions'.

technologies, maritime navigation and radio communication technology, dual-use goods, luxury goods, and more.⁷

The massive withdrawal of US, European, Japanese, and South Korean companies from Russia has created opportunities for companies from other countries to enter the Russian market. For example, Samsung and Apple's joint share of the Russian mobile phone market, which was as high as 53 percent at the end of 2021, fell to only 3 percent by the end of 2022. Meanwhile, the share of Chinese mobile phones in the Russian market rose from 40 percent at the end of 2021 to 95 percent at the end of 2022.⁸ A similar trend was observed in the Russian auto market. Between 2021 and 2022, Germany's BMW and Mercedes-Benz disappeared from the Russian market, while China's Chery, Great Wall Motor, and Geely rose to the top ten best-selling passenger car brands. Despite the sharp overall contraction of the Russian auto market due to economic sanctions, sales of Chinese-made cars in Russia grew by 7 percent in 2022.⁹

(iii) Financial Risk Avoidance

After the outbreak of the war, the West expelled Russia from the SWIFT international banking communications system, and European and American banks froze as much as 300 billion euros of the Russian central bank's foreign exchange reserves and 21.5 billion euros of assets belonging to sanctioned Russian individuals.¹⁰ In the past, the US dollar was trusted globally as a 'safe haven currency', but this trust has been broken by the Western financial sanctions against Russia, which have de facto constituted a 'selective default'.¹¹ Many developing countries, including traditional US allies such as Saudi Arabia, have begun to fear that, should they ever find themselves on the opposite side of the US in a geopolitical dispute, their dollar-denominated assets will

⁷ 'EU Sanctions against Russia Explained', The Council of the European Union and the European Council, accessed 25 February 2024, <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/>.

⁸ Michelle Toh, 'Chinese Brands Have Replaced iPhones and Hyundai in Russia's War Economy', *CNN*, 26 February 2023, <https://www.cnn.com/2023/02/25/business/russia-chinese-brands-sales-surge-ukraine-war-intl-hnk/index.html>.

⁹ Toh, 'Chinese Brands'.

¹⁰ 'EU Sanctions against Russia Explained'.

¹¹ James Rickards, 'Western Countries about to Slam into A BRICS Wall?', interview by Stephanie Pomboy, *Wealthion*, YouTube, 8 August 2023, <https://www.youtube.com/watch?v=88pP53lcBwQ>.

not be safe. Countries like India have also argued that sanctions against Russia have led to volatility in food and energy prices, harming the world's poor. As the US-China relationship has become increasingly tense, concerns have also grown regarding the potential crises that US sanctions against China could trigger in the future. Although the US dollar is the world's most popular trade settlement currency, China is the world's largest trading nation, and in the face of this international political and economic uncertainty, some countries have argued that it would be better to reduce the use of the US dollar in global trade rather than reduce trade with China.¹²

The case of Switzerland illustrates how the behaviour undertaken by other countries to avoid the financial risks posed by sanctions against Russia can harm the West's financial sector. Before the war, roughly 80 percent of Russian commodities were traded through Switzerland, amounting to \$11 billion, while 30 percent of private Russian assets held abroad were located in Switzerland. Since the war broke out, Switzerland has abandoned its neutrality and participated in the EU's financial sanctions against Russia. Credit Suisse alone froze \$19 billion worth of Russian assets, more than a third of all Russian assets in Switzerland, while the Swiss government froze more than \$8 billion worth of Russian and Belarusian assets. Swiss authorities also required local banks to report deposits of over 100,000 Swiss francs belonging to Russian individuals and prohibited them from accepting new deposits exceeding this amount from Russian individuals. By November 2022, 7,500 people were on the list, involving CHF 46.1 billion in deposits.¹³ Due to these sanctions, wealthy individuals worldwide began to move their funds out of Switzerland. For instance, Credit Suisse experienced severe client divestment, reaching \$119 billion in the final quarter of 2022 alone. The divestment crisis was compounded by the subsequent collapse of several US banks and the refusal of Credit Suisse's largest shareholder, Saudi National Bank, to increase its capital input. As a result, Credit Suisse faced insolvency and was ultimately acquired by UBS at the behest of the Swiss government. Leading Swiss banker Josef Ackermann noted that the Swiss government had put the rule of law and property rights at risk when it made individuals pay for the actions of the

¹² Gideon Rachman, 'How the Ukraine War Has Divided the World', *Financial Times*, 17 April 2023, <https://www.ft.com/content/40c31fda-1162-4c40-b3d5-b32e4ac5d210>.

¹³ 'A Third of Russian Assets in Switzerland at Credit Suisse', *finews.com*, 13 February 2023, <https://www.finews.com/news/english-news/55768-russian-funds-one-third-is-at-credit-swiss>.

Russian government. Citizens of other countries would assume that the Swiss government would do the same in the future to make them pay for the wrongs done by their homeland governments. Confiscating the assets of Russian individuals has been devastating for the Swiss financial industry.¹⁴

Financial Sanctions and Barter Trade

The impact that Western economic sanctions against Russia have had on the Global South is intertwined across three areas: energy markets, supply chains, and international finance. Accordingly, the Global South's de-risking behaviour is closely related to these three areas.

After the West banned Russia from the SWIFT system in March 2022, Russian energy exports could no longer be settled in dollars or euros. Russia countered by requiring hostile countries to purchase Russian energy in rubles. If these countries did not have rubles, they had to open accounts in Russian banks to deposit dollars and euros, which were then converted to rubles for payment. Since European countries were unable to completely decouple from Russian gas immediately for most of 2022, they had to convert their euros and dollars into ruble payments. In this way, the ruble's exchange rate was strongly supported for a time. At one point, its value was even higher than it had been before the war.

The weaponisation of the US dollar and Russia's countermeasures have given the Global South countries a new perspective on the relationship between the international financial and trading systems. First, the dollar's value as a currency for international trade settlements has become less important for countries facing Western economic sanctions and experiencing major geopolitical crises or wars because these countries cannot buy what they want even if they have dollars. Second, in such extreme environments, a country can only trade with others for critical resources if it has energy, resources, or industrial manufacturing capacity.¹⁵ Third, to reduce the risk of being unable to make purchases in the face of sanctions or warfare, it is necessary to build strong cooperative

¹⁴ 'A Third of Russian Assets in Switzerland at Credit Suisse'.

¹⁵ Zoltan Pozsar, 'War and Commodity Encumbrance', *Credit Suisse Economics*, 27 December 2022.

relationships in peacetime with various economies that can provide important goods. Finally, trade between major producers of energy, resources, and manufactured goods, if settled in their currencies, can enable them to significantly reduce their dependence on the US dollar.

With Russia's energy exports shifting to the Asia-Pacific and competition intensifying among energy exporters for this regional market, major exporters of energy and resources are expanding their cooperation with China for several reasons. First, these principal energy and resource exporters also import vast quantities of manufactured goods from and have trade surpluses with China. To bundle strategic interests, these countries are more willing to settle trade in RMB. For example, China has signed or intends to sign, agreements to settle bilateral trade in RMB with major energy resource countries – such as Saudi Arabia, Russia, Brazil, Iraq, Iran, and Argentina – all of which have tens of billions of dollars in trade surpluses with China and can use RMB to purchase more manufactured goods and infrastructure directly from China. Second, under extreme conditions, such bilateral trade can be bartered. As such, for these energy-rich countries, cooperation with China, a manufacturing powerhouse, can reduce the risk of being unable to obtain vital supplies should they encounter a major international crisis. Third, through cooperation with China, these countries can combine bilateral trade in energy resources with their medium- and long-term economic development needs, obtaining from China the investment, technology, and infrastructure necessary for industrial development, particularly high-tech industries.

In December 2022, the Gulf Cooperation Council (GCC) and China held their first joint summit in Saudi Arabia. The joint statement issued at the conclusion of the summit marked the beginning of a paradigm shift in strategic cooperation between the Gulf states and major countries outside the region. Since the Second World War, strategic cooperation between the Gulf states and the United States has taken the form of an 'oil-for-security' exchange: the Gulf states ensure the supply of oil to the US, which, in turn, provides security for the states, including the sale of massive amounts of weapons; the Gulf states use their oil revenues to purchase a large number of US treasury bonds and invest in US dollar-denominated assets, thus creating a petrodollar system.¹⁶ As the US began to increasingly exploit its offshore oil and gas reserves

¹⁶ Pozsar, 'War and Commodity Encumbrance'.

as well as shale oil, it not only drastically reduced its dependence on energy from the Middle East – thereby reducing the strategic value of the Gulf region to the US – but also became a competitor to the Gulf states in the international energy market.¹⁷ Before the Russia-Ukraine War, the US and Gulf states had already begun to drift apart. After the outbreak of the war, the decoupling of Europe from Russian energy and Russia's shift to the Asia-Pacific energy market have greatly accelerated this trend. Unlike the oil-for-security cooperation between the Gulf states and the United States, cooperation between the Gulf states and China is based on 'all-round cooperation in the energy sector': China invests in the Gulf states' downstream energy industries, while the Gulf states use their expertise to cooperate with China in the development of its upstream energy industries, including joint oil and gas exploration and extraction in the South China Sea. A new 'oil-for-development' paradigm is replacing the old 'oil-for-weapons' paradigm.¹⁸ This new paradigm is reflected in the recent consensus in cooperation between China and countries such as Saudi Arabia, Russia, and Brazil.¹⁹

The US-dominated international economic order is based on finance, emphasising the dominance of the US dollar as the world's reserve currency. The new international economic order that is being promoted by the Global South, including China, is based on trade – exchanging energy and resources for manufactured goods and infrastructure. This new international economic order will be based less on currencies and more on commodities, which will lead

¹⁷ Gao Bai, '做连接亚洲与非洲的大陆桥: 沙特问题的中国解决方案' [Being a Land Bridge Connecting Asia and Africa: A Chinese Solution to the Saudi Problem], *西南交通大学学报(社会科学版)* [Journal of Southwest Jiaotong University (Social Science)], no. 4 (2014).

¹⁸ Pozsar, 'War and Commodity Encumbrance'.

¹⁹ See '中华人民共和国和沙特阿拉伯王国联合声明' [Joint Statement by the People's Republic of China and the Kingdom of Saudi Arabia], Ministry of Foreign Affairs of the People's Republic of China, 9 December 2022, https://www.mfa.gov.cn/wjdt_674879/gjldrhd_674881/202212/t20221209_10988250.shtml; '中华人民共和国主席和俄罗斯联邦总统关于2030年前中俄经济合作重点方向发展规划的联合声明' [Joint Statement of the President of the People's Republic of China and the President of the Russian Federation on Pre-2030 Development Plan on Priorities in China-Russia Economic Cooperation], Ministry of Foreign Affairs of the People's Republic of China, 22 March 2023, https://www.mfa.gov.cn/zyxw/202303/t20230322_11046176.shtml; Chen Weihua, 'Diversification of Brazil's Exports to China to be Tapped' [巴西对华出口多样化有待挖潜], *经济参考报* [Economic Information Daily], 1 June 2022, http://www.jjckb.cn/2022-06/01/c_1310610291.htm; '国家发展改革委与巴西发展、工业、贸易和服务部签署关于促进产业投资与合作的谅解备忘录' [China's National Development and Reform Commission and Brazil's Ministry of Development, Industry and Foreign Trade Signed a Memorandum of Understanding on Promoting Industrial Investment and Cooperation], National Development and Reform Commission of the People's Republic of China, 17 April 2023, https://www.ndrc.gov.cn/fzggw/wld/zsj/zyhd/202304/t20230417_1353652.html.

to higher inflation rates in the West. During the Nixon administration, then US Treasury Secretary John Connally famously remarked, ‘The dollar is our currency, but it’s your problem’. According to former Credit Suisse analyst Zoltan Pozsar, this is now being replaced by a new motto: ‘Our commodity, your problem’.²⁰

RMB or Common Currency?

Where is the Global South’s de-dollarisation trend heading? In the current debate, many believe that China’s RMB will replace the US dollar, while others have high hopes for the development of a common currency backed by oil. Both routes have their challenges.

Let us first look at RMB internationalisation. From a geopolitical perspective, this is widely seen as a major threat to the US dollar. There is no doubt that the US opposes the internationalisation of the RMB and pressures other countries on this issue. A recent example is Saudi Arabia, which has indicated that it will consider using other currencies to settle its energy trade but has yet to issue an official statement on the matter. Meanwhile, in March and April 2023, the Indian government explicitly opposed the country’s companies settling energy imports from Russia in RMB. In July, under pressure from Russia, India had to pay a small portion of energy imports in RMB. However, this is because, under Western economic sanctions, Russia exported oil to India at a very low price; hence, India’s huge benefits greatly outweighed its geopolitical concerns about the RMB’s expanding influence. Energy resource exporters are relatively more receptive to settling in RMB because they all have large trade surpluses with China. For countries with large trade deficits with China, settling in RMB would not address their settlement cost concerns with the US dollar, and it actually would be more costly.

Moreover, replacing the dollar with the RMB would not resolve the paradox that is responsible for the dysfunctionality of the international monetary system. As the Brazilian economist Paulo Nogueira Batista Jr. pointed out, ‘[t]he fundamental contradiction [...] lies in the fact that the *international* system depends on a single *national* currency, managed according to the interests of

²⁰ Pozsar, ‘War and Commodity Encumbrance’.

the state that created it'. The United States tends to formulate financial policies to serve its interests, which are not always in line with those of the international financial system and, in many cases, the two conflict with each other. Thus, even if the Global South countries continue to work to de-dollarise, they would not support another country's currency assuming the US dollar's role as the new key currency.²¹

So far, RMB internationalisation has not taken the US dollar as a reference point but has followed its own path. First, the RMB has not achieved free currency convertibility, without which it cannot provide other countries with the same efficiency and ease of use in international trade settlements as the dollar. Second, for a national currency to become a major world reserve currency, the home country must have a developed financial market, sufficient financial instruments available for investment, and capital account liberalisation. However, China's financial sector remains relatively underdeveloped and the country has always regarded national financial security as a top priority. Third, as the key global currency, the dollar provides liquidity to other countries. However, as a manufacturing giant with a large population and a high pressure to maintain employment, China cannot provide liquidity to other countries through a large current account deficit as the United States does. Under these internal and external constraints, the impact of different RMB internationalisation paths on the Chinese economy remains to be explored.

There is a risk in using local currency settlements for bilateral trade in the Global South: if the deficit country's currency underperforms, the surplus country is likely to give up its long-term holdings; if the surplus country chooses to sell, the deficit country's currency is at risk of further depreciation.²² While there are certainly real economic fundamentals and the impact of US interest rate hikes behind the recent RMB depreciation, another important reason is the effect of currency swaps and RMB settlements, given that the RMB is not freely convertible. For example, Russia suddenly possesses a large amount of RMB through its energy trade surplus with China, but there is no channel for

²¹ Paulo Nogueira Batista Jr., 'A BRICS Currency?' (paper, BRICS Seminar on Governance & Cultural Exchange Forum 2023, Johannesburg, South Africa, 19 August 2023), <https://www.nogueirabatista.com.br/wp-content/uploads/2023/09/Aug-2023-On-possible-BRICS-currency.pdf>. A version of this paper was published on the Chinese media platform, *Guancha*.

²² Nogueira Batista, 'A BRICS Currency?'.

these RMB to flow back to China because China does not have a developed financial market or sufficient financial instruments for Russian investment. Under these conditions, it becomes a reasonable choice for Russia to maintain the ruble's exchange rate either by selling large sums of RMB or by selling RMB acquired at parity for dollar profits against the backdrop of the dollar's appreciation against the RMB. As long as China's financial markets and instruments are not developed to provide sufficient channels for the return of the 'oil RMB' to China, countries with large surpluses will have an incentive to sell RMB for other currencies, thus creating pressure to devalue the RMB. Whether China is willing to bear this burden of RMB internationalisation in the long term remains to be seen.

Now, let us turn to the prospects for a common BRICS currency. The strength of the BRICS has indeed grown rapidly, laying a solid foundation for launching a BRICS currency. For reference, when the G7 was founded in the 1970s, the group's share of global gross domestic product (GDP) was as high as 62 percent; today, the BRICS countries have surpassed the G7 in terms of their respective shares of global GDP, measured at purchasing power parity (PPP). According to the International Monetary Fund (IMF), in 2021, the BRICS collectively accounted for 31.5 percent of global GDP (PPP), whereas G7 accounted for 30.7 percent.²³ The IMF projects that by 2028, the expanded BRICS10 (including Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE) will account for 37.9 percent of global GDP (PPP), with the G7's share falling to 27.8 percent.²⁴ With major energy exporters such as Saudi Arabia, Iran, and the UAE having joined the BRICS cooperation mechanism in 2024, the likelihood of a BRICS currency has further increased. In the future, if the BRICS can cooperate with OPEC in developing a BRICS currency, such an initiative may surpass the limitations of the BRICS member countries and greatly enhance the material basis of a BRICS currency.

However, there are still significant challenges to issuing a BRICS currency underpinned by oil. First, the underpinning of the US dollar by oil is guar-

²³ Calculated from the International Monetary Fund's *World Economic Outlook* database (October 2023), <https://www.imf.org/external/datamapper/PPPSH@WEO/MAE/BRA/RUS/IND/CHN/ZAF?year=2021>.

²⁴ Calculated from the International Monetary Fund's *World Economic Outlook* database (October 2023), <https://www.imf.org/external/datamapper/PPPSH@WEO/MAE/BRA/RUS/IND/CHN/ZAF/EGY/ETH/IRN/SAU/ARE?year=2028>.

anteed through the exclusivity of the US-Saudi agreement to price oil only in US dollars. Countries use the US dollar as a foreign exchange reserve to ensure that their energy imports are not subject to exchange rate fluctuations, thus indirectly securing the US dollar's status as a key global currency. Would a BRICS currency be able to establish exclusivity in oil and gas pricing and settlements in the international energy market, thus supporting its transformation into a reserve currency for countries? Unless the BRICS countries want to go to war with the United States, it seems unlikely. Would it be possible for a BRICS currency to become one of several currencies for oil and gas pricing and settlements? The answer is yes, but a BRICS currency would still face fierce competition from the US dollar, which has the world's largest financial markets and most developed financial instruments, especially the massive US Treasury market. Second, developing an oil-based BRICS currency is easier said than done. To underpin a currency with oil, a fixed exchange rate must be established between a certain unit of oil and a certain unit of the currency. Yet, even if a fixed exchange rate is established between a BRICS currency and oil, when the price of oil rises in the international market, who will BRICS currency holders turn to for oil at the fixed exchange rate?²⁵ When designing the Bretton Woods system, John Maynard Keynes had also envisioned the establishment of an exchange rate between oil and the dollar, but he found that the types and quality of oil were too numerous and varied too significantly from country to country, so this was not operational in practice. In the end, he decided to use gold.²⁶

Local Currency Settlement, Reference Values, and Exchange Platform

For Global South countries, the greatest common denominator for future joint action is the demand for local currency settlement, which is shared across the various de-dollarisation propositions put forward today. In recent years, several agreements have been reached between BRICS countries to use local currencies for bilateral trade, including China and Russia, China and Brazil, and Russia and India's energy trade. Furthermore, in 2023, the Association of

²⁵ Nogueira Batista, 'A BRICS Currency?'

²⁶ Rickards, interview.

Southeast Asian Nations (ASEAN) met to discuss reducing their reliance on the US dollar, Euro, British pound, and Japanese yen for financial transactions and issued a declaration on the promotion of local currency trading schemes. ASEAN plans to expand its cross-border digital payment system further and allow ASEAN countries to trade in local currencies. This will encourage cross-border trade and investment within the ASEAN grouping and reduce the impact of external factors on the regional economy. Southeast Asia is often subject to economic volatility due to abrupt policy changes at central banks in the United States and other countries and regions; as such, ASEAN countries would like to increase the use of local currencies to promote economic stability and reduce the spillover effects of high inflation in developed countries.²⁷

For various reasons, it is difficult to establish a direct and relatively stable exchange rate between two currencies with limited international circulation. Therefore, when making local currency settlements, it is often necessary to resort to a reference to help the parties establish their relative values vis-à-vis each other. This creates an opportunity for the development of a BRICS currency. If a relatively stable exchange rate is established between a BRICS currency and the sovereign currencies of the respective BRICS member countries, it can serve as a reference value between the currencies of the different member countries.

Russia and Brazil, both proponents of de-dollarisation, have put forward different views on whether and how to anchor a BRICS currency. On the one hand, Russia has favoured anchoring a BRICS currency in gold, establishing an exchange rate between a unit of BRICS currency and a unit of gold. The challenge with this option is that central banks would have to stockpile large amounts of gold.²⁸ US financial expert James Rickards, inspired by the Russian view, has instead suggested that a BRICS currency use gold only as a reference value and not to underpin the currency, thereby allowing BRICS central banks to avoid the need for gold redemption for BRICS currency holders. Such a BRICS currency would not replace the US dollar but coexist with it and reflect its value to a large extent with the help of the US dollar. Since

²⁷ 'ASEAN's Aim to Increase Monetary Autonomy Reflects De-Dollarization Trend, Says Indonesian Economist', *Xinhua News Agency*, 5 April 2023, <https://english.news.cn/20230405/6b25f882f66047da8fb0231d3411d45f/c.html>.

²⁸ Rickards, interview; Nogueira Batista, 'A BRICS Currency?'.

gold is denominated in dollars on the international market, the fixed relationship between a BRICS currency and gold will also be reflected in the dollar-denominated price of gold.²⁹ According to Rickards, the dollar will depreciate in the long-term; however, even if the dollar does depreciate in the future, this would not negatively impact a BRICS currency because a depreciation of the dollar would lead to an appreciation of gold and, at the same time, an appreciation of a BRICS currency. Under this framework, the US dollar would bear the burden of being the key global currency, while the BRICS currency would merely need to coexist and reap the benefits. As the BRICS grows to thirty or forty members, there would be no major obstacles to the internal circulation of such a BRICS currency; the diversity of trade among the BRICS members would be sufficient to support the currency's settlement efficiency and ease of use.³⁰

On the other hand, Nogueira Batista, former vice president of the New Development Bank (NDB), has put forward an influential view that opposes anchoring a BRICS currency in gold or any other commodity. Instead, it would be preferable to build a BRICS currency as a basket of currencies similar to the IMF's Special Drawing Rights (SDR), in which the relative weight of each BRICS member's currency would be determined according to its economic strength. Such a BRICS currency would not need to replace national currencies – countries would retain their monetary sovereignty – and would not require the BRICS to establish a unified central bank – the New Development Bank (NDB) could undertake the issuance of the currency.³¹ How could this BRICS currency be widely accepted without an anchor asset that is freely convertible at a fixed exchange rate? Following Nogueira Batista's logic, the credit of the BRICS currency would be backed by the currencies of the respective BRICS member countries. BRICS currency holders would have the right to freely convert it into their currencies at any time. The NDB would ensure the convertibility of the BRICS currency, relying on its reserves and, when necessary, seeking additional funds from countries that issue internationally liquid currencies to support the BRICS currency. Another confidence-boosting op-

²⁹ Rickards, interview.

³⁰ Rickards, interview.

³¹ Nogueira Batista, 'A BRICS Currency?'; Federico Steinberg and Miguel Otero-Iglesias, 'South America's "Common Currency" Is Actually about De-Dollarization', Center for Strategic and International Studies, 14 February 2023, <https://www.csis.org/analysis/south-americas-common-currency-actually-about-de-dollarization>.

tion would be for the NDB to issue BRICS bonds of varying maturities and interest rates, while allowing the BRICS currency to be freely convertible into BRICS bonds.³²

Initially, a BRICS currency is likely to serve only as a unit of account, providing a reference value for the BRICS member countries when settling bilateral trade in their local currencies, thus reducing the current cost of settling in US dollars. A BRICS currency would be freely convertible with the currencies of BRICS member countries but would lack the systemic characteristics of a key currency like the US dollar. Nonetheless, it could still help the BRICS countries hedge some of the risks the US dollar poses. The Euro was born partly out of Europe's desire to avoid the negative externalities of US financial policy. While the Euro has been far from successful in competing with the dollar as a key international currency, it has been successful in helping to insulate the eurozone from the dollar cycle.³³ It may be easier to establish political consensus among the BRICS countries around a currency that coexists alongside the US dollar. At the 2023 BRICS summit, both Russian President Vladimir Putin and Brazilian President Luiz Inácio Lula da Silva actively pushed for de-dollarisation; however, the host government, South Africa, did not include de-dollarisation as an official topic under pressure from the US, while India explicitly opposed the option of a head-to-head confrontation with the US. With Russia hosting the 2024 BRICS summit, it can be expected that the Russian government will push hard for de-dollarisation. Yet, as long as the BRICS decision-making process adheres to the principle of consensus, the position of countries such as India is bound to abort any radical programmes. Given the BRICS international political structure, a BRICS currency is more likely to move forward if it has a relatively straightforward initial functionality – emphasising only the basic function of serving as a unit of account to facilitate local currency settlements in trade among BRICS countries – rather than an initiative that more deliberately confronts the US dollar.

Observers tend to believe that an initial BRICS currency will not be used for personal consumption but only for international trade settlements between banks. It is likely that a BRICS currency will be launched as a digital currency and will be linked to the digital currencies actively promoted by various coun-

³² Nogueira Batista, 'A BRICS Currency?'

³³ Steinberg and Otero-Iglesias, 'South America's "Common Currency".'

tries' central banks.³⁴ Therefore, creating an international platform to support the exchange of digital currencies will not only be important for a BRICS currency, but will also be necessary infrastructure for the future international financial system. In 2021, the Hong Kong Monetary Authority, the Digital Currency Institute of the People's Bank of China, the Bank of Thailand, and the Central Bank of the United Arab Emirates jointly launched a multi-central bank digital currency bridge (mBridge), a cross-border payment system that can be used as an alternative to SWIFT. During its trial period from August to September 2022, the four central banks issued \$12 million worth of digital currencies on mBridge, while twenty commercial banks used the digital currencies on the platform on behalf of their clients to conduct more than 160 payments and foreign exchange (FX) and payment versus payment (PvP) transactions, with a total value of \$22 million.³⁵

This digital currency exchange platform, underpinned by blockchain technology, is of great significance to Global South countries. High-value, high-volume wholesale international payments between financial institutions are currently a major component of cross-border transactions. This wholesale interbank FX market provides incentives and liquidity for a wide range of retail operations. However, this form of FX trading is subject to settlement risk. As it still takes one to two days to complete a cross-border payment, when one party has completed the payment, the other party will not have immediately received it. This risk affects up to \$6.6 trillion worth of transactions per day in the international FX market, and more than half of the daily cross-border transactions lack insurance mechanisms. In addition, the system does not work around-the-clock, which also inconveniences both sides of the transaction. PvP is an important solution as it eliminates settlement risk and reduces friction by ensuring that both parties confirm and receive payments simultaneously. Moreover, mBridge functions around-the-clock, year-round, and both transaction parties decide when to complete the settlement. Central banks in all countries have a huge demand for this service. While some developed markets already offer PvP services, they do so in a limited number of currencies, completely ignoring the

³⁴ Rickards, interview; Andy Schectman, 'It Would Be "Really Foolish" to Underestimate Gold-Backed BRICS Currency', interview by Jesse Day, *Commodity Culture*, YouTube, 12 July 2023, <https://www.youtube.com/watch?v=gxy4IW8R5ho>.

³⁵ BIS Innovation Hub et al., 'Project mBridge: Connecting Economies through CBDC' (Bank for International Settlements, October 2022), <https://www.bis.org/publ/othp59.pdf>.

ever-growing currency demands from the Global South. Replacing the services provided by traditional banks will require shifting essential infrastructure facilities into a completely new processing model, utilising distributed ledger technology and digital currencies. Banks in many developed countries are not yet ready to meet these challenges.³⁶

Discussion

The pendulum movement of globalisation, the hegemonic cycle, and technological revolution have brought the world into an era of ‘changes unseen in a century’. How should we interpret the Global South’s de-risking and de-dollarisation in this period? How should we understand the expansion of the BRICS and its impact on the future international order? And how can we identify the trajectory and future direction of China’s exploration in the twenty-first century?

First, as de-dollarisation continues, a conflict may arise in the future between a multi-currency financial system and the post-war multilateral trading system, further intensifying de-globalisation. The US dollar has various disadvantages as the global reserve currency, but its settlement efficiency and ease of use have made it an indispensable component of the post-war multilateral trading system. In the future international financial system, while countries may shun the dollar or even adopt barter trade as a transaction form, they will not use an inconvenient currency as their primary reserve currency. In the era of globalisation, cost and quality determined the flow of goods and services. Today, the declining influence of the US dollar signals the demise of this efficient business model, and the flow of goods and services begins to depend on the willingness of exporting countries to accept a particular country’s currency. When countries no longer accumulate surpluses in their current accounts as a means of acquiring a reserve currency, they may resort to restricting trade and employing other distortionary methods to maintain balance in bilateral trade.³⁷

³⁶ Dave Sissens, ‘Why the Increased Adoption of PvP Settlement Will Enhance Cross-Border Payments’, *Fintech Futures*, 23 January 2023, <https://www.fintechfutures.com/2023/01/why-the-increased-adoption-of-pvp-settlement-will-enhance-cross-border-payments/>.

³⁷ Benn Steil, ‘The Real Cost of De-Dollarization’, *Project Syndicate*, 16 August 2023, <https://www.project-syndicate.org/commentary/no-alternative-to-the-us-dollar-by-benn-steil-2023-08>.

Second, the West's weaponisation of the US dollar after the outbreak of the Russia-Ukraine War and the de-dollarisation efforts of Global South countries indicate that both developed and developing countries are frustrated with the post-Cold War international order established by US hegemony. The West's attempts to decouple or de-risk from China and Russia are shaking the dollar's hegemonic status. Meanwhile, the attempts to return to a Cold War situation are likely to be counterproductive in the end, seriously weakening the West's own position in the international order. This is because the decoupling of the West and the de-risking of the Global South are giving rise to a 'systemic rival' that surpasses the Western alliance in terms of population, the size of the real economy, energy, resources, and industrial manufacturing capacity. The balance of power between the West and the Global South countries today is very different from the balance that existed during the Cold War between the West and the former Soviet bloc.

Third, technological development will be a critical enabler of local currency settlements for Global South countries in the future. Both mBridge and a future BRICS currency will support transactions through digital currencies and use blockchain as the underlying technology. To move away from the high cost of traditional banking services in developed countries, Global South countries have been building a new generation of financial infrastructure facilities based on contemporary information technologies.

Finally, China's long exploration of a relationship between its own development and the international environment seems to have found a clear outline. From its full integration into Western-dominated globalisation at the end of the twentieth century and the beginning of the twenty-first century, to its Belt and Road Initiative (BRI) aimed at promoting Eurasian economic integration over the past decade, to the establishment of the Shanghai Cooperation Organisation (SCO) and the BRICS mechanism, China has ultimately prioritised cooperation with Global South countries.

The geographical distribution of the six countries invited to become members indicates the priorities of the BRICS and China in their future development strategies. First, five of the six invitees are located around major transport routes such as the Strait of Hormuz, the Red Sea, and the Suez Canal, suggesting that the BRICS countries, including China, are placing more emphasis than ever

on the Middle East as a hub connecting Asia and Africa. In China's previous spatial projections of the BRI, Europe was the western terminus and South-east Asia was the important southeastern end. However, under the conditions of the United States' ongoing Indo-Pacific strategy and Europe's tightening policy, China not only mediated the historic rapprochement between Saudi Arabia and Iran in March 2023 but also brought the two countries into the BRICS. Such an emphasis on the Middle East signals that the BRI's future development will probably tilt even more towards the region. The ultimate aim is to establish a land bridge between Asia and Africa, transforming these two continents into the main arena for collective actions by the BRICS countries in the Global South.

Second, the invitation of energy giants such as Saudi Arabia, Iran, the UAE, and Argentina represents a shift in the Global South, beyond individual initiatives and moving towards institutionalised efforts on a global scale to de-risk from the weaponisation of the US dollar. This development lays a significant foundation for the creation of a BRICS currency. The expanded BRICS includes six of the world's top ten oil producers in 2022 (which together accounted for 40 percent of the world's oil production) and five of the world's top seven oil consumers in 2021 (which together accounted for 30 percent of the world's oil consumption).³⁸ With such a concentration of production capacity and consumption, the creation of a BRICS currency – first and foremost for energy trade among member countries – seems to be on the horizon.

Nevertheless, China took a low-key stance on de-dollarisation at the 2023 BRICS summit. Unlike Putin and Lula, who explicitly advocated de-dollarisation, President Xi Jinping, when speaking on the topic, only said, 'We need to fully leverage the role of the New Development Bank, push forward reform of the international financial and monetary systems, and increase the representation and voice of developing countries'.³⁹ This relatively moderate stance is much closer to that of most Global South countries. Even today, China still owns \$830 billion in US Treasury bonds and \$2 trillion in other dollar-denominated assets. In this sense, China remains embedded in an interna-

³⁸ US Energy Information Administration, 'What Countries Are the Top Producers and Consumers of Oil?', 2 September 2023, <https://www.eia.gov/tools/faqs/faq.php>.

³⁹ Xi Jinping, 'Remarks by Chinese President Xi Jinping at the 15th BRICS Summit', *Xinhua News Agency*, 23 August 2023, <https://english.news.cn/20230823/54dbd48e5e4f40f7bc2f15a1a7a3ab59/c.html>.

tional financial system in which the US dollar is the key currency. Also, amid the intensifying competition between China and the United States, holding US Treasury bonds remains one of the few vital leverage points that China has to respond to US pressure. Constrained by these circumstances, China is unlikely to aggressively pursue de-dollarisation. Losing its leverage could not only make it more difficult for China to counterbalance US strategic pressures but could also lead to mutual harm in the event of a strategic miscalculation by the United States.

Since the US 'pivot to Asia', China's response and international strategy – which included the creation of the BRI – has consistently kept open two possibilities: hedging or confronting. A century ago, the resonance of the three major historical cycles of globalisation, hegemony, and technological revolution pushed the world into an abyss. Today, a situation has again emerged in which these three cycles are simultaneously exerting influence: the pendulum of globalisation is shifting from market fundamentalism to protectionism, the hegemonic cycle is entering a phase where emerging powers are approaching and challenging the hegemonic power, and the technological revolution is rapidly altering the international political and economic power dynamics. A century ago, facing the crises created by these three primary cycles, nations chose confrontation, resulting in the ultimate tragedy of two World Wars and immense human suffering. Today, war is raging in Ukraine and elsewhere, while the weaponisation of the US dollar and the de-risking efforts of the Global South are accelerating the collapse of the post-Cold War unipolar world.

As the wheels of history once again bring the world to a pivotal crossroads, the Global South's convergence towards the BRICS cooperation mechanism provides China with a new opportunity to hedge against growing dangers. Positioned within an international organisation featuring the most powerful developing countries, wielding a BRICS currency that coexists with the US dollar, and commanding significant global capabilities in energy, resources, and industrial manufacturing, China will enhance its ability to drive changes in the international political and economic order. So too will the representation and influence of the Global South increase in international affairs.

Bibliography

'ASEAN's Aim to Increase Monetary Autonomy Reflects De-Dollarization Trend, Says Indonesian Economist'. *Xinhua News Agency*, 5 April 2023. <https://english.news.cn/20230405/6b25f882f66047da8fb0231d3411d45f/c.html>.

'A Third of Russian Assets in Switzerland at Credit Suisse'. *finews.com*, 13 February 2023. <https://www.finews.com/news/english-news/55768-russian-funds-one-third-is-at-credit-suisse>.

BIS Innovation Hub, Hong Kong Monetary Authority, Bank of Thailand, Digital Currency Institute of the People's Bank of China, and Central Bank of the United Arab Emirates. 'Project mBridge: Connecting Economies through CBDC'. Bank for International Settlements (October 2022). <https://www.bis.org/publ/othp59.pdf>.

Chen Weihua. 'Diversification of Brazil's Exports to China to be Tapped' [巴西对华出口多样化有待挖潜]. *经济参考报* [Economic Information Daily], 1 June 2022. http://www.jjckb.cn/2022-06/01/c_1310610291.htm.

Council of the European Union and the European Council. 'EU Sanctions against Russia Explained'. Accessed 25 February 2024. <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/>.

Gao Bai. '做连接亚洲与非洲的大陆桥: 沙特问题的中国解决方案' [Being a Land Bridge Connecting Asia and Africa: A Chinese Solution to the Saudi Problem]. *西南交通大学学报(社会科学版)* [Journal of Southwest Jiaotong University (Social Science)], no. 4 (2014).

Hale, Erin. 'How China and India's Appetite for Oil and Gas Kept Russia Afloat'. *AlJazeera*, 24 February 2023. <https://www.aljazeera.com/china-and-indias-appetite-for-oil-and-gas-kept-russia-afloat>.

Ministry of Foreign Affairs of the People's Republic of China. '中华人民共和国和沙特阿拉伯王国联合声明' [Joint Statement by the People's Republic of China and the Kingdom of Saudi Arabia]. 9 December 2022. https://www.mfa.gov.cn/wjdt_674879/gjldrh_674881/202212/t20221209_10988250.shtml.

Ministry of Foreign Affairs of the People's Republic of China. '中华人民共和国主席和俄罗斯联邦总统关于2030年前中俄经济合作重点方向发展规划的联合声明' [Joint Statement of the President of the People's Republic of China and the President of the Russian Federation on Pre-2030 Development Plan on Priorities in China-Russia Economic Cooperation]. 22 March 2023. https://www.mfa.gov.cn/zyxw/202303/t20230322_11046176.shtml.

National Development and Reform Commission of the People's Republic of China. '国家发展改革委与巴西发展、工业、贸易和服务部签署关于促进产业投资与合作的谅解备忘录' [China's National Development and Reform Commission and Brazil's Ministry of Development, Industry and Foreign Trade Signed a Memorandum of Understanding on Promoting Industrial Investment and Cooperation]. 17 April 2023. https://www.ndrc.gov.cn/fzggw/wld/zsj/zyhd/202304/t20230417_1353652.html.

Nelson, Rebecca M., Christopher A. Casey, and Andres B. Schwarzenberg. 'Russia's War on Ukraine: Financial and Trade Sanctions'. Congressional Research Service, 22 February 2023. <https://crsreports.congress.gov/product/pdf/IF/IF12062/4>.

Nogueira Batista Jr., Paulo. 'A BRICS Currency?'. Paper presented at BRICS Seminar on Governance & Cultural Exchange Forum 2023, Johannesburg, South Africa, 19 August 2023. <https://www.nogueirabatista.com.br/wp-content/uploads/2023/09/Aug-2023-On-possible-BRICS-currency.pdf>.

Pozsar, Zoltan. 'War and Commodity Encumbrance'. *Credit Suisse Economics*, 27 December 2022.

Rachman, Gideon. 'How the Ukraine War Has Divided the World'. *Financial Times*, 17 April 2023. <https://www.ft.com/content/40c31fda-1162-4c40-b3d5-b32e4ac5d210>.

Rickards, James. 'Western Countries about to Slam into A BRICS Wall?'. Interview by Stephanie Pomboy. *Wealthion*, YouTube, 8 August 2023. <https://www.youtube.com/watch?v=88pP53lcBwQ>.

Schectman, Andy. 'It Would Be "Really Foolish" to Underestimate Gold-Backed BRICS Currency'. Interview by Jesse Day. *Commodity Culture*, YouTube, 12 July 2023. <https://www.youtube.com/watch?v=gxy4IW8R5ho>.

Sissens, Dave. 'Why the Increased Adoption of PvP Settlement Will Enhance Cross-Border Payments'. *Fintech Futures*, 23 January 2023. <https://www.fintechfutures.com/2023/01/why-the-increased-adoption-of-pvp-settlement-will-enhance-cross-border-payments>.

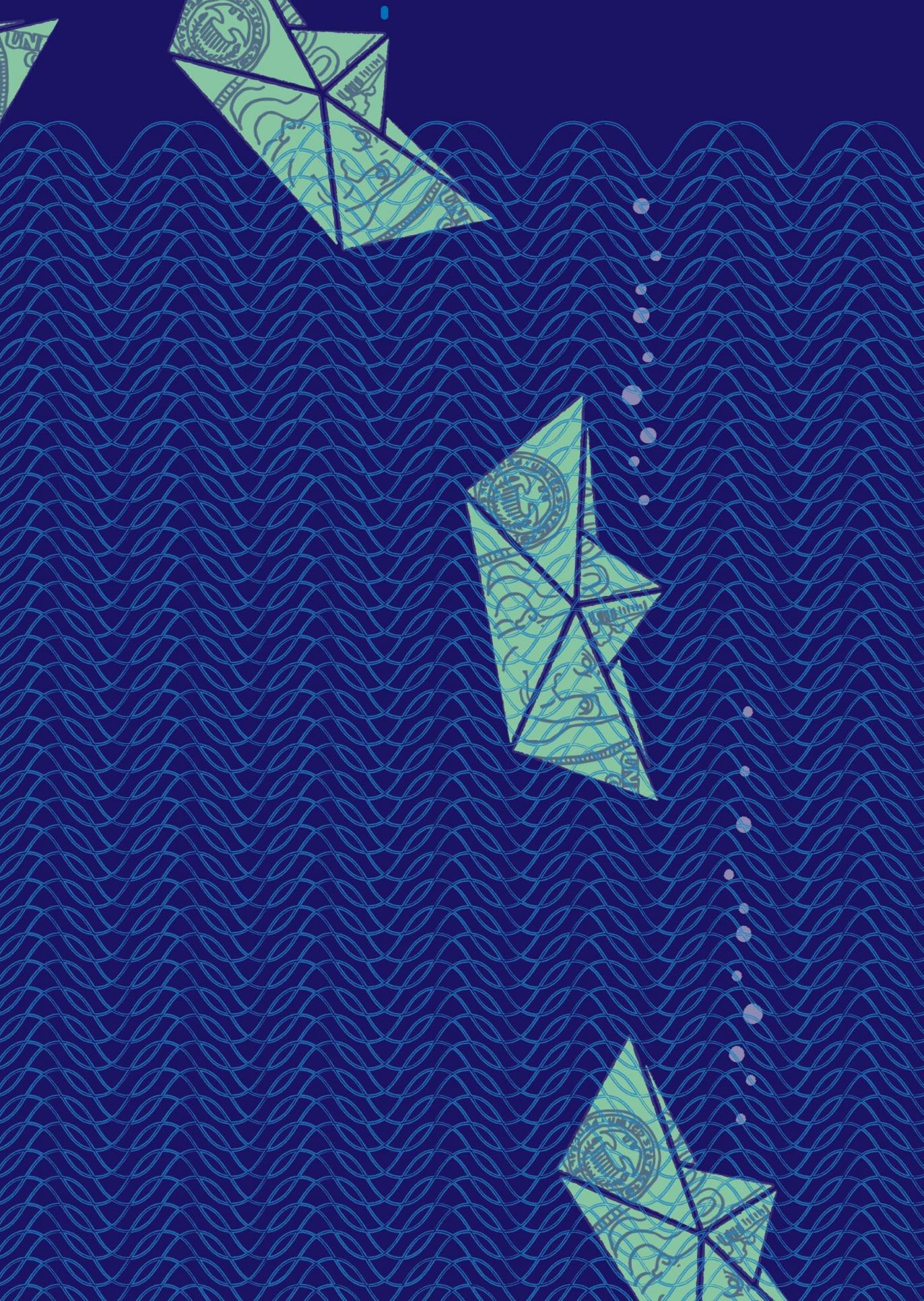
Steil, Benn. 'The Real Cost of De-Dollarization'. *Project Syndicate*, 16 August 2023. <https://www.project-syndicate.org/commentary/no-alternative-to-the-us-dollar-by-benn-steil-2023-08>.

Steinberg, Federico, and Miguel Otero-Iglesias. 'South America's "Common Currency" Is Actually about De-Dollarization'. Center for Strategic and International Studies, 14 February 2023. <https://www.csis.org/analysis/south-americas-common-currency-actually-about-de-dollarization>.

Toh, Michelle. 'Chinese Brands Have Replaced iPhones and Hyundai in Russia's War Economy'. *CNN*, 26 February 2023. <https://www.cnn.com/2023/02/25/business/russia-chinese-brands-sales-surge-ukraine-war-intl-hnk/index.html>.

Xi Jinping. 'Remarks by Chinese President Xi Jinping at the 15th BRICS Summit'. *Xinhua News Agency*, 23 August 2023. <https://english.news.cn/20230823/54dbd48e5e4f40f7bc2f15a1a7a3ab59/c.html>.

'俄罗斯: 2022年天然气出口暴跌, 石油出口却增加' [Russia: Gas Exports Plummet in 2022, Oil Exports Rise]. *investgo.cn*, 15 February 2023. <https://www.investgo.cn/article/gb/tjsj/202302/654653.html>.



What Is Driving the BRICS' Debate on De-Dollarisation?



Ding Yifan (丁一凡) is an economist and former deputy director of the World Development Institute of the Development Research Center of China's State Council (2000–2014). He is a senior fellow at the Taihe Institute and a former visiting scholar at Johns Hopkins University's School of Advanced International Studies. He has written extensively on development, economic globalisation, US dollar hegemony, the knowledge-based economy, and the European debt crisis for Chinese, English, and French-language publications.

'What Is Driving the BRICS' Debate on De-Dollarisation' (金砖国家高调协商“去美元化”的背后) was originally published by Wenhua Zongheng (文化纵横) as a New Media special feature (January 2024).

Ahead of the 2023 BRICS summit in Johannesburg, South Africa, there was much discussion amongst the member countries about whether negotiations would take place at the meeting regarding the development of a BRICS currency and the acceleration of de-dollarisation, that is, the promotion of currency cooperation and reduction in the use of the US dollar. In the end, the country leaders did not specifically discuss the issue of a BRICS currency but passed a resolution on expanding the organisation's membership. Nonetheless, from both historical and realist perspectives, it is in the interest of the BRICS countries to promote de-dollarisation.

The Impact of US Dollar Hegemony on the BRICS Countries

Historically, the core BRICS countries have suffered from the hegemonic role of the US dollar. Throughout its history, Brazil has been exploited by British and US capital, with various methods of profiteering having emerged. After the collapse of the Bretton Woods system, the US dollar has floated freely. Any substantial appreciation or depreciation of the US dollar has spelled disaster for Brazil. US capital has also been able to enter and exit the Indian stock market freely, bidding up prices of certain stocks and then short-selling them. This has brought about huge fluctuations in the Indian stock market and caused some important Indian companies to suffer from excesses and shortages of capital liquidity.

Meanwhile, South Africa, Russia, and China have been subjected to US financial sanctions. The US has imposed fines and sanctions on South African financial firms for alleged money laundering and violations of economic sanctions that the US has enacted against other countries. There are countless examples of US sanctions against the Russian government and various Russian companies. After the war in Ukraine broke out, the United States froze and confiscated the US dollar assets held by several wealthy Russian citizens, and also froze \$300 billion in assets of the Russian Central Bank and threatened to confiscate them to subsidise Ukraine's war effort. Of course, because Russia has threatened to retaliate in kind and confiscate Western assets in Russia, this has not escalated beyond a 'war of words'.

In the past, the United States has accused China of being a currency manipulator because of its significant holdings of US dollar assets and once imposed sanctions on China based on the allegation that China's sharp increase in exports was due to manipulation of the RMB exchange rate. However, it is the US that disproportionately benefits from this relationship. On the one hand, the US imports a large number of manufactured products from China, benefiting from cheap goods to lower its inflation rate; on the other hand, China earns a large amount of US dollars but has no place to invest them, and so has no choice but to purchase US treasury bills, thereby providing the United States with cheap capital. Despite this double victory, the US wishes to exert further pressure on China. As such, the US falsely complains of China's so-called exchange rate manipulation; in reality, the US wants to force China to

accept RMB appreciation and open its financial market, thereby creating an imported financial asset bubble. Thus far, these efforts have been wasted, as China has not yielded to US pressure.

In addition to the core BRICS countries, the organisation's new members have also experienced many entanglements with the US dollar. Saudi Arabia, the United Arab Emirates, and Iran are all producers and exporters of oil and natural gas. In 1971, amid the US dollar crisis, then US President Richard Nixon closed the window for the free convertibility of US dollars into gold so that the US dollar could depreciate sharply. The US dollar is the principal pricing currency for oil, and its depreciation caused oil prices to skyrocket. At that time, oil-producing countries did not have the ability to extract and refine oil. Oilfield development was managed by British and US oil companies, which only paid the oil-producing countries an annual fixed extraction fee priced in US dollars. With the US dollar depreciating and oil prices skyrocketing, the distribution of profits became unfair. The oil-producing countries demanded a new arrangement, but the British and US oil companies refused. After the outbreak of the Arab-Israeli War in 1973, the oil-producing countries jointly launched an oil embargo against Israel and its allies. Only after the first oil shock did the oil-producing countries regain their bargaining power vis-à-vis Western oil companies.

The US Dollar Has Impeded International Cooperation

In an era where the world is moving towards a multipolar order, the hegemony of the US dollar has hindered international cooperation between many countries. Since its 'war on terror', the United States has discovered that, compared with traditional trade wars, it is much more effective to use the hegemony of the dollar to impose financial sanctions on countries that violate the US-led 'rules-based order'. This logic was detailed by Juan Zarate, a former US official under the administration of George W. Bush, in his 2013 book *Treasury's War: The Unleashing of a New Era of Financial Warfare*. In recent decades, the US has frequently used the dollar as a weapon to impose financial sanctions on countries that it does not like.

The United States relies on its domestic laws to justify imposing sanctions on foreign companies and governments around the world, a practice known as ‘long-arm jurisdiction’. On top of this, if non-sanctioned actors do not follow US sanctions against a country and dare to defy Washington’s will, they too may become targeted by secondary sanctions. The US dollar settlement system has become an instrument that the US uses to determine who has complied with or defied its bans on doing business with sanctioned countries and to impose costly sanctions on those who are not compliant. The US government has fined many European banks billions of dollars for alleged violations of US sanctions.

In recent years, there have been a growing number of cases in which the United States has abused the use of financial sanctions. As a result, countries with large amounts of US dollar financial assets have developed concerns about the long-term security of their holdings. The case of Iran is instructive. The Iran nuclear agreement was reached in 2015 between Iran and the permanent members of the United Nations Security Council – the United States, the United Kingdom, Russia, France, and China – as well as Germany and the European Union. Under this framework, all nuclear-related economic sanctions against Iran would be lifted, and the country could engage in greater international cooperation. Following the deal, European-Iranian cooperation progressed smoothly, with many European companies strengthening their ties with Iran and conducting settlements in euros. However, after Donald Trump came to power in the US, he abolished the Iran nuclear agreement, re-imposed sanctions on Iran, and forced European companies to withdraw from the Iranian market. These practices ignited fears in many Middle Eastern countries about their future fate. Historically, the US provided security guarantees to many countries in the region, with these countries obliged to purchase large amounts of US financial assets to provide the United States with cheap capital. If relations between Iran and Arab countries in the Middle East were to improve and US ‘security’ was no longer needed, would these countries continue to purchase so many US dollar assets? Washington’s blatant announcement that it would confiscate Russia’s US dollar assets following the outbreak of war in Ukraine has only intensified concerns among Arab countries. Unlike Russia, these countries do not possess nuclear weapons, nor can they match Russia’s military capabilities. If the US were to use its ‘long-arm jurisdiction’ to freeze or confiscate their US dollar assets, they would have no power to fight back.

These experiences pose important questions for BRICS countries, many of which have been subject to varying degrees of US sanctions. If the BRICS countries cannot develop a settlement mechanism other than the US dollar for cross-border cooperation, many more countries may be targeted by US sanctions in the future.

Likewise, despite the successes of the Belt and Road Initiative (BRI) that China launched ten years ago, many Global South countries have fallen into the US dollar trap again. This is because the US Federal Reserve sharply raised interest rates in 2023, which caused capital flight in these countries and made their dollar debt interest rate unserviceable. De-dollarisation is the only choice to ensure the BRI's continued success in the future.

The US Dollar Carries Significant Financial Risks

Even from the perspective of financial asset protection, it is risky for any country to hold too many US dollar-denominated assets. This risk is inherent to fiat money. In the era of precious metals, the basis for issuing currency was precious metal reserves. If there was too much outflow of gold and silver, it would cause a currency crisis. After the collapse of the Bretton Woods system, the last bastion of the gold standard was destroyed and the world entered the age of fiat money. The basis of legal currency is government credit; in other words, government debt is the basis of currency. The more debt the government issues, the more currency flows into the market. However, the level of government debt must match the government's fiscal revenue and the debt must match the size of the economy. Otherwise, debt sustainability cannot be guaranteed and a debt crisis will erupt. The debt crisis will destroy the confidence of currency holders, thus triggering a currency crisis.

Since the beginning of the twenty-first century, US government debt has climbed beyond any historical record. When George W. Bush left office, US government debt exceeded \$10 trillion; when Barack Obama left office, US government debt had climbed to \$20 trillion; during Donald Trump's four years in power, US government debt rose to \$26 trillion; finally, in the three years of the current administration of Joe Biden, US government debt has exceeded 34 trillion. In 2020, the ratio of US government debt to gross domestic

product surpassed 130 percent. As the Federal Reserve has raised interest rates, interest rates on US Treasury bills have risen rapidly. In 2024, the US government's interest payments on the national debt will exceed \$1 trillion, exceeding the official military budget.¹ Such a high level of debt raises concerns that the US government will default sooner or later.

Following the 2008 international financial crisis, US economists Carmen M. Reinhart and Kenneth S. Rogoff published *This Time Is Different: Eight Centuries of Financial Folly* (2009). The book reveals a profound historical truth: when the debt burden of sovereign countries has become too heavy, all of them, without exception, have relied on inflation and currency devaluation to write off their debt and escape the crisis. When the US government's debt reaches such a high level, does anyone still believe that it will be able to escape this historical fate?

In fact, the US government has a long history of breach of contract. In 1971, US debt skyrocketed and the US dollar was in crisis. President Nixon decided to decouple the US dollar exchange rate from the price of gold. The US dollar depreciated sharply, and the Bretton Woods international financial system collapsed. The background of that US dollar default was the Vietnam War. The rising military expenditures of the United States for the war and the sharp increase in debt caused by the fiscal deficit caused Western European countries to lose confidence in the US dollar. Similarly, after the outbreak of the war in Ukraine, the US continued to allocate funds to provide military aid to Ukraine. The US budget deficit also continued to rise, the financial burden continued to increase, and the national debt quickly exceeded the ceiling set by Congress. Negotiations between the Biden administration and Congress to raise the debt ceiling have become a perennial fixture on the US political scene. Since October 2023, the US has become involved in yet another 'proxy war', supporting Israel's military campaign in Gaza with increasing military

¹ In 2022, US military spending reached \$1.53 trillion, more than twice that acknowledged by the US government. See Gisela Cernadas and John Bellamy Foster, 'Actual US Military Spending Reached \$1.53 trillion in 2022 – More than Twice Acknowledged Level: New Estimates Based on US National Accounts', *Monthly Review*, 1 November 2023, <https://monthlyreview.org/2023/11/01/actual-u-s-military-spending-reached-1-53-trillion-in-2022-more-than-twice-acknowledged-level-new-estimates-based-on-u-s-national-accounts/>; Tricontinental: Institute for Social Research, *Hyper-Imperialism: A Dangerous Decadent New Stage*, Studies on Contemporary Dilemmas no. 4, 23 January 2024, <https://thetricontinental.org/studies-on-contemporary-dilemmas-4-hyper-imperialism/>.

expenditures. As the US participates in two simultaneous ‘proxy wars’, one is left to ask, how long can the US government finance its military excursions?

We can see that there are many reasons for the BRICS countries to choose to strengthen monetary cooperation and accelerate the de-dollarisation process. The development of modern communications and settlement technologies, such as blockchain, has also provided a safer path for BRICS countries to de-dollarise.

History Serves as a Mirror to Illuminate the Direction of Future Development

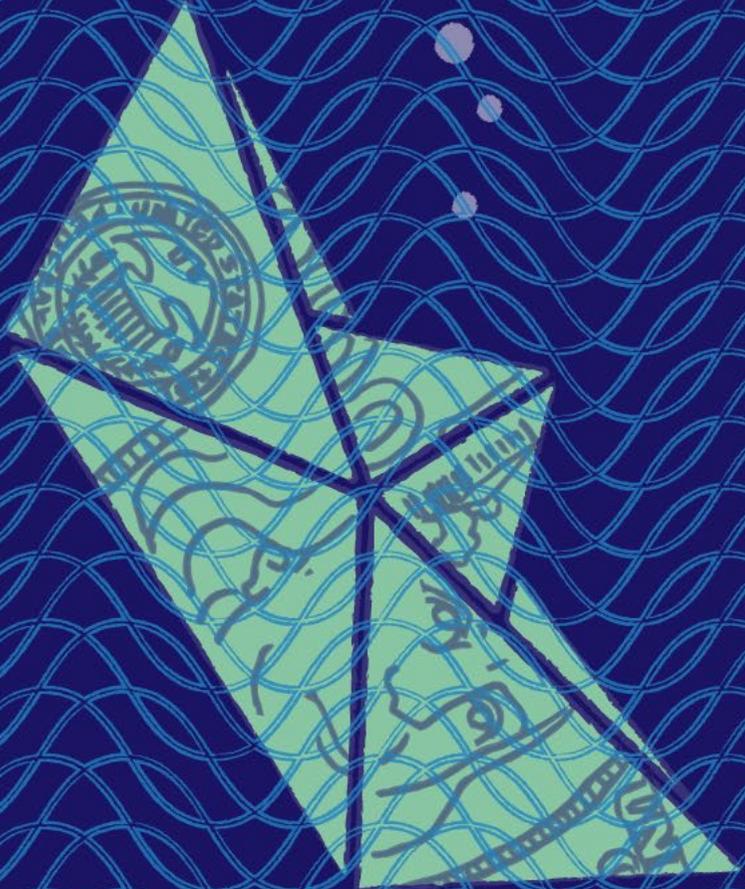
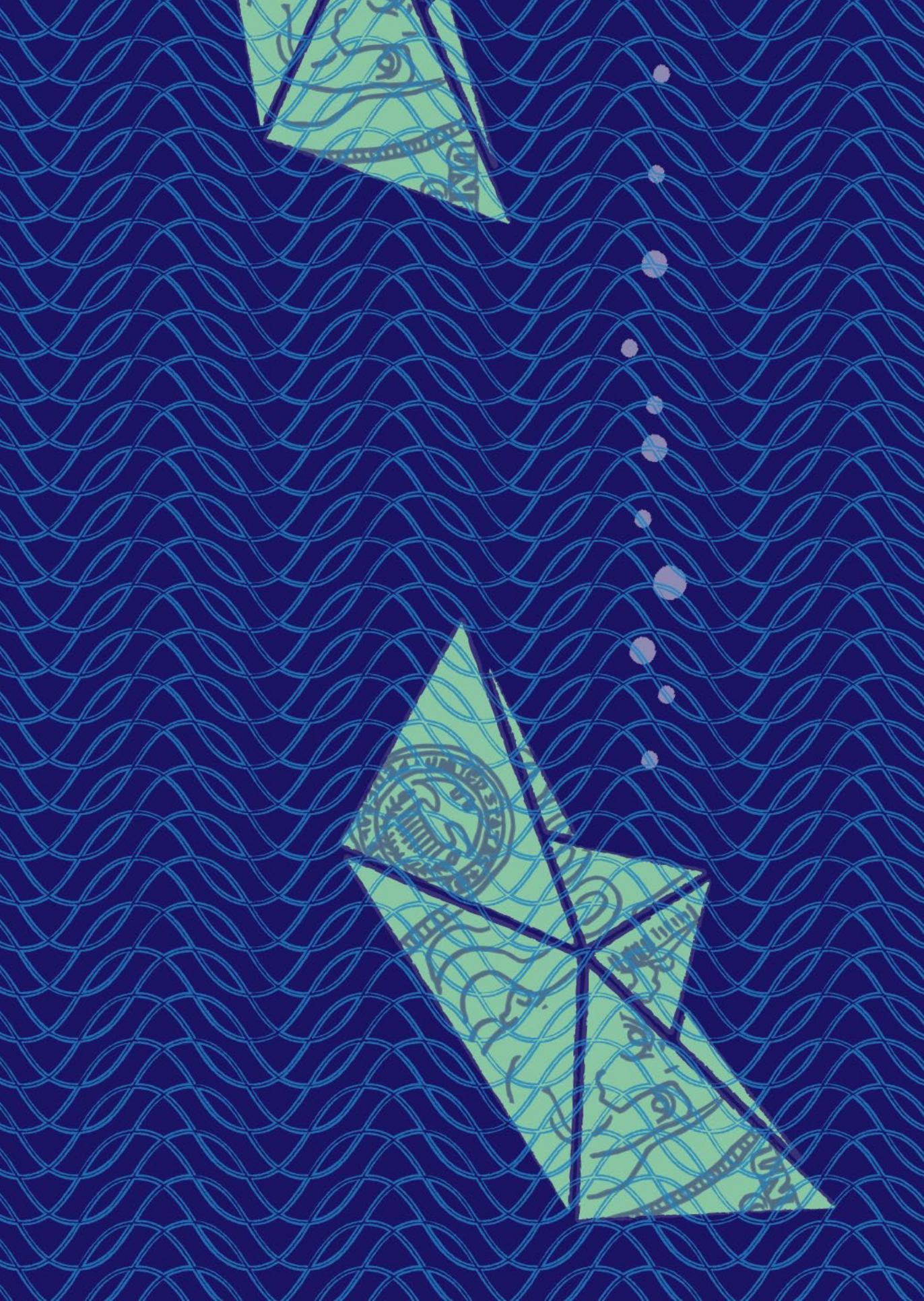
Although the BRICS countries are eager to de-dollarise, how can they achieve this goal? Historical experience can provide us with certain insights. After the collapse of the Bretton Woods system in the 1970s, the depreciation of the US dollar caused global inflation. Although the value of the US dollar has become unstable, it remains the most used currency in the world due to inertia in currency use. When many countries are accustomed to using a certain currency in international trade and cross-border investment, they are less willing to change their habits. In addition, after the first oil crisis, then US Secretary of State Henry Kissinger engaged in ‘shuttle diplomacy’, continuously visiting the oil-producing countries of the Middle East. Eventually, he convinced Saudi Arabia to set the US dollar as the only currency for oil pricing and Saudi Arabia, in turn, persuaded other oil-exporting countries to do the same. The United States has given these countries, which hold large amounts of US dollars, the financial privilege of directly purchasing US treasury bills in the primary market. The oil-producing countries in the Middle East have embraced the idea, and it has been extremely profitable. The trading of oil futures is the world’s largest commodity market; once oil was priced in US dollars, a huge demand was created. Other commodity futures trading immediately copied the oil futures market and used US dollars to price. In this way, the demand for US dollars became increasingly important.

The US dollar ascended to the position of the world’s largest reserve currency and trading currency. However, as the US dollar lost its anchor of gold, its face value became unstable. The appreciation or depreciation of the US dollar has

caused large price fluctuations in the commodity futures market and had a significant impact on other importing countries. In this context, western European countries created the European Monetary System in 1979 in response to the US dollar crisis. Initially, they chose to float their currencies together against the US dollar, within a certain limit, a system known as the 'floating snake'. However, because the US dollar continued to depreciate, this system could not solve the problem of inflation imported from the United States. After a period of practice, western European countries found that West Germany had the lowest inflation rate, so the value of the Deutsche Mark was the most stable. Consequently, the Deutsche Mark was used as the anchor currency of the European Monetary System, to which the currencies of other western European countries were pegged. Through this practice, western European countries introduced anti-inflation factors from West Germany, and inflation within the European Community countries stabilised.

Today, the United States is facing a similar crisis. Currency cooperation among the BRICS countries also requires them to find an anchor currency other than the US dollar. Together, the BRICS countries possess the world's largest resource and energy reserves and the most extensive manufacturing capabilities. The exchange of industrial production and resources can be realised through a non-US dollar settlement system. As long as the BRICS countries establish a non-US dollar settlement system, their economic development will be free from the negative impact of the US dollar's fluctuations. However, the currencies of most BRICS members are still, more or less, pegged to the US dollar, and their exchange rates are also unstable. If the BRICS countries want to engage in currency cooperation, the unstable exchange rates between their currencies will be a major obstacle to overcome. Will the BRICS countries choose the RMB as their anchor currency? As the inflation rates in the United States and Europe are already high, their central banks constantly raise interest rates to curb inflation, but the effect is not ideal. By contrast, in China, the inflation rate has been very stable and low for quite a long time, and people instead speak of the threat of deflation. Therefore, as a currency, the purchasing power of the RMB is guaranteed, especially due to China's strong manufacturing capabilities, which may meet the demand for a wider range of industrial manufactured products.

The BRICS countries are representatives of the collective rise of the Global South. If the BRICS countries can successfully carry out monetary cooperation and overcome the constraints of the US dollar, more and more Global South countries will participate in this monetary cooperation mechanism in the future. The global financial system will be transformed, constituting an important aspect of the 'great changes unseen in a century'.



China's Foreign Exchange Reserves: Past and Present Security Challenges



Yu Yongding (余永定) is a member of the Chinese Academy of Social Sciences. He has served as a member of the Advisory Committee of National Planning and Reform Commission of the People's Republic of China since 2004. He has also served on the Monetary Policy Committee of the People's Bank of China, the Advisory Committee of Foreign Policy of the Ministry of Foreign Affairs of the PRC, and the Foreign Affairs Committee of the Chinese People's Political Consultative Conference. His main research areas are macroeconomics, international finance, and the world economy.

'China's Foreign Exchange Reserves: Past and Present Security Challenges' (中国外汇储备的前世今生和当前面临的安全挑战) was originally published in China Reform (中国改革), issue no. 4 (July 2022).

On 28 February 2022, the United States and its allies announced the freezing of \$300 billion in foreign exchange reserves of the Central Bank of the Russian Federation. At that time, China's foreign exchange reserves totalled roughly \$3.3 trillion, including more than \$1 trillion in US Treasury bonds.¹ The US' weaponisation of foreign exchange reserves has forced China to re-examine the safety of its foreign exchange reserves and overseas assets.

¹ See '2021 Annual Report' (Beijing: State Administration of Foreign Exchange of the People's Republic of China), <https://www.safe.gov.cn/en/2020/1221/2163.html>; 'Major Foreign Holders of Treasury Securities' (Washington, DC: US Department of the Treasury, 15 March 2023), <https://ticdata.treasury.gov/Publish/mfh.txt>.

The security of China's foreign exchange reserves is not only an international financial issue but also a geopolitical and asset management issue. What specific measures should China take to ensure the security of its foreign reserves? To completely answer this question is beyond this author's ability. Rather, this article only attempts to put forward a rough outline of the origin of China's foreign exchange reserves, the challenges faced in the current period, and how to remedy the situation from the perspective of international finance.

From the Gold Standard to the Post-Bretton Woods Era

Inter-country debt is repaid through the transfer of certain internationally accepted means of settlement, such as gold, international reserve currencies, or special drawing rights (SDRs). International liquidity is the stock of these means of settlement. Countries that issue international reserve currency (i.e., the United States) can provide international liquidity or international reserves to other countries through the capital account deficit or current account deficit.² Under the Bretton Woods system, where the US dollar was pegged to gold, the United States provided international liquidity or international reserves for other countries through the capital account deficit. From 1945 to the beginning of the 1950s, Europe and Japan were in dire need of importing goods from the United States but were unable to obtain enough US dollars through exports and because of the severe global 'dollar shortage'. In the 1960s, the European and Japanese economies were revitalised, and the balance of trade improved.

Meanwhile, due to the overheating of its domestic economy and its decline in international competitiveness, the US experienced a decrease in its goods trade surplus and an increase in its services trade deficit (including overseas military spending). At the same time, due to higher interest rates in Europe, US capital flowed into Europe in large quantities, bypassing controls and forming the

² In international macroeconomics, the balance of payments records all transactions made between entities in one country with entities in the rest of the world. These transactions consist of imports and exports of goods, services, capital, and transfer payments such as foreign aid and remittances. A capital account deficit shows that more money is flowing out of the economy along with an increase in its ownership of foreign assets. The current account is defined as the sum of the balance of trade (goods and services exports minus imports), net income from abroad, and net current transfers. A current account deficit occurs when the total value of goods and services a country imports exceeds the total value of goods and services it exports.

European dollar market; the US capital account deficit increased rapidly. From the perspective of Europe and Japan, while their trade deficits were decreasing, there were still large inflows of US dollars, and so their US dollar foreign exchange reserves increased rapidly. The 'dollar shortage' turned into a 'dollar glut'. From the point of view of the US, its trade surplus almost disappeared (with some countries, the US was already in a deficit), while its capital deficit increased so much that, to use the terminology of the time, the US international balance of payments deteriorated sharply.

The intention behind pegging the US dollar to gold was to reassure dollar-holders that although the US dollar was a fiat currency printed by the United States with no inherent value, it could be exchanged for gold at a given rate. Thus, they could hold US dollars with trust. For the US, under the gold exchange standard, the international imbalance of payments resulted in the loss of US gold reserves. While the gold may have remained in US vaults, it was no longer owned by the US. Foreign central banks could always convert excess US dollars into gold, and ship the gold back to their countries. By 1971, the US held just over \$10 billion in gold reserves, compared to the more than \$40 billion and \$30 billion held by foreign officials and private individuals, respectively. Eventually, the United States could no longer afford to keep the promised exchange rate of \$35 per ounce of gold. On 15 August 1971, US President Richard Nixon announced the closure of the 'gold window'. The Bretton Woods system collapsed.

However, the inherent contradiction of using a country's fiat currency as an international reserve currency has not disappeared under the post-Bretton Woods system. As the anchor of the international monetary system, the US dollar must remain stable. This stability is multidimensional; for example, its purchasing power should be stable. On the one hand, the US dollar has to play the role of a global public good and should serve the global interest. On the other hand, the US dollar is printed by the US government. Whether the real purchasing power of the US dollar can remain stable depends fundamentally on the domestic policy of the US government, which has no obligation to sacrifice its national interests for the global public interest.

In the post-Bretton Woods era, since the United States is no longer an overwhelmingly dominant economic power, the contradiction between the US

dollar's status as a national currency (serving US interests) and its status as an international reserve currency (serving global interests) manifests itself in the fact that the US has to provide the world with international liquidity, or a reserve currency, primarily through current account deficits (trade deficits). As the world's gross domestic product (GDP) grows, so does the international reserve currency required for global trade and financial transactions. The more reserve currency the US provides to the world, the larger the US trade deficit must be. To put it another way, the United States provides global reserve currency through IOUs. The growth of the global economy requires the US to issue more IOUs, and the more IOUs issued, the more foreign debt the US holds. However, economists did not expect that despite the US having a huge net debt, its balance of payments on investment income would be positive. Not only does the US not have to pay interest, but it also collects a lot of it. The fundamental reason why the US dollar has remained stable – even though the US is the world's largest debtor – is that the rest of the world's demand for the US dollar as a reserve currency has also been increasing, which means that other countries are willing to lend money to the US and are willing to finance the US trade deficit. In this way, the gap between domestic investment and savings within the United States is made up by foreign savings, and the pressure of inflation and US dollar depreciation is greatly reduced. If there had not been a strong demand for US dollar foreign exchange reserves in other countries while the US was indiscriminately issuing dollars to make up for its lack of domestic savings, the US dollar would have collapsed long ago.

Since the subprime mortgage crisis in 2008, the United States has implemented extremely expansionary fiscal and monetary policies. The strong demand for US Treasury bonds and other US assets by foreign governments and investors has created the necessary external conditions for low inflation and faster growth in the US for more than ten years. However, the US has accumulated net foreign liabilities of \$14 trillion (2020) and a national debt of \$28 trillion (2021), with ratios to GDP of roughly 67 percent and 122 percent, respectively.³ The situation is only continuing to deteriorate. According to the US Congressional Budget Office, the US national debt-to-GDP ratio will surpass

³ On US net foreign liabilities, see Gian Maria Milesi-Ferretti, 'The US Is Increasingly a Net Debtor Nation. Should We Worry?', The Brookings Institution, 14 April 2021, <https://www.brookings.edu/articles/the-us-is-increasingly-a-net-debtor-nation-should-we-worry/>. On US national debt, see '2021 Financial Report of the United States Government' (Washington, DC: US Department of the Treasury, February 2022), <https://home.treasury.gov/system/files/136/2021-FRUSG-FINAL-220217.pdf>.

200 percent by 2051.⁴ The US government has acknowledged that its fiscal situation is unsustainable.

No one knows how long investor confidence in the US dollar and US Treasuries can be maintained in the face of the country's worsening debt situation. No one knows when the market will lose confidence in the US dollar and it will collapse. But would it not be prudent to factor that possibility into decision-making?

Implications of the US Freezing Russia's Foreign Exchange Reserves

Following the outbreak of the Russia-Ukraine conflict, the United States froze \$300 billion in foreign exchange reserves of the Russian Central Bank within 72 hours. This has seriously undermined the international credibility of the US and shaken the credit foundation of the Western-dominated international financial system. Which country can be sure that the US will not freeze its foreign exchange reserves similarly in the future? The US' weaponisation of foreign exchange reserves has exceeded the worst estimates of economists about the security of China's foreign exchange reserves. The value of China's foreign exchange reserves will not only suffer losses due to US inflation, dollar depreciation, and falling treasury bond prices or defaults but they may be wiped out instantly for geopolitical reasons.

Will the United States take such extreme actions against China's foreign reserves? As early as 2013, Martin Wolf, chief economics commentator for the *Financial Times*, wrote that the US could well freeze China's foreign exchange assets in the event of a conflict.⁵ While both sides would suffer heavy losses, China's losses would be even heavier. One question that China may soon face is whether it should join the embargo on Russian oil and gas and comprehensive financial sanctions against Russia. So far, the US has not imposed a comprehensive oil and gas embargo on Russia, and China and India are still

⁴ 'The 2021 Long-Term Budget Outlook' (Washington, DC: US Congressional Budget Office, March 2021), <https://www.cbo.gov/publication/57038>.

⁵ Martin Wolf, 'China Must Not Copy the Kaiser's Errors', *Financial Times*, 3 December 2013, <https://www.ft.com/content/672d7028-5b83-11e3-a2ba-00144feabd0>.

allowed to buy Russian oil and gas. However, once the US believes that Europe can be rid of its dependence on Russian oil and gas, it may then point its finger at China and India. China's continued purchase of Russian oil and gas will likely become a reason for the US to act against China's foreign reserves or impose sanctions on Chinese financial institutions.

China's Massive Foreign Exchange Reserves and Countermeasures

China has accumulated its massive foreign exchange reserves over a long period of time, through 'double surpluses' – current account surplus and capital account surplus. By any standard, China's holdings of \$3.3 trillion in foreign exchange reserves (excluding Hong Kong's \$496.8 billion and Taiwan's \$548.4 billion) far exceed the internationally recognised reserve adequacy requirement; the second, third, and fourth largest foreign exchange reserve holders in the world are Japan, with \$1.3 trillion; Switzerland, with \$1 trillion; and India, with \$569.9 billion.⁶ There are only three countries in the world with foreign exchange reserves of more than one trillion US dollars (China, Japan, and Switzerland), and China's foreign exchange reserves are nearly three times that of Japan, which is ranked second.

Since the rate of return on foreign exchange reserves is extremely low, if the proportion of foreign exchange reserves in overseas assets is too high, the overall rate of return on overseas assets will inevitably be too low. Of China's \$9 trillion in overseas assets, reserve assets account for 37 percent of the total; of these reserve assets, US Treasury bills account for 32 percent.⁷ It should be noted that, to improve the rate of return on foreign exchange reserves, the State Administration of Foreign Exchange, an administrative body of the People's Bank of China, and other relevant agencies have taken into account not only safety and liquidity but also the rate of return in their asset allocation. In addition to treasury bills of the United States and other countries, China's

⁶ Foreign exchange reserves as of the end of 2021. Sources: State Administration of Foreign Exchange of the Peoples Republic of China, Hong Kong Monetary Authority, Taiwan's central bank, Japanese Ministry of Finance, Swiss National Bank, Reserve Bank of India.

⁷ '2021 Annual Report' (Beijing: State Administration of Foreign Exchange of the People's Republic of China), <https://www.safe.gov.cn/en/2020/1221/2163.html>

reserve assets also include bonds of international organisations, local government bonds, private equity investments, and policy investments such as the Belt and Road Initiative (BRI). These efforts should be productive. However, in any case, because of the safety and liquidity requirements of foreign reserves, an overproportion of foreign reserves in overseas assets will inevitably lead to lower income from overseas assets. Not only that, a large proportion of China's foreign exchange reserves is 'borrowed' through the introduction of foreign capital rather than 'earned' through the trade surplus. Compared with the investment income of foreign reserves, the debt cost of 'borrowed' foreign exchange reserves is extremely high. A 2008 survey conducted by the World Bank office in Beijing showed that the investment income of US enterprises in China is 33 percent compared with 22 percent for foreign enterprises in general. At the same time, the investment return on US Treasury bills was less than 3 percent. This situation is also one of the reasons for China's negative investment returns despite its \$2 trillion in net overseas assets. China's balance of payments and overseas investment position is in stark contrast to that of the United States. As mentioned, the latter will have nearly \$200 billion in investment income in 2021 despite being a \$15 trillion net debtor. Looking around the world, Argentina and Russia are the only countries in the same boat as China.

In the early days after China's opening up, the shortage of foreign exchange was the main bottleneck to the country's growth. Although there was partiality and overreaction, it was ultimately the right step for China to develop processing trade vigorously to earn foreign exchange, actively introducing foreign direct investment and drastically devaluing the Chinese renminbi (RMB) in one go. However, after the Asian financial turmoil in 2003, China, due to 'appreciation phobia', delayed the slight appreciation of the RMB until 2005. The consequence of this is that, on the one hand, China's trade surplus increased sharply, and, on the other hand, the domestic asset bubble and the strong expectation of RMB appreciation led to a large inflow of 'hot money'. China's capital account surplus once exceeded the trade surplus and became the primary source of new foreign exchange reserves. It is fair to say that China's failure to let the RMB appreciate in time and its lack of exchange rate flexibility were the conditions that led to the country's excessive accumulation of foreign exchange reserves.

The principal purposes for restructuring China's overseas asset-liability structure and balance of payments structure should be twofold. First, to improve the structure of China's overseas assets-liabilities and to increase the return on its net overseas assets. To this end, China should reduce the share of foreign exchange reserves in its overseas assets. Second, to improve the safety of China's overseas assets, especially its foreign exchange reserves. Under current conditions, China should reduce its stock of foreign exchange reserves to at least the internationally recognised level of foreign exchange reserve adequacy. How much foreign exchange reserves should a country hold? In general, this depends on the size of the country's imports (or exports), the size of short-term foreign debt, the size of other securities liabilities, and the broader money supply (M2).⁸ At the same time, it is also necessary to consider the country's exchange rate regime and capital controls. For example, if the country has a floating exchange rate and capital controls, the country's foreign exchange reserve adequacy ratio can be significantly reduced.

The possibility of the United States freezing and seizing China's overseas assets cannot be ruled out. However, the greater likelihood is that the US will act against China by using its Specially Designated Nationals (SDN) list to target individuals and entities with sanctions (akin to the now defunct Part 561 List sanctions against Iran). To deal with this possibility, China needs to improve its financial infrastructure. For its existing stock of foreign exchange reserves, measures that China should consider include:

1. Increasing holdings of other forms of assets while reducing US Treasuries holdings. In the past, arguments have been made in favour of currency diversification of China's foreign exchange reserves (towards the Euro and Japanese yen) due to concerns about the depreciation of the US dollar. However, under the current geopolitical conditions, such diversification may not be sensible.

⁸ Several measures are used to gauge the money supply (i.e., the total amount of money in circulation) in an economy. The World Bank defines these measures as follows: "The narrowest, M1, encompasses currency held by the public and demand deposits with banks. M2 includes M1 plus time and savings deposits with banks that require prior notice for withdrawal. M3 includes M2 as well as various money market instruments, such as certificates of deposit issued by banks, bank deposits denominated in foreign currency, and deposits with financial institutions other than banks." See 'Metadata Glossary', The World Bank, accessed 20 March 2024, <https://databank.worldbank.org/metadataglossary/world-development-indicators/series/FM.LBL.BMNY.ZG>.

2. Accelerating the construction of financial infrastructure – such as settlement, clearing, and messaging systems – that is independent of the US.

Make full use of China's technological reserves and strength in the field of digital technology to improve the cross-border payment system that adapts to the new trend of digital trade.

3. Reducing US Treasury bills holdings in accordance with market rules.

In recent years, it has been reported that central banks in many countries have been selling US Treasury bills. Such trading activities are purely commercial, so the US should have no grounds to object.

What Role Can RMB Internationalisation Play?

As the international geopolitical situation has deteriorated, RMB internationalisation has once again become a hot topic. In 2008, the US subprime mortgage crisis erupted, and the bankruptcy of Fannie Mae and Freddie Mac, which held large amounts of US Treasury and government agency debt, caused great anxiety in the Chinese government. In 2009, Zhou Xiaochuan, then governor of the People's Bank of China (PBOC), the country's central bank, proposed that SDRs replace the US dollar as the international reserve currency. However, this proposal was aborted due to the opposition of the United States. So, China found another way to reduce the risk of its overseas assets: internationalising the RMB. However, the process of RMB internationalisation would be hindered as the expectation of RMB appreciation turned to depreciation. For some time after 2015, China had to tighten capital controls due to serious capital outflows and flight.

Yi Gang, who succeeded Zhou as governor of the PBOC, stressed on several occasions that 'RMB internationalisation should be market-driven, and the central bank will not take the initiative to promote it'.⁹ Governor Yi's assertion is correct and in line with the historical experience of RMB internationalisation to date. In fact, from 2009 to 2014, detailed and thorough discussions were held on the benefits and costs of RMB internationalisation and the roadmap

⁹ '人民银行副行长易纲:人民币国际化应由市场驱动' [Yi Gang, Vice Governor of the People's Bank of China: RMB Internationalisation Should Be Driven by the Market], The State Council of the People's Republic of China, 14 October 2012, https://www.gov.cn/jrzq/2012-10/14/content_2242995.htm.

for China to follow in both domestic and overseas economic spheres. These ideas have since been tested in practice. For example, when China pushed for RMB import settlement in the past, the US dollar was replaced by the RMB to pay for imports when China had a large current account surplus and, as a result, China's foreign exchange reserves in US dollars increased rather than decreased. As another example, it was hoped that non-residents would increase their holdings of RMB deposits and RMB treasury bonds in large quantities, but after the expectation of RMB appreciation disappeared in 2014, the interest of non-residents in holding RMB deposits and other RMB assets largely disappeared as well. Experience tells us that while RMB internationalisation is a worthy cause, the process must be market-driven. China should not prioritise short-term benefits or instant gratification, nor should it try to help young shoots grow by dragging them up.

Whenever possible, the buyer's or seller's advantage should be used to advance RMB-denominated pricing and settlement. For example, China is the largest buyer of many commodities, and it would undoubtedly benefit China if these commodities were denominated in RMB. Driven by the market, the internationalisation of the RMB has indeed made solid, if not spectacular, progress. On the whole, the RMB's emergence as an international currency, and in particular an international reserve currency, could bring enormous benefits to China.

In general, however, RMB internationalisation should not be given priority over commercial considerations. For example, when a Chinese investor buys a foreign bond in the international capital market, the currency in which the bond is denominated and settled is determined by the market. For Chinese investors, if the RMB is on a long-term appreciation path, it is preferable for the bond to be denominated in RMB rather than US dollars; meanwhile, where a Chinese company is in a debtor position, it is preferable for the bond to be denominated and settled in a depreciating currency. China also needs to promote the internationalisation of its capital markets. However, the purpose of such promotion, especially the bond market, is not to internationalise the RMB but to improve the efficiency of China's financial resource allocation. The market knows best what is going on at the micro level. The choice of currency in trade and financial transactions should be left to the discretion of enterprises and financial institutions. As China's economic strength grows stronger and its fi-

nancial markets become more sophisticated, the RMB will naturally be chosen more and more as the international currency of denomination and settlement.

The highest level of RMB internationalisation is for the RMB to become a reserve currency for other countries. The RMB can be supplied to other countries through current account deficits and capital account surpluses; China pays for its trade deficit in RMB, and the central bank of the country with a trade surplus acquires and holds the RMB in the foreign exchange market, using the RMB to buy Chinese treasury bonds or certain safe and liquid Chinese bonds. In this way, the RMB becomes the surplus country's reserve currency. China, in turn, can use the RMB's status as an international reserve currency and a credit note to gain access to resources.

China can also promote the RMB as a reserve currency through capital exports. Generally speaking, when China provides RMB to other countries through capital export, the capital-importing country will use these RMB to import goods from China and the RMB will flow back to China. The capital-importing country will record a Chinese trade deficit and an equivalent capital account surplus on its balance of payments statement, but its foreign exchange reserves will not increase as a result. If the country does not use the RMB to purchase Chinese goods, the RMB may flow out of the country through the capital account, or it may be sold to the country's central bank and used to purchase Chinese treasury bonds or other safe and liquid financial assets, thus forming the country's foreign exchange reserves.

However, for the recipient countries of Chinese capital exports, these RMB foreign exchange reserves would be borrowed from China, not earned through export surpluses. Importing capital from China and not using it to buy Chinese goods and services, but rather to hold short-term Chinese capital with low returns may be a misallocation of resources. As a result, the recipients of Chinese capital exports will minimise this portion of RMB foreign exchange reserves. In other words, while China may provide other countries with RMB through capital exports, the willingness of other countries to convert the corresponding RMB into Chinese short-term bonds or treasury bonds (if the latter are available) – thereby forming these countries RMB foreign exchange reserves – may be limited.

In short, for the RMB to become an international reserve currency, China must fulfil a series of preconditions, including establishing a sound capital market (especially a deep and highly liquid treasury bond market), a flexible exchange rate regime, free cross-border capital flows, and long-term credit in the market. In short, China must overcome the so-called ‘original sin’ in international finance and be able to issue treasury bonds internationally in RMB.¹⁰ Otherwise, it will be difficult for the RMB to become an international reserve currency and RMB internationalisation will remain incomplete.

Can RMB internationalisation enhance the security of China’s foreign exchange reserves? If this question is considered in the context of a complex global economic system, the answer should be yes. However, in the short term and in terms of direct impact, even if China’s foreign exchange reserves consisted entirely of RMB assets, their security would not change substantially. There are more than \$1 trillion worth of US Treasury bills among China’s foreign exchange reserves. If the United States does not intend to repay the principal and interest according to the original agreement, what can China do? Nothing. Suppose the US Treasury issues 7 trillion RMB in treasury bonds and China owns 7 trillion RMB instead of \$1 trillion in foreign exchange reserves by buying this US-issued RMB bond; if the US does not intend to make debt service payments on US Treasuries that are agreed to be denominated in RMB, the dilemma that China faces will remain the same as if the assets are denominated in US dollars. Because the key to the problem does not lie in the currency that China’s foreign exchange reserves are denominated and settled in, but in whether China owes the United States money or vice versa. Regardless of their denomination and settlement, China’s foreign exchange reserves are US debt to China. It is money that the US owes China. Thus, the safety of China’s foreign exchange reserves depends on whether the US will honour its debt-servicing commitments and, should it not, whether China can compel the US to do so. If China cannot ensure that the US will not renege, it has no choice but to gradually reduce its foreign exchange reserves. Of course, denominating and settling certain transactions (e.g., imports) in RMB can lead to a reduction in foreign exchange reserves, thus strengthening

¹⁰ In international financial literature, ‘original sin’ is a term that refers to ‘a situation in which the domestic currency cannot be used to borrow abroad or to borrow long term, even domestically’. See Barry Eichengreen and Ricardo Hausmann, ‘Exchange Rates and Financial Fragility’, NBER Working Paper 7418 (Cambridge, MA: National Bureau of Economic Research, November 1999), https://www.nber.org/system/files/working_papers/w7418/w7418.pdf.

the security of China's foreign reserves in an indirect sense. It is interesting to note that in early December 1950, when the US announced a severe 'blockade' and 'embargo' against China, China endeavoured to 'snatch' and 'buy' goods from Western countries. By the time the United Nations passed the embargo resolution against China in 1951, China had used up all its foreign exchange savings.

In short, while RMB internationalisation is a goal worth pursuing, it is a long-term process; distant water will not quench immediate thirst. In the face of geopolitical challenges, RMB internationalisation will also have a limited effect in protecting China's existing overseas assets.

What China can now do to address the challenges with its foreign exchange reserves is to 'mend the fold'; in other words, it is better to act late than never. As one of China's greatest poets, Tao Yuanming (365–427 CE), wrote, 'Knowing that what I did in the past cannot be redressed, I can still retrieve my mistakes in the future'. The key is to properly understand and implement the strategic policy of fostering a new development paradigm with domestic circulation as the foundation and domestic and international circulation reinforcing each other. Doing so will accelerate the transformation of China's development strategy, realise the turn towards domestic circulation, and consolidate domestic demand as the driving force of economic growth.

The British economist John Maynard Keynes once said, 'If you owe your bank a hundred pounds, you have a problem. But if you owe a million, it has'. In the current perilous geopolitical environment, if a country cannot safeguard its rights as a creditor, it should strive to avoid becoming a creditor as much as possible. In the face of potential US financial sanctions in the near future, China's decision-making authorities must analyse various possible scenarios and develop preventive and responsive countermeasures.

Bibliography

'2021 Annual Report'. Beijing: State Administration of Foreign Exchange of the People's Republic of China. <https://www.safe.gov.cn/en/2020/1221/2163.html>.

'2021 Financial Report of the United States Government'. Washington, DC: US Department of the Treasury, February 2022. <https://home.treasury.gov/system/files/136/2021-FRUSG-FINAL-220217.pdf>.

Eichengreen, Barry, and Ricardo Hausmann. 'Exchange Rates and Financial Fragility'. NBER Working Paper 7418. Cambridge, MA: National Bureau of Economic Research, November 1999. https://www.nber.org/system/files/working_papers/w7418/w7418.pdf.

'Major Foreign Holders of Treasury Securities'. Washington, DC: US Department of the Treasury, 15 March 2023. <https://ticdata.treasury.gov/Publish/mfh.txt>.

Milesi-Ferretti, Gian Maria. 'The US Is Increasingly a Net Debtor Nation. Should We Worry?' The Brookings Institution, 14 April 2021. <https://www.brookings.edu/articles/the-us-is-increasingly-a-net-debtor-nation-should-we-worry/>.

'The 2021 Long-Term Budget Outlook'. Washington, DC: Congressional Budget Office, March 2021. <https://www.cbo.gov/publication/57038>.

Wolf, Martin. 'China Must Not Copy the Kaiser's Errors'. *Financial Times*, 3 December 2013. <https://www.ft.com/content/672d7028-5b83-11e3-a2ba-00144feabdc0>.

'人民银行副行长易纲:人民币国际化应由市场驱动'[Yi Gang, Vice Governor of the People's Bank of China: RMB Internationalisation Should Be Driven by the Market]. The State Council of the People's Republic of China, 14 October 2012. https://www.gov.cn/jrzq/2012-10/14/content_2242995.htm.



This publication is issued under a Creative Commons Attribution-NonCommercial 4.0 International (CC BY-NC 4.0) license. The human-readable summary of the license is available at <https://creativecommons.org/licenses/by-nc/4.0/>.



WENHUA ZONGHENG (文化纵横) is a leading journal of contemporary political and cultural thought in China. Founded in 2008, the journal publishes issues every two months, featuring articles by a wide array of intellectuals across the country and building a platform for discussion of different ideological positions and values in China's intellectual community. The publication is an important reference for debates and developments in Chinese thought, on matters ranging from China's ancient history and traditional culture to its current socialist practices and innovations, from the important cultural trends in contemporary Chinese social life to Chinese views and analyses of the world today. Tricontinental: Institute for Social Research and Dongsheng News have partnered with *Wenhua Zongheng* to publish an international edition of the journal, releasing multiple issues per year featuring a selection of articles that hold particular relevance for the Global South.

In Chinese, the word 'Wenhua' (文化) means 'culture' as well as 'civilization', while 'Zongheng' (纵横) literally means 'verticals and horizontals', but also alludes to the strategists who helped to first unify of China, roughly 2,000 years ago through diplomacy and alliances. It is impossible to translate the journal's title into English while retaining its historical meaning and significance, therefore, we have chosen to keep the pinyin romanisation of the title to remind our readers: China has a complex history and culture that is challenging to translate and navigate, and this project seeks to bridge this understanding.

文化纵横



Dongsheng

tricontinental