


Trump vs BRICS

Threats, Tariffs & De-Dollarisation



Context:

- **US President-elect** Donald Trump has vowed 100% tariff on **BRICS countries** if they make any move to **replace the US dollar** and sought a commitment from the nine-member group that includes **India, Russia, China, and Brazil**.



Trumponomics

Former US President Donald Trump's economic agenda, principles, and policies.

1. What is Dollarisation?



- The term Dollarization has been used loosely in reference to how **foreign money replaces domestic money** in any of its functions.

- **Dollarization is the use or adoption of the United States Dollar as the primary currency in a country, replacing or supplementing the local currency.**
- A dollarization process can **either be partially or completely done.**
- **Full Dollarization** is a situation in which a **country abandons its currency** and adopts the **United States Dollar country’s currency** as a means of payment and unit of account **e.g., Panama.**



- **Partial dollarization** is when a **foreign currency** is used in **some transactions**, while the **local currency** is still the **legal tender.**

2. Enlist types of dollarisation?

Dollarization

Types



- **Complete dollarization:**
 - It implies that foreign currency is the only legal tender in the country.
- **Partial dollarization:**
 - It implies that **the foreign and local currencies are accepted as legal tender.**
- **Official dollarization:**
 - It implies that the **country's government and monetary authorities** have accepted a **foreign currency as its legal tender.**
- **Unofficial dollarization:**
 - It occurs when the **people in the country have their savings in foreign currency in the form of investment instruments** because they consider that currency as a haven and protection against inflation which is one of the important reasons for dollarization.

3. How did the US dollar become dominant globally?

What To Know About the US Dollar as the Global Currency



The 1944 Bretton Woods agreement allowed other countries to back their currencies with dollars rather than gold



In the early 1970s, former President Nixon separated the dollar from gold



The relative strength of the U.S. economy supports the value of the dollar

\$	USD		+2.74	▲
€	EUR		+2.31	▲
£	GBP		-0.41	▼
¥	JPY		+3.16	▲
A\$	AUD		+2.71	▲

The dollar rules the foreign exchange market



Nearly 40% of the world's debt is issued in dollars



Countries like China and Russia are currently calling for a one-world currency

- The dollar has been the **world's principal reserve currency** since the **end of World War II** and is the most widely used **currency for international trade**.
- **The United States** became, **almost overnight**, the leading financial power **after World War I**.
- The country **entered the war only in 1917** and emerged **far stronger than its European counterparts**.
- As a result, the **dollar began to displace the pound sterling** as the **international reserve currency** and the U.S. also became a significant recipient of wartime gold inflows.
- The **dollar then gained a greater role in 1944**, when **44 countries signed the Bretton Woods Agreement**, creating a collective international currency exchange regime pegged to the **U.S. dollar** which was, in turn, pegged to the price of gold.
- By the late **1960s**, **European and Japanese exports** became more **competitive with U.S. exports**.
- There was a large supply of dollars around the world, making it difficult to back dollars with gold.
- **President Nixon ceased the direct convertibility of U.S. dollars to gold in 1971** and this ended **both the gold standard and the limit** on the amount of currency that could be printed.

4. Which countries use the US dollar as their currency?

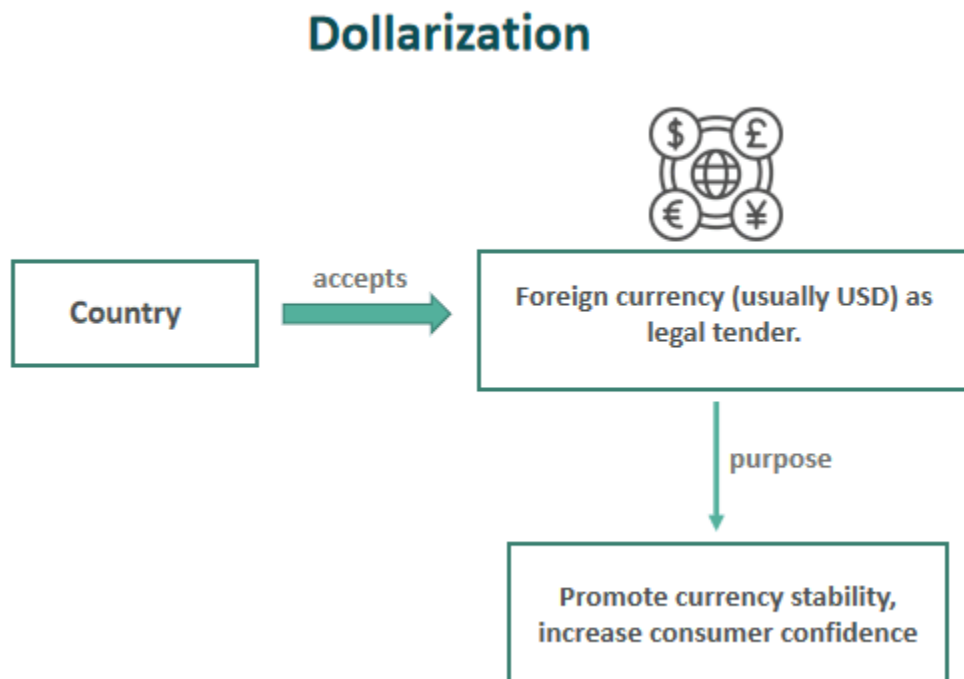
- **USD** is used within the **United States and its official territories** (Puerto Rico, Guam, American Samoa, U.S. Virgin Islands, and Northern Mariana Islands).
- There are also **eleven other countries** which use the **USD as their official currency**.

They include:

- **Ecuador**

- **El Salvador**
- **Zimbabwe**
- **Palau**
- **Marshall Islands**
- **Panama**
- **The British Virgin Islands**
- **Turks and Caicos**
- **Timor and Leste**
- **Micronesia**
- **Bonaire**

5. Why do countries undergo dollarization?



- **Countries** may choose to **undergo dollarization** for a variety of reasons, including:

Reason	Analysis
Economic instability	<ul style="list-style-type: none"> • When a country's currency loses value in the foreign exchange market due to economic instability or hyperinflation, dollarization can help.
Developing economies	<ul style="list-style-type: none"> • Governments may choose to dollarize to help develop their economies. • Dollarization can help provide economic stability within a country's borders.
Integration with global economy	<ul style="list-style-type: none"> • Dollarization can help countries integrate more closely with the global and U.S. economies.
Avoid currency crises	<ul style="list-style-type: none"> • Dollarization can help countries avoid currency and balance of payments crises.

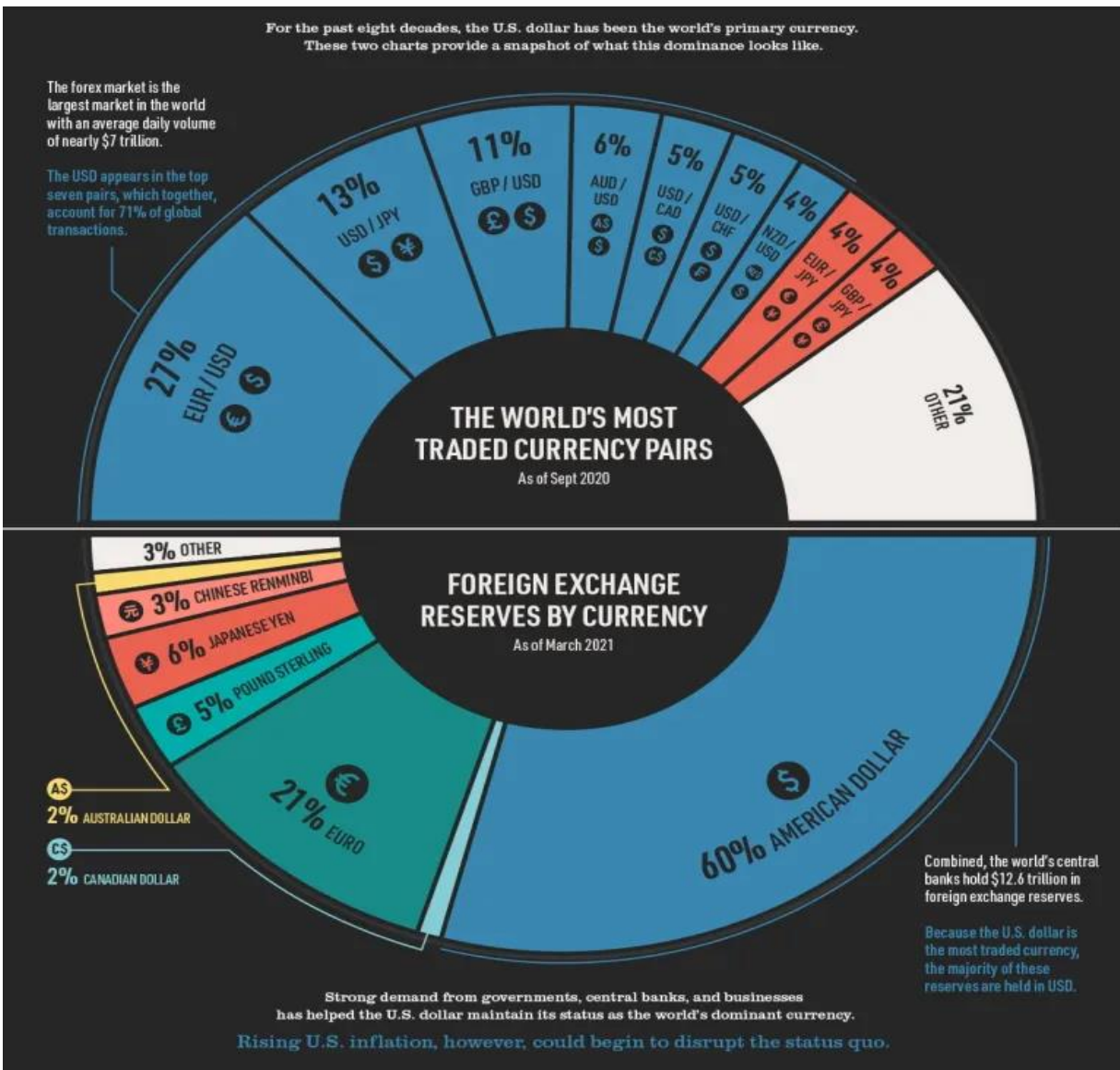
6. Enlist advantages and disadvantages of Dollarisation?

Advantages of Dollarisation	Disadvantages of Dollarisation
<p>Prevent speculative attacks on domestic currency:</p> <ul style="list-style-type: none"> • By using a foreign currency, countries are less susceptible to speculative attacks on the value of their domestic currencies. • A speculative attack happens when there is a massive selling of a nation's currency, which results in immediate and drastic devaluation. 	<p>Loss of monetary autonomy:</p> <ul style="list-style-type: none"> • When a country dollarizes, they lose control of their money supply, their ability to affect the lending rate, and direct control over the country's economy.

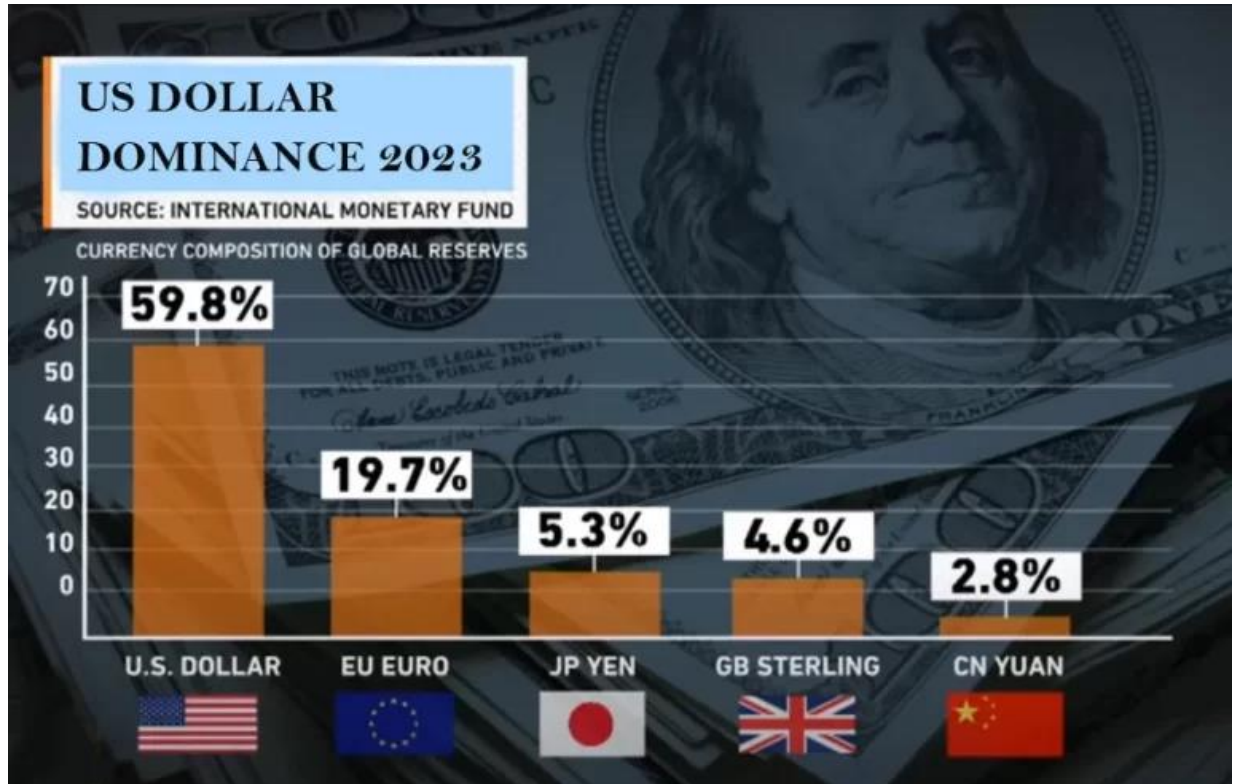
<p>Reduction in administrative expenses:</p> <ul style="list-style-type: none"> • Reduction in administrative expenses as there is no cost of maintaining an infrastructure for production and management of separate national money. 	<p>Economic Sovereignty:</p> <ul style="list-style-type: none"> • Many countries believe that their economic sovereignty is threatened by the dominance of the dollar in global trade, as it gives the US government a significant amount of control over the global economy.
<p>Economic stability:</p> <ul style="list-style-type: none"> • Dollarization promotes economic stability as investors feel more secure investing in a country's economy, and it can spur investment. 	<p>Currency Manipulation:</p> <ul style="list-style-type: none"> • The dominance of the dollar in global trade allows the US government to manipulate its currency to gain an economic advantage over other countries.
<p>Improve global economy:</p> <ul style="list-style-type: none"> • The introduction of the USD into a country can help integrate their economy and enter the world market. Since it's widely accepted and stable, some countries may be able to participate more in international trade. 	<p>Dependence on US:</p> <ul style="list-style-type: none"> • Global trade is largely conducted in dollars, so countries that deal with the US a lot may become too dependent on the US economy.
<p>Reduction in interest rates:</p> <ul style="list-style-type: none"> • There could be a substantial reduction in interest rates for local borrowers. 	<p>Loss in economic value:</p> <ul style="list-style-type: none"> • Devaluations in the currency structure lead to a loss in economic value.

Investors gain confidence:

- **Dollarization helps in boosting the confidence level of investors** in case of those currencies that have a history of fluctuations or **extremely high inflation rates.**

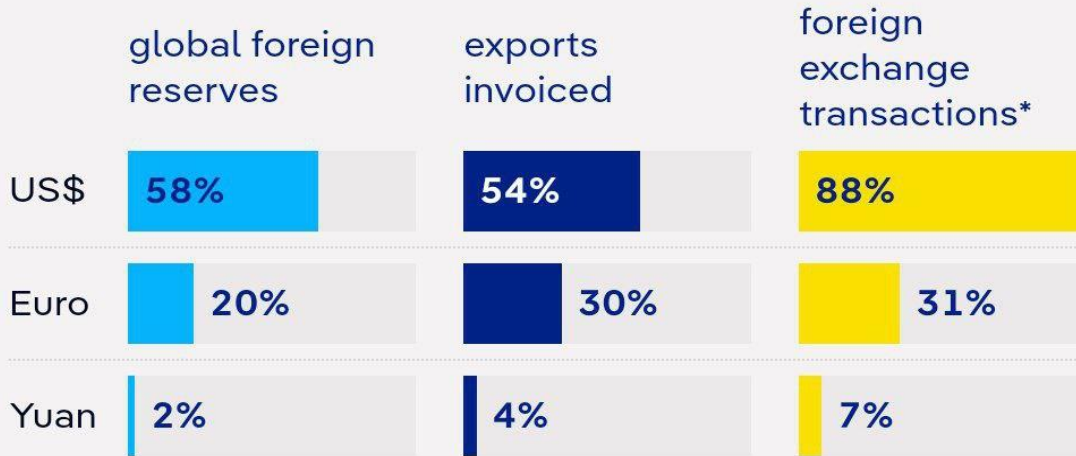


7. How strong is the US dollar?



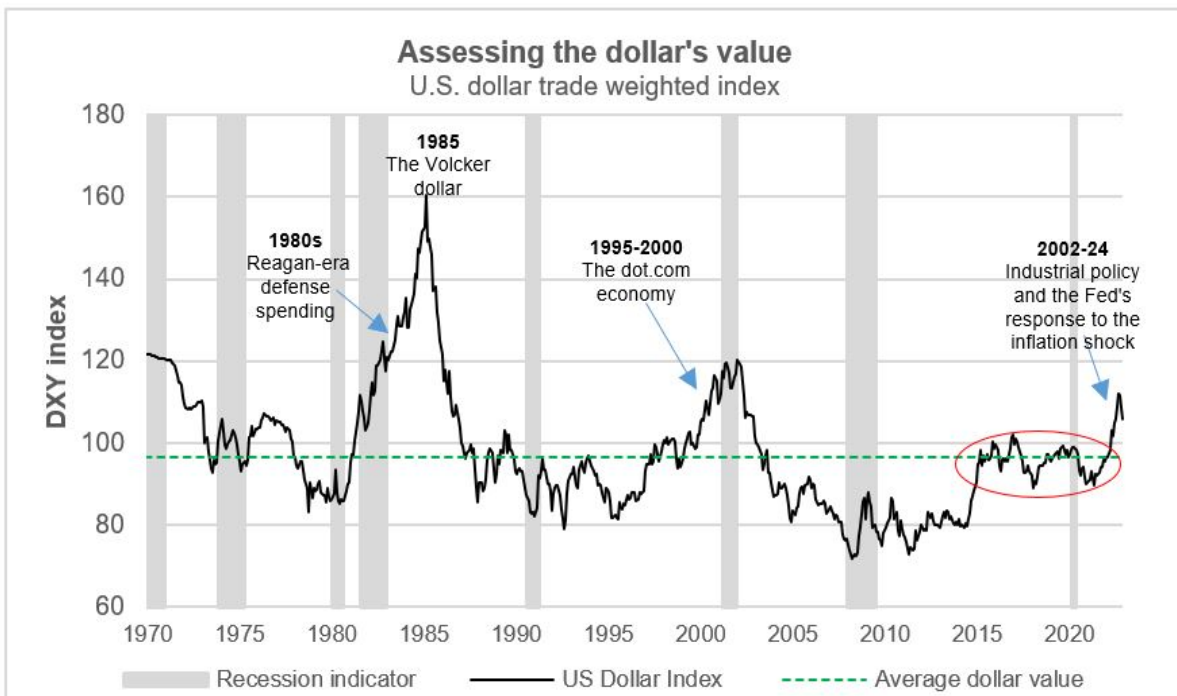
- **Dollar is the currency of choice for international trade since the end of World War II, before which the UK pound was the most in use.**
- **Countries use dollars to hold foreign exchange reserves and for global trade and transactions.**
- **Commodities like oil are bought and sold using the US dollar.**
- **Major economies like Saudi Arabia still peg their currencies to the dollar.**
- **The US treasury by far remains the world's largest and most liquid bond market.**
- **Central banks often hold currency in the form of government bonds, such as the US treasuries.**
- **Since all trade is done in US dollars, even trade among other countries, the US can make it difficult for those it blacklists to do business.**

How the US dollar dominates in world trade

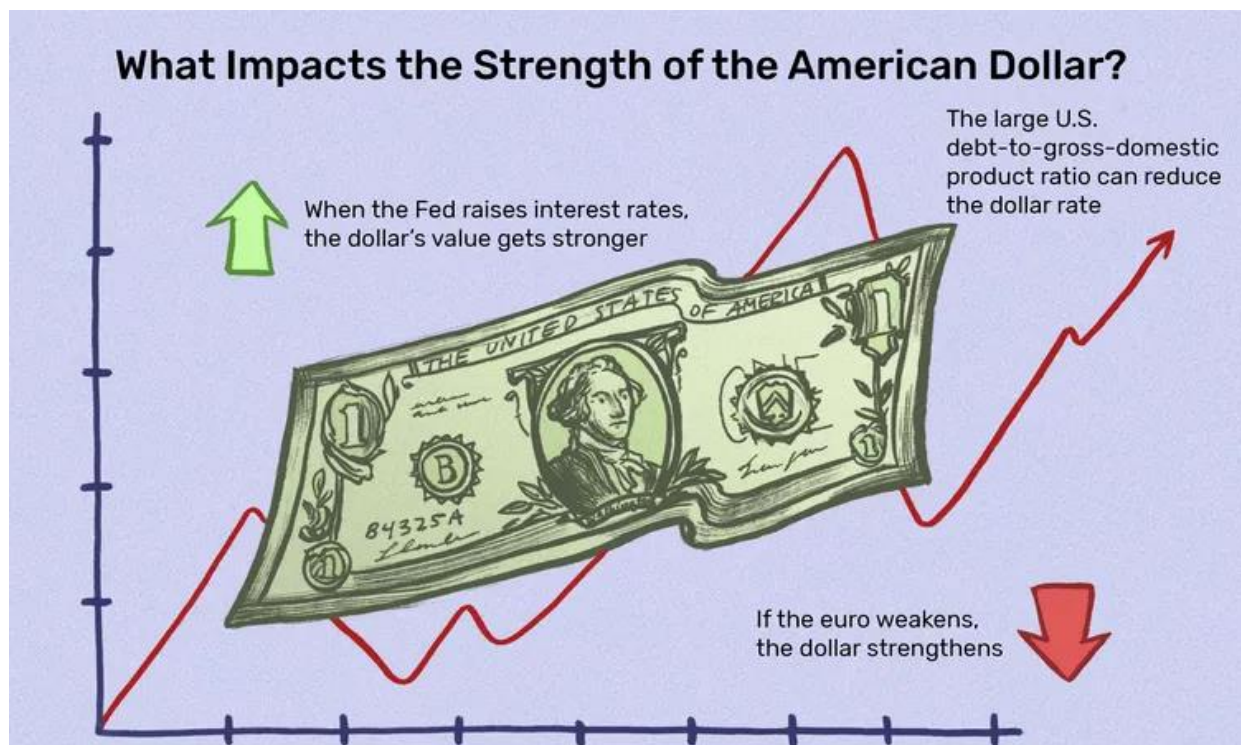


** the currency is used in one side of a foreign exchange transaction*

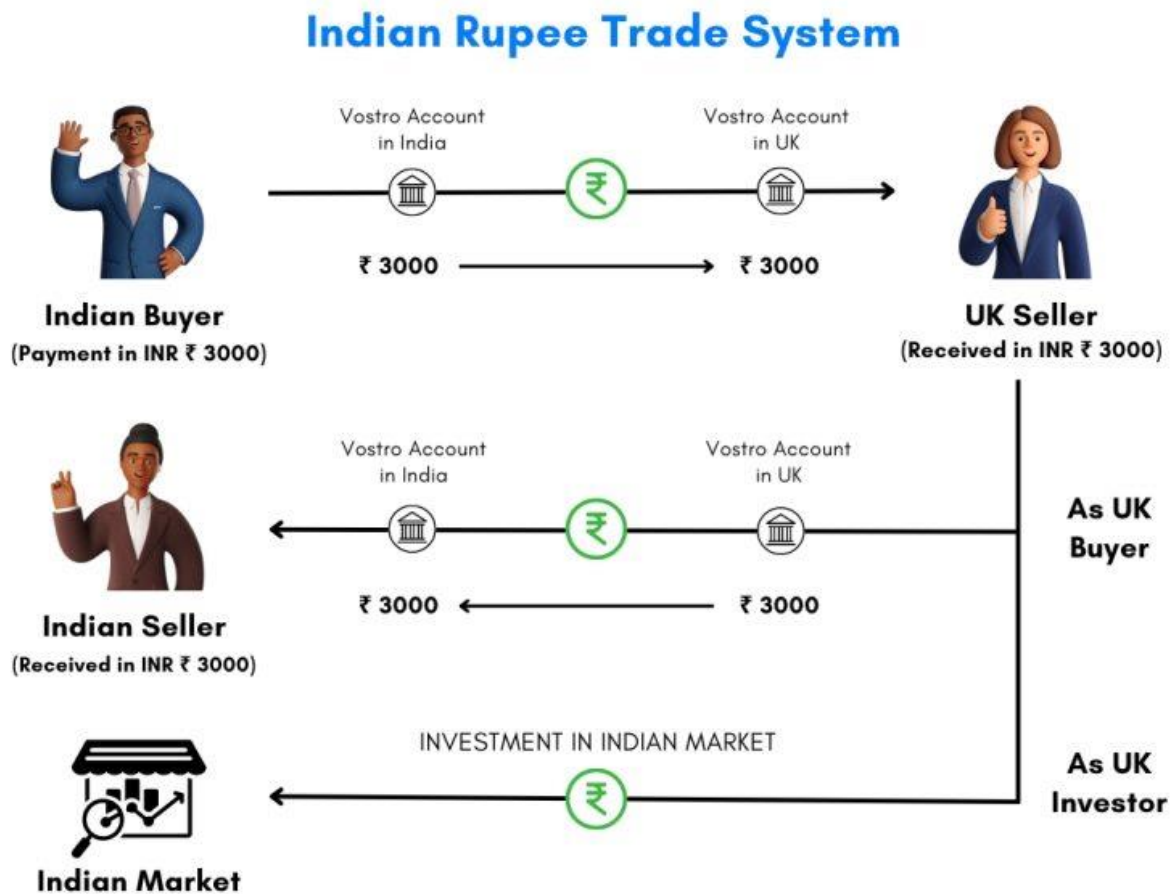
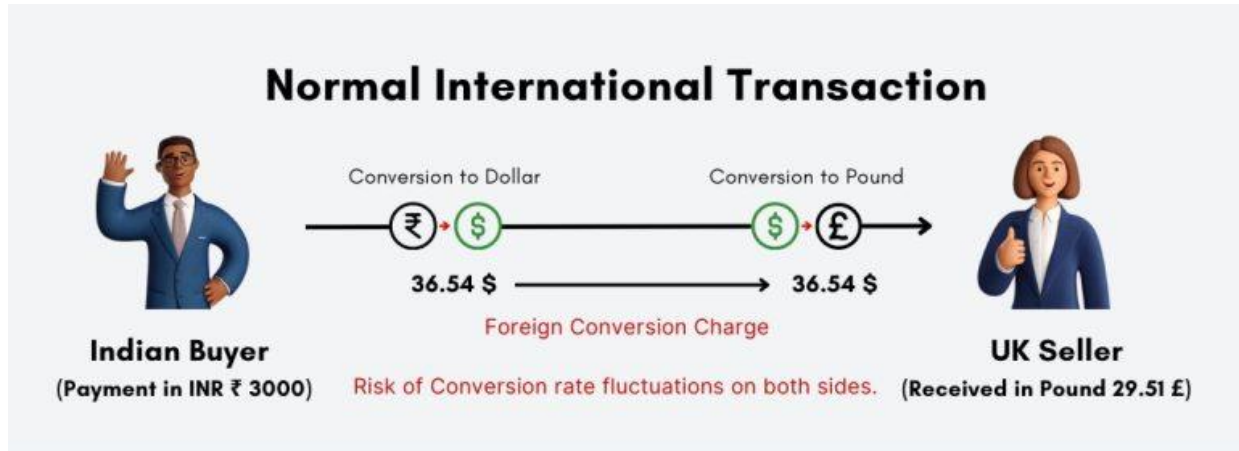
8. Why is a strong dollar in America's best interests?



- A **strong dollar** is good for the **American economy**.
- It **not only signals a healthy demand for American-made goods and services**, but also shows **confidence in the U.S. government and financial institutions**.
- Like any asset, the **dollar's value is based on demand**.
- When **demand for dollars increases**, whether for trade purposes or financial transactions, **its value increases**.
- The **United States has benefited from a profound shift in global capital flows**, mopping up **more than 30% of these flows**.
- A key benefit of a **stronger dollar is that it lowers the cost of importing stuff**.
- That's a big deal for the U.S., **a country that imports more than it exports**.



9. What is Internationalisation of rupee?



- **Internationalisation** is a process that involves **increasing the use of the rupee in cross-border transactions.**

- It involves **promoting the rupee for import and export trade** and then other current account transactions, followed by its **use in capital account transactions**.
- These are **all transactions between residents in India and non-residents**.
- In the **1950s, the Indian rupee** was widely used as **legal tender in the United Arab Emirates, Kuwait, Bahrain, Oman, and Qatar**.
- The internationalisation of the currency will require **full convertibility of the currency on the capital account and cross-border transfer of funds without any restrictions**.
- **India** has allowed **only full convertibility on the current account** as of now.
- Currently, the **US dollar, the Euro, the Japanese yen and the pound sterling** are the leading reserve currencies in the world.

INTERNATIONALIZING ₹

Pros:	Cons:
<ul style="list-style-type: none">• Will ease foreign trade, aid capital flows• Mitigate exchange rate risks• Reduce dependence on FX reserves	<ul style="list-style-type: none">• Complicates monetary policy• Exchange rate stability is challenging• Could bring uncontrolled capital flows

10. What is de-dollarisation?



- **De-dollarization of trade** refers to the process of reducing dependence on the **US dollar for international transactions, trade settlements, and financial operations.**
- Globally, **new payments systems are facilitating cross-border transactions** without the involvement of U.S. banks, **which could undermine the dollar's clout.**

De-dollarisation around the world

Countries promoting de-dollarisation, with key examples highlighted

Russia, Turkey

Agreement for Turkey to pay (in part) for Russian gas with rubles rather than USD

China

China's Cross-Border Interbank Payment System (CIPS), facilitating and supporting cross-border RMB business



China, Laos

Local currency settlement agreement (one of several worldwide)

Brazil, Russia, India, China, South Africa

Development of new global reserve currency and single payment system

Singapore, Philippines, Indonesia, Malaysia, Thailand

ASEAN Payments Connectivity Initiative, creating an interoperable payments system with QR technology

11. What is the timeline of de-dollarization?

UNDERSTANDING DE-DOLLARIZATION

The U.S. dollar has dominated global trade and capital flows for decades. However, many nations are looking for alternatives to the greenback to reduce their dependence on the U.S.

DE-DOLLARIZATION
The process of substituting the U.S. dollar as the currency used for trading commodities and other goods and services.

TIMELINE OF DOLLAR DOMINANCE

- 1920s**
The dollar begins to displace the pound sterling as an international reserve currency after the First World War. The United States is a significant recipient of wartime gold inflows.
- 1944**
International trade is conducted using the U.S. dollar under the Bretton Woods Agreement.
- 1960s**
European and Japanese exports become more competitive with U.S. exports. There is a large supply of dollars around the world, making it difficult to back dollars with gold.
- 1971**
President Nixon ceases the direct convertibility of U.S. dollars to gold.
- 1981**
After years of hyperinflation, the U.S. dollar loses two-thirds of its purchasing power.
- 2007–2008**
Global financial crisis: investors seek U.S. dollars expecting the currency to retain its value.
- 2014**
Following the annexation of Crimea, Russia prioritizes de-dollarization in response to Western sanctions.
- 2022**
Central banks buy gold at the fastest pace since 1967 as countries diversify their reserves away from the dollar. The war in Ukraine results in Western sanctions against Russia. As a result, Russia and China deepen cooperation between their financial systems, with ruble-yuan trade increasing 80x in eight months.
- 2023**
Brazil and Argentina discuss the creation of a common currency. The UAE and India explore the use of rupees to trade non-oil commodities. Russia and Iran are working together to launch a cryptocurrency backed by gold. Despite these movements, few expect to see the end of the dollar's global sovereign status anytime soon. Currently, central banks still hold about 60% of their foreign exchange reserves in dollars.

WORLD FOREIGN EXCHANGE RESERVES

Currency	Percentage
USD	59.8%
EUR	19.7%
JPY	5.3%
RMB	2.8%
CAD	2.5%
AUD	1.9%
GBP	0.6%
CHF	0.2%
Other	3.3%

Source: Currency Composition of Official Foreign Exchange Reserve - IMF Data, Reuters, Vedmosti

VOLUME OF CHINESE-RUSSIAN TRADE IN YUAN

Month	Volume (Yuan)
May '21	~10B
Sep '21	~20B
Jan '22	~40B
May '22	~80B
Sep '22	~180B
Jan '23	~100B

Source: Atlantic Council

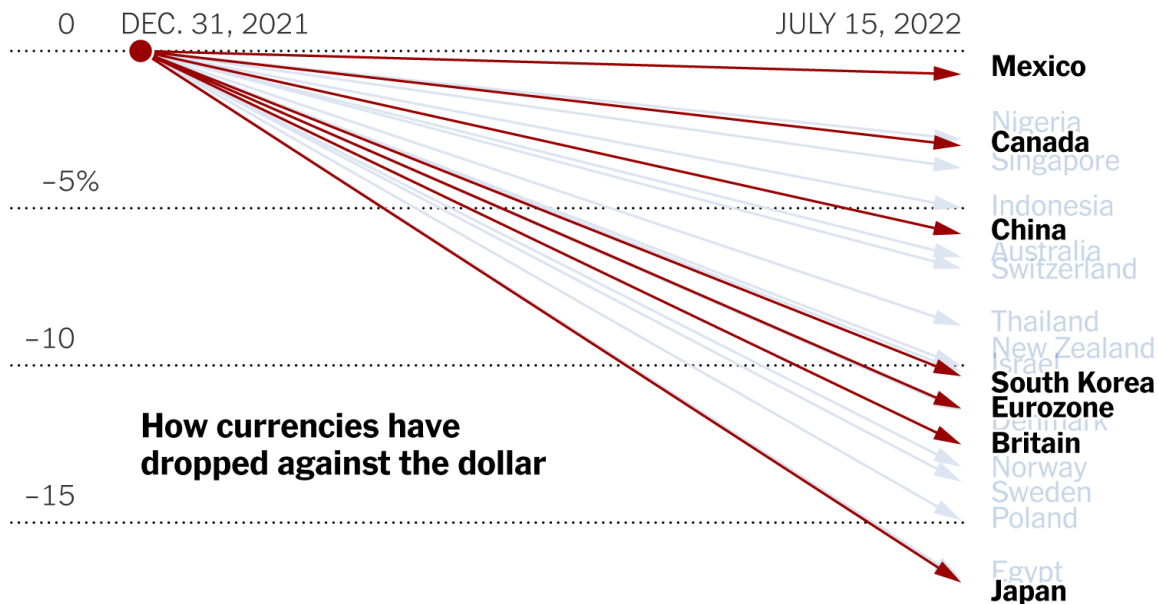
12. What are the key aspects of de-dollarisation?

Aspects	Analysis
Reduced Dollar Usage in Trade	<ul style="list-style-type: none"> • Countries engage in bilateral or multilateral trade agreements to settle transactions in their currencies instead of the US dollar.
Diversification of Reserves	<ul style="list-style-type: none"> • Central banks and financial institutions diversify their foreign exchange reserves, moving away from holding primarily US dollars to include other currencies like the euro, yuan, yen, or gold.
Alternative Payment Systems	<ul style="list-style-type: none"> • Nations develop or join payment systems that bypass traditional dollar-dominated mechanisms like SWIFT. • Examples include China's Cross-Border Interbank Payment System (CIPS) or regional mechanisms like Brics countries' initiatives.
Economic Sovereignty	<ul style="list-style-type: none"> • De-dollarisation aims to reduce dependence on the US financial system, shielding economies from potential sanctions, economic coercion, or dollar volatility.
The strong USD is getting too expensive for emerging nations	<ul style="list-style-type: none"> • The greenback gaining strength against most currencies around the world is making imports far more expensive for emerging nations.

Geo-Politics	<ul style="list-style-type: none"> Some countries wish to reduce their dependence on the US dollar as it is seen as a way to reduce the US influence on their economy, and in some cases, as a form of resistance against the US dominance.
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13. Why is a strong dollar a cause of concern for emerging economies?

- The **dollar is the world’s reserve currency**, which means it is used in most international transactions.
- As a result, **changes in its value have implications** for the entire global economy.
- It is the **"invoicing" currency of the world** and holds the most purchasing power.



- A strong dollar could hurt the rest of the economy in these likely ways:**

Concern	Analysis
<p>Affects global trade</p>	<ul style="list-style-type: none"> • A strong dollar often starts to depress global trade growth. • This means, when the dollar appreciates, other currencies essentially depreciate, so the world gets engaged in less trade and gets poorer. • Moreover, a mighty dollar also makes countries that have dollar-denominated debt less creditworthy, as it makes it harder for them to purchase the US currency to manage their debts. • A stronger dollar is also more likely to cause inflationary upward pressures for emerging markets because they typically purchase their raw materials in US dollars.
<p>More inflation</p>	<ul style="list-style-type: none"> • Most commodities such as petrol, timber or metals are usually traded in US dollars. So when the dollar gets stronger, these items cost more in local currency. • And when energy and raw materials cost more, prices of many products go up for consumers and businesses, causing inflation around the world.
<p>Weaponization of the Dollar</p>	<ul style="list-style-type: none"> • The US has increasingly used its financial dominance as a geopolitical tool by imposing sanctions and cutting off countries like Iran and Russia from systems like SWIFT. • This has raised concerns about the dollar being used as a weapon against sovereign nations.

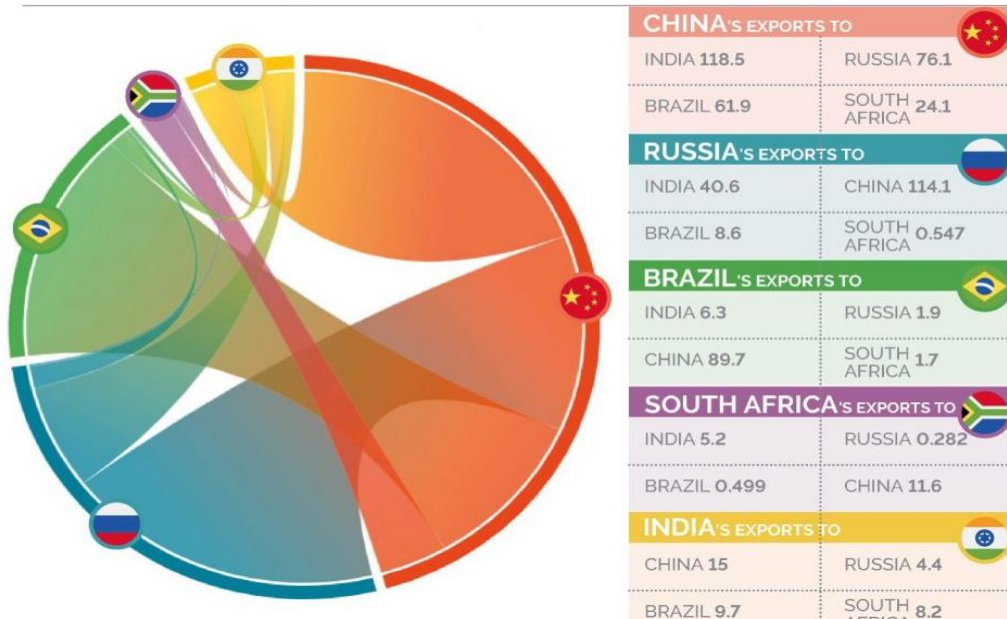
<p>Low-income countries under threat</p>	<ul style="list-style-type: none"> • Most of the developing countries owe their debt in US dollars since it is mostly used in all global transactions. • So, when the dollar goes up, many will struggle to find an ever increasing amount of local currency to service their debts. • The results could be deep recession, hyper-inflation, a sovereign debt crisis or all three together, depending on the path chosen. • Developing countries can take decades to recover, causing severe hardship to their people.
<p>Bigger US deficit</p>	<ul style="list-style-type: none"> • With a strong dollar, other countries will buy fewer US products. • The US trade deficit, which is the difference between the amount of exports and imports, already runs close to a mammoth one trillion dollars per year. • A strong dollar can put a financial squeeze across the developing world.
<p>Tourism to US more expensive</p>	<ul style="list-style-type: none"> • Visitors from abroad will find the prices of goods and services in America more expensive with a stronger dollar. • Business travelers and foreigners living in the US, especially those who are holding on to foreign-denominated bank accounts or who are paid incomes in their home currency, will see their cost of living increase.

14. What is BRICS?



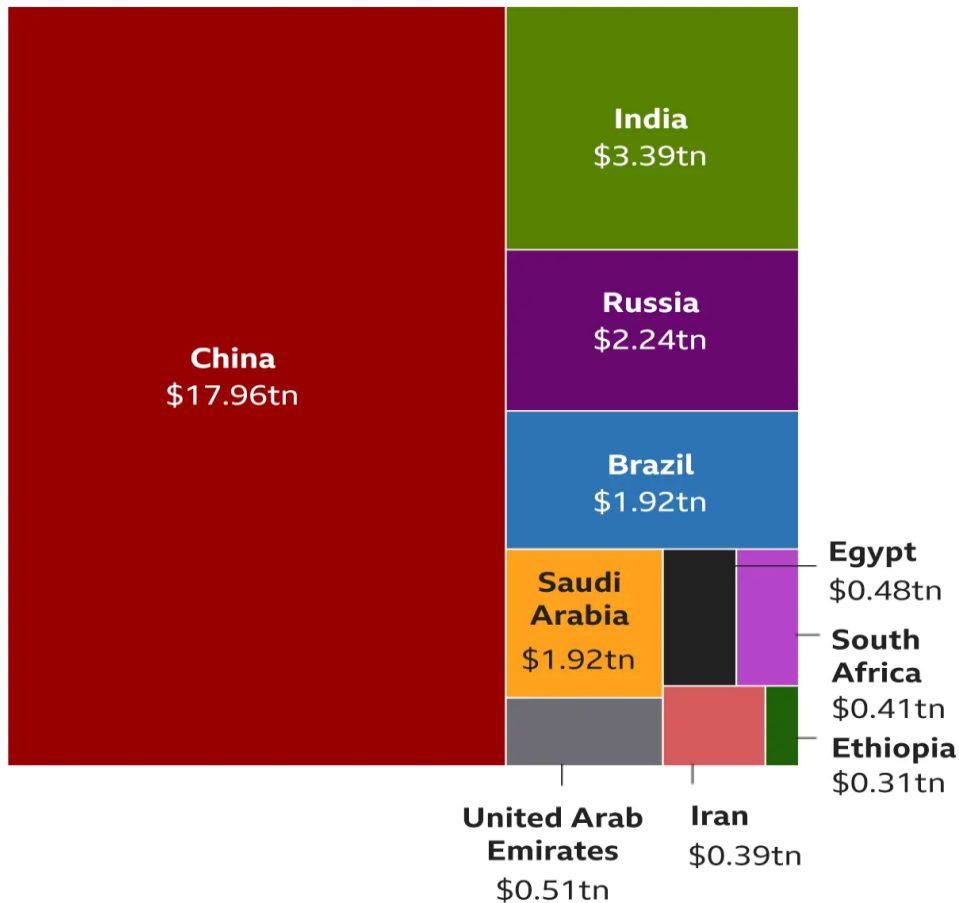
- **BRICS is an acronym** that refers to a group of five major emerging national economies: **Brazil, Russia, India, China, and South Africa.**
- The term **BRIC** was **coined by British economist Jim O’Neill in 2001** to represent emerging economies of **Brazil, Russia, India, and China.**
- **1st BRIC Summit** was **held in Russia in 2009** while BRIC became **BRICS** with the **inclusion of South Africa in 2010.**
- The **group began holding annual meetings** starting in **2006** on the sidelines of the **UN General Assembly (UNGA)**, and **its success led to formal summits.**
- Recently new members were added namely, **Egypt, Ethiopia, Iran, and the United Arab Emirates (UAE).**

Trade flows among the current five BRICS members (in billion \$)



Brics countries and their GDPs

GDP in trillions of US dollars



15. Is BRICS pushing for de-dollarisation?



- At the recent **Brics summit in Russia's Kazan**, a symbolic banknote displaying the **flags of Brics nations** was also introduced, **sparking conversations** about the **future of global finance**.
- However, **Russian President Vladimir Putin clarified** that the **bloc is not currently considering a unified Brics currency** or **developing an alternative to the SWIFT payment system**.
- However, the **Brics nations** have been **exploring strategies** to **reduce reliance on the US dollar**, including the **potential creation of a shared currency** to **facilitate trade within the bloc**.
- **Putin and his Brazilian counterpart Luiz Inacio Lula da Silva** are the **strongest proponents** of the new currency.
- While **China** has not explicitly expressed a view, **Beijing** has supported initiatives to **reduce reliance on the dollar**.
- **India**, meanwhile, is a **lot more cautious** about the idea.

16. How has the BRICS currency plan developed?

- The group of five countries –**Brazil, Russia, India, China and South Africa** was **formed in 2009** to focus on the **interest of emerging economies** and to make them **less dependent on the US dollar**.
- In **April 2023**, **Brazilian President Luiz Inacio Lula da Silva** urged **BRICS nations** to **create a common currency** for trade and investment between each other, as a means of reducing their vulnerability to dollar exchange rate fluctuations.
- He suggested that a **BRICS currency** will **increase our payment options and reduce our vulnerabilities**.
- In **October 2024**, **Russian President Vladimir Putin** called for a **new international payments system** at a **BRICS summit in Kazan**, stating that the **dollar is being used as a weapon by the US**.
- **Russia is working** on creating a **settlement and payment infrastructure** that would **bypass the Swift payment system** based in **Belgium**.
- There was **little enthusiasm for Putin's plan**, but **BRICS leaders did agree to facilitate more trade in local currencies**, cutting their **reliance on the dollar**.
- As per **Russian Deputy Prime Minister Alexei Overchuk**, about **92 percent of trade settlement between Russia and China** is now conducted in **Russian rubles and Chinese yuan**.

17. Why do the BRICS nations want to create a new currency?

- Recent **global financial challenges** and **aggressive US foreign policies** have prompted the **BRICS countries** to **explore the possibility** of new currency

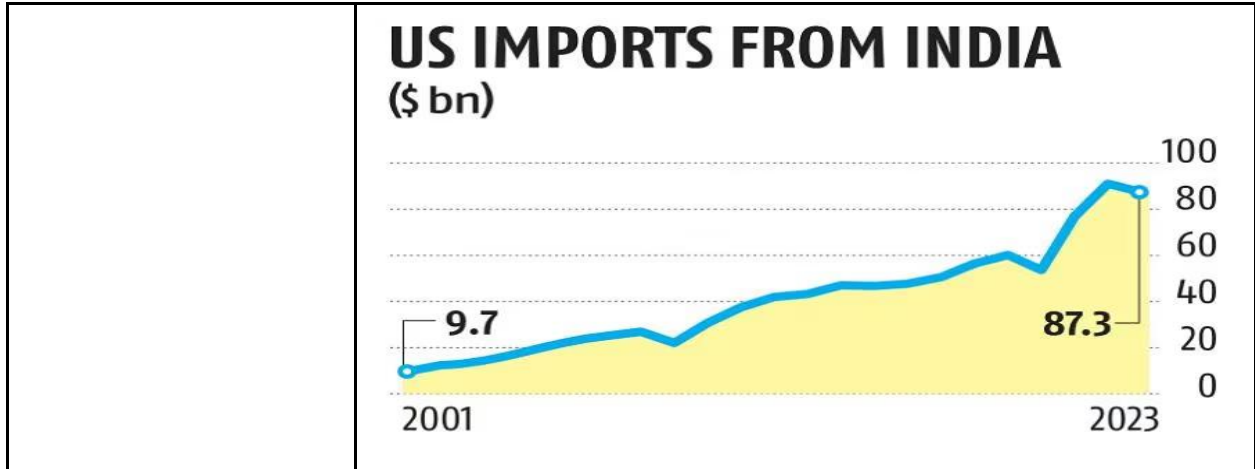
Reason	Analysis
Reduce Dependency on the U.S. Dollar	<ul style="list-style-type: none"> ● The U.S. dollar dominates global trade and finance, but this dependence creates vulnerabilities for BRICS nations. ● Fluctuations in the dollar's value can impact trade and the cost of debt in BRICS nations. ● Countries like Russia have faced economic sanctions that restrict access to the global financial system, which is heavily dollar-based.
Enhance Economic Sovereignty	<ul style="list-style-type: none"> ● By creating a new currency, BRICS nations aim to gain greater control over their monetary policies and trade settlement mechanisms, reducing exposure to external economic pressures from dollar-dominated systems.
Facilitate Trade Among BRICS Members	<ul style="list-style-type: none"> ● A shared currency could simplify trade among BRICS nations by eliminating the need for currency conversions and reducing transaction costs. <ul style="list-style-type: none"> ● This could foster stronger economic ties within the bloc.
Challenge U.S.-Dominated Financial Institutions	<ul style="list-style-type: none"> ● The global financial system, including institutions like the IMF and World Bank, is seen as being dominated by Western interests. ● A new BRICS currency could be a step toward creating an alternative system that better represents the economic interests of emerging markets.

18. What is India’s view on BRICS currency?

- **India’s cautious stance on the BRICS currency notion underscores its desire to maintain a balanced foreign policy.**
- **While India supports de-dollarisation in principle, it acknowledges the risks of alienating the US, its most significant trading partner.**
- **As per EAM S. Jaishankar, “From time to time, people have raised that there needs to be a BRICS currency, but remember, for countries to have a common currency, you need a huge alignment of the very fundamentals of fiscal policies, economic policies, monetary policies, or even political policies,”.**
- **India has legitimate reasons for hesitating on BRICS currency.**

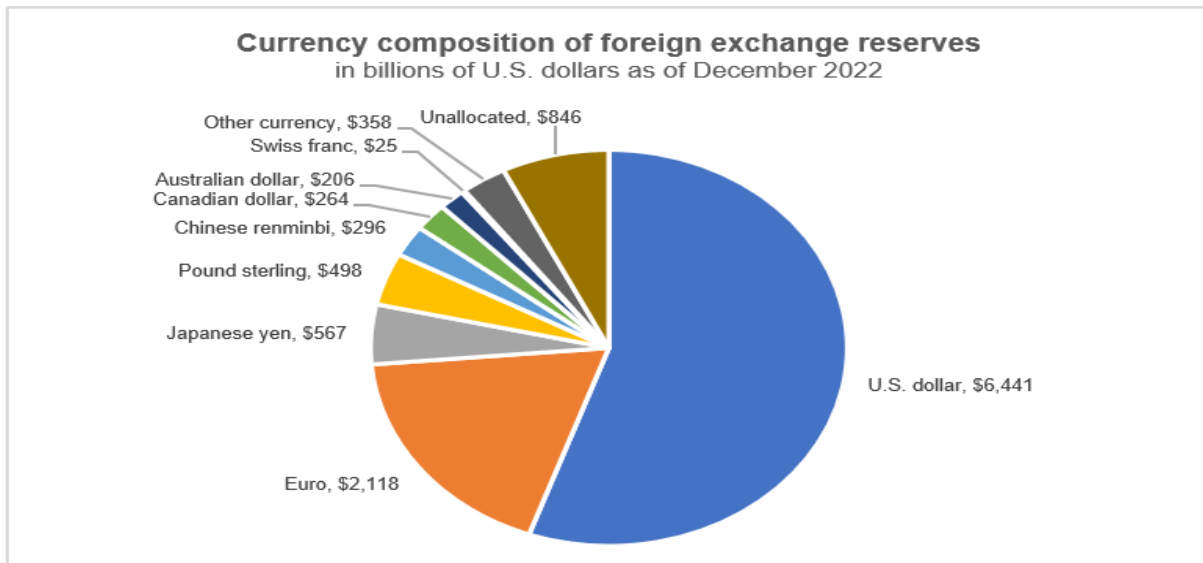
Reason	Analysis
<p>India’s economic growth trajectory</p>	<ul style="list-style-type: none"> • India’s economic growth trajectory and trade relationships do not necessitate a drastic pivot towards a BRICS currency. • The US dollar plays an integral role in India’s trade and financial transactions, and the USA has been reluctant to jeopardise profitable trade agreements with the West by endorsing a currency viewed as a direct challenge to the dollar.
<p>China’s influence within BRICS</p>	<ul style="list-style-type: none"> • India remains wary of China’s influence within BRICS. • A common BRICS currency could allow Beijing to further its geopolitical and economic ambitions, potentially at the cost of other member nations. • New Delhi is particularly cautious about aligning too closely with policies that could deepen Chinese dominance in the bloc.

	<h3 style="text-align: center;">Friend or Foe? How BRICS Partners View China</h3> <p style="text-align: center;">Share of respondents in (future) BRICS nations who have a favorable/unfavorable opinion of China</p> <div style="display: flex; justify-content: center; gap: 20px; margin-bottom: 10px;"> ■ Very favorable ■ Somewhat favorable ■ Very unfavorable ■ Somewhat unfavorable </div> <table border="1" style="width: 100%; text-align: center; margin-top: 10px;"> <thead> <tr> <th>Country</th> <th>Very favorable</th> <th>Somewhat favorable</th> <th>Very unfavorable</th> <th>Somewhat unfavorable</th> </tr> </thead> <tbody> <tr> <td>India</td> <td>8%</td> <td>18%</td> <td>50%</td> <td>17%</td> </tr> <tr> <td>Brazil</td> <td>4%</td> <td>35%</td> <td>12%</td> <td>36%</td> </tr> <tr> <td>South Africa</td> <td>26%</td> <td>23%</td> <td>27%</td> <td>13%</td> </tr> <tr> <td>Argentina</td> <td>17%</td> <td>24%</td> <td>17%</td> <td>17%</td> </tr> </tbody> </table>	Country	Very favorable	Somewhat favorable	Very unfavorable	Somewhat unfavorable	India	8%	18%	50%	17%	Brazil	4%	35%	12%	36%	South Africa	26%	23%	27%	13%	Argentina	17%	24%	17%	17%
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South Africa	26%	23%	27%	13%																						
Argentina	17%	24%	17%	17%																						
<p>India's trade relationship with the US</p>	<ul style="list-style-type: none"> ● India's trade relationship with the US has grown significantly, encompassing crucial sectors such as pharmaceuticals, IT services, and textiles. ● A 100% tariff on Indian exports, as threatened by Trump, would dramatically increase costs for Indian companies and render their products less competitive in the US market. ● Such a move could disproportionately affect small and medium-sized enterprises (SMEs) that rely on exports to the US, creating ripple effects throughout India's economy. 																									



19. How would a new BRICS currency affect the US dollar?

- For decades, the **US dollar** has enjoyed unparalleled dominance as the world's leading reserve currency.
- According to the **US Federal Reserve**, between 1999 and 2019, the dollar was used in **96 percent** of international trade invoicing in the Americas, **74 percent** in the Asia-Pacific region and **79 percent** in the rest of the world.
- According to the **Atlantic Council**, the US dollar is used in approximately **88 percent** of currency exchanges, and **59 percent** of all foreign currency reserves held by central banks.



- Due to its status as the **most widely used currency for conversion** and its **use as a benchmark in the forex market**, almost **all central banks worldwide hold dollars**.
- **Additionally, the dollar is used for the vast majority of oil trades.**
- Although the **dollar's reserve currency share has decreased** as the **euro and yen have gained popularity**, the dollar is **still the most widely used reserve currency**.
- The potential impact of a new **BRICS currency on the US dollar remains uncertain**, with experts debating its **potential to challenge the dollar's dominance**.
- If a new **BRICS currency was to stabilize against the dollar**, it could **weaken the power of US sanctions**, leading to a **further decline in the dollar's value**.
- It could also cause an **economic crisis affecting American households**.
- While it is **unclear whether a new BRICS currency would inspire the creation of other US dollar alternatives**, the possibility of **challenging the dollar's dominance as a reserve currency remains**.
- However, a recent study by the **Atlantic Council's GeoEconomics Center released in June 2024** shows that the **US dollar is far from being dethroned as the world's primary reserve currency**.
- According to **former RBI Governor Duvvuri Subbarao**, in theory, a **BRICS common currency would shield the bloc from the perils of dollar hegemony**, but in practice, that **project will remain a non-starter because of both politics and economics**.

20. How is BRICS's growth a concern for Trump?

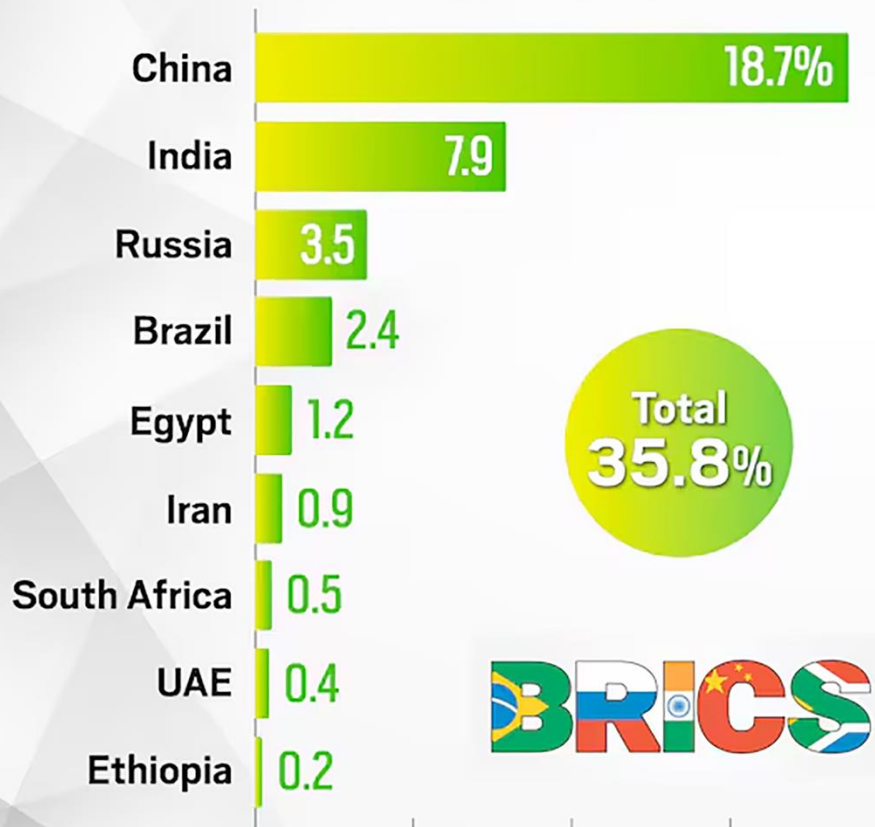
- The **nine economies together constituted 35.8 percent of the global GDP based on purchasing power parity in 2023**.
- **China alone accounted for 18.7 percent**.

- **India accounted for 7.9 percent, Russia 3.5 percent, Brazil 2.4 per cent, Egypt 1.2 percent and others accounted for two per cent, according to the International Monetary Fund.**

BRICS Nations Constitute 35.8% of Global Economy

China accounts for nearly half of BRICS cumulative GDP

Share in Global GDP based on purchasing power parity in 2023



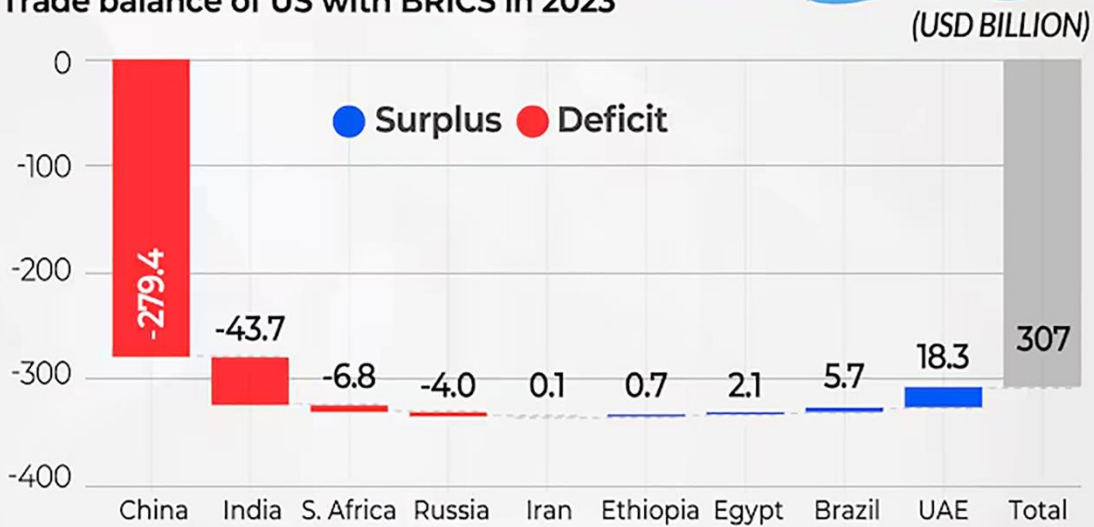
Source: International Monetary Fund

US in Wide Trade Deficit with BRICS

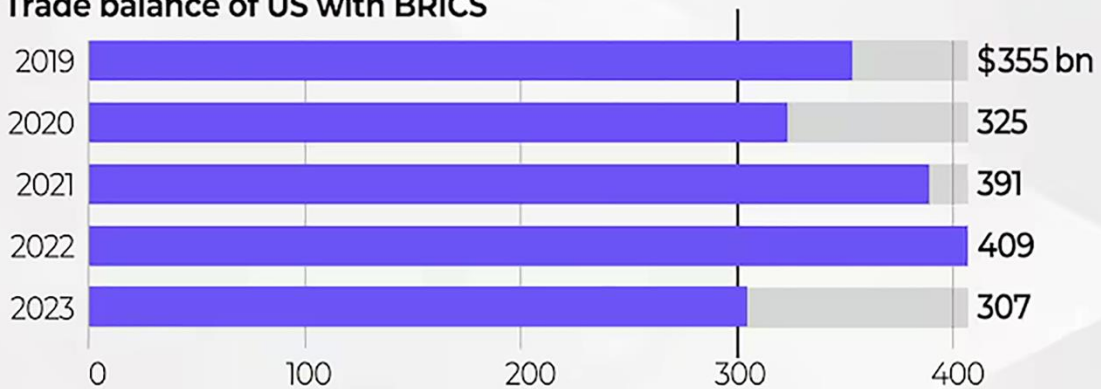
US has clocked a trade deficit of over \$300 billion each year since 2019



Trade balance of US with BRICS in 2023



Trade balance of US with BRICS

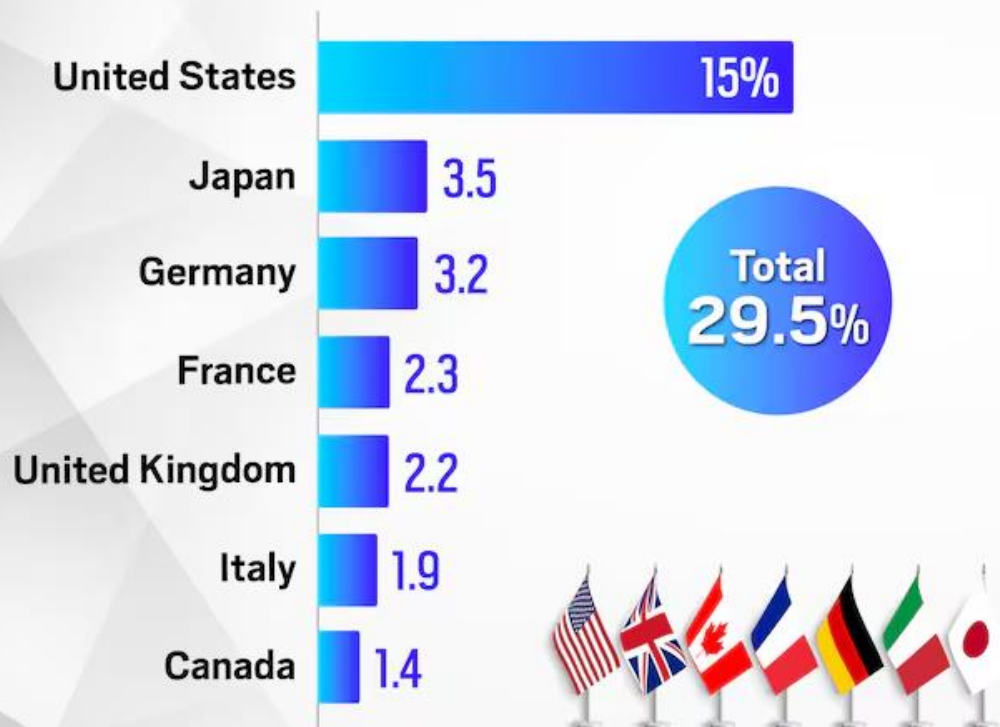


Source: US Department of Commerce

G7 Nations Constitute 29.5% of Global Economy

US accounts for nearly half of G7 cumulative GDP

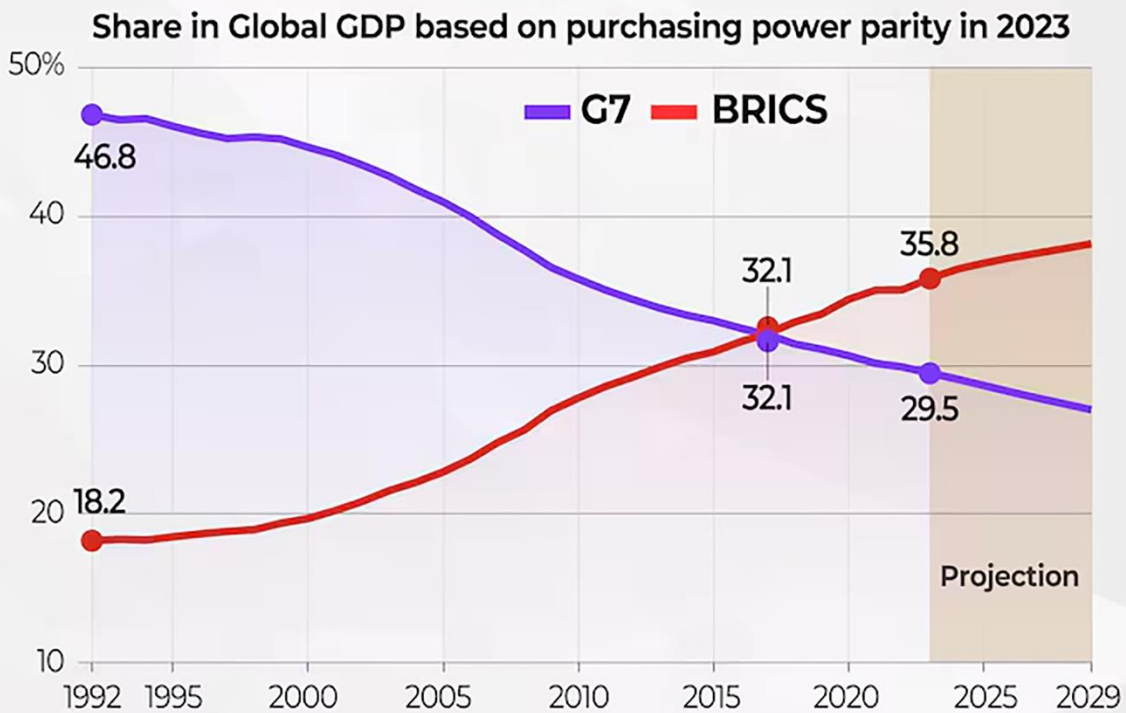
Share in Global GDP based on purchasing power parity in 2023



Source: International Monetary Fund

Rising Dominance of BRICS Nations

Cumulative GDP of G7 nations fell from 46.8% in 1992 to 29.5% in 2023



Source: International Monetary Fund

21. Why is Donald Trump threatening BRICS members against de-dollarisation?




- **Donald Trump** has demanded that **Brics members promise not to create a new currency** or support another currency to **replace the United States dollar** as the world’s reserve currency.
- **Mr. Trump warned BRICS** that they will have to face **100 per cent tariffs** if they do not do so.
- **Donald Trump's opposition to BRICS nations' efforts toward de-dollarization** stems from his concerns about **protecting U.S. economic dominance** and the **central role of the dollar** in global finance.

Reasons	Analysis
<p>Protection of the U.S. Dollar's Dominance</p>	<ul style="list-style-type: none"> • The U.S. dollar's status as the world's reserve currency provides significant economic and geopolitical advantages.

	<ul style="list-style-type: none"> • Global demand for the dollar helps sustain lower interest rates for U.S. borrowing. • If BRICS nations successfully reduce reliance on the dollar, it could undermine these benefits and challenge the dollar's supremacy. <p>The infographic features a central globe with a network of lines connecting various points. To the right of the globe, there are three data points: 1) '2/3' with three dollar signs and the text 'Nearly two-thirds of international debt markets are dominated in dollars.' 2) '3/5' with five Euro signs and the text 'Nearly three-fifths of cross-border loans are dominated in dollars.' 3) '63%' with a stack of money icon and the text 'Of international currency reserves are dominated in dollars.'</p>
<p>Threat to U.S. Geopolitical Power</p>	<ul style="list-style-type: none"> • The dollar's dominance gives the U.S. immense leverage over the global financial system, enabling it to impose sanctions (e.g., on Russia and Iran) that rely on restricting access to dollar-based transactions. • A successful BRICS de-dollarization strategy could weaken this leverage, reducing the U.S.'s ability to exert influence on global issues.

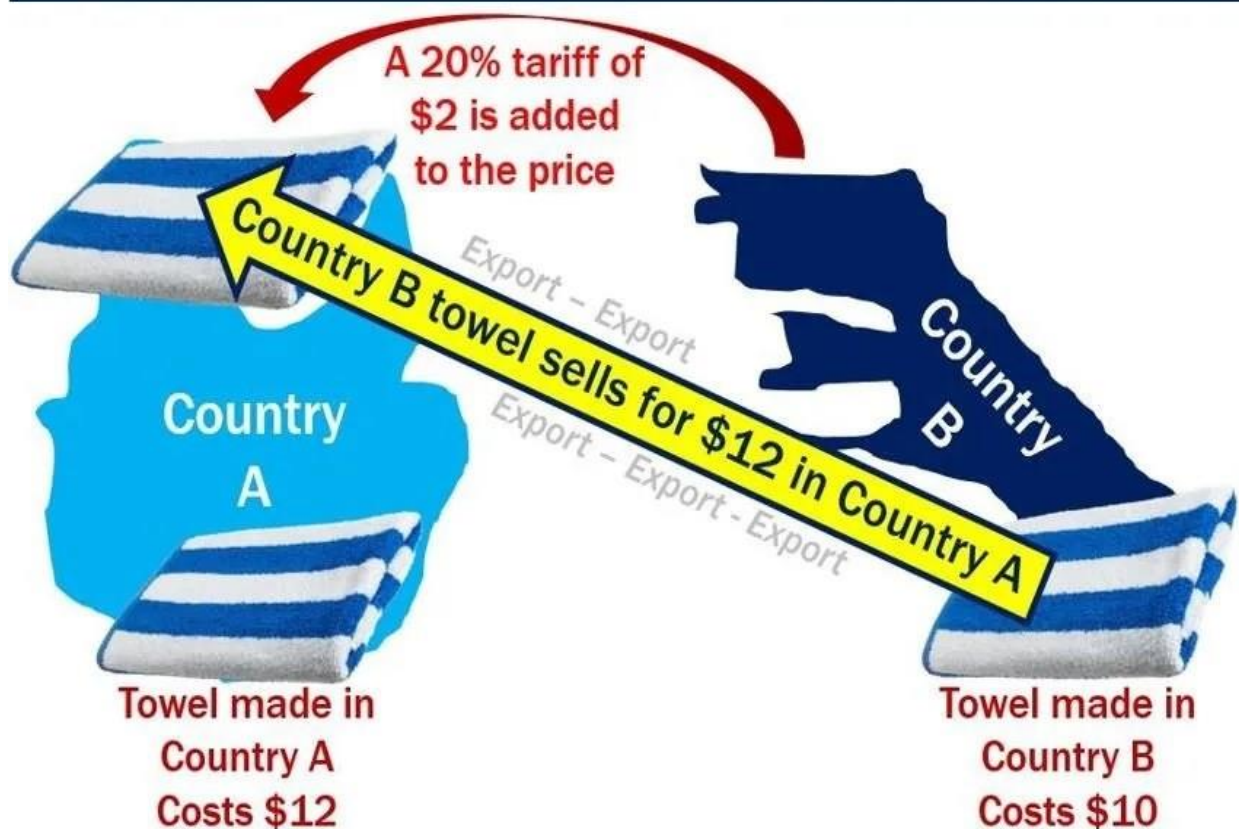
<p>Economic Implications for the U.S.</p>	<ul style="list-style-type: none"> ● A reduced role for the dollar in global trade could lead to: <ul style="list-style-type: none"> ▪ Declining demand for dollars, potentially weakening its value. ▪ Reduced foreign investment in U.S. Treasury securities, making it more expensive for the U.S. to finance its debt. ▪ Increased costs for imports and higher inflation domestically. <p>Snapshot of the international monetary system (percentages)</p> <table border="1"> <caption>Snapshot of the international monetary system (percentages)</caption> <thead> <tr> <th>Category</th> <th>US dollar</th> <th>Euro</th> <th>Japanese yen</th> <th>Chinese renminbi</th> </tr> </thead> <tbody> <tr> <td>Foreign exchange reserves</td> <td>~58</td> <td>~21</td> <td>~5</td> <td>~2</td> </tr> <tr> <td>International debt</td> <td>~63</td> <td>~23</td> <td>~2</td> <td>~1</td> </tr> <tr> <td>International loans</td> <td>~54</td> <td>~16</td> <td>~2</td> <td>~1</td> </tr> <tr> <td>Foreign exchange turnover</td> <td>~44</td> <td>~16</td> <td>~8</td> <td>~2</td> </tr> <tr> <td>Global payment currency (SWIFT)</td> <td>~42</td> <td>~38</td> <td>~4</td> <td>~1</td> </tr> </tbody> </table> <p>Sources: BIS, IMF, SWIFT and ECB calculations. Notes: The latest data for FX reserves, international debt and loans are for the fourth quarter of 2020. Foreign exchange turnover data as of April 2019. SWIFT data as of December 2020.</p>	Category	US dollar	Euro	Japanese yen	Chinese renminbi	Foreign exchange reserves	~58	~21	~5	~2	International debt	~63	~23	~2	~1	International loans	~54	~16	~2	~1	Foreign exchange turnover	~44	~16	~8	~2	Global payment currency (SWIFT)	~42	~38	~4	~1
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<p>Political Context</p>	<ul style="list-style-type: none"> • Trump's rhetoric often appeals to his "America First" agenda, focusing on protecting U.S. interests against perceived threats from foreign powers. • He likely views BRICS' de-dollarization efforts as part of a broader challenge to U.S. dominance. • By taking a strong stance, he reinforces his image as a leader who prioritizes U.S. economic and geopolitical power, which resonates with his political base. 
<p>Huge trade deficit with BRICS</p>	<ul style="list-style-type: none"> • US Department of Commerce data showed that the country exported goods worth \$271 billion to BRICS nations while its imports were to the tune of \$578 billion. • This left the US with a trade deficit of over \$300 billion in 2023. • Also, the trade deficit of the US with BRICS nations has been more than \$300 billion every year, at least since 2019.

22. What is the tariff, and why are they imposed?

- A **tariff** is a tax imposed by a country on imported goods or services from other countries.
- Tariff is **imposed majorly to protect the domestic producers**, but the government also **imposes tariffs to reduce imports from other countries**, thereby promoting the use of domestic products.

How Tariffs Work



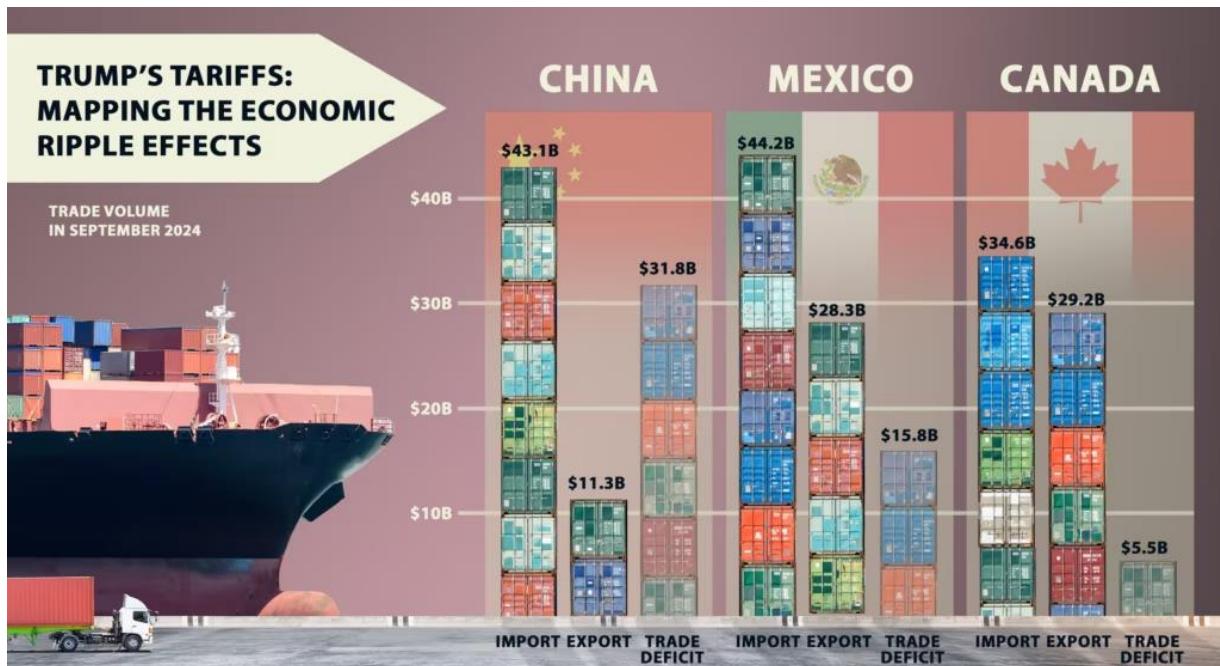
- The benefits of imposing tariffs are listed below:
- **Protection to Producers:**
 - **Bulk imports or dumping of goods** from certain countries **might lower the revenues of local manufacturers and producers.**
 - Government **imposes tariffs to prevent the exploitation of local goods.**

- **Protection of small and medium enterprises:**
 - Every reigning government ensures that **the economy grows and that each element grows equally.**
 - Import affects **small and medium enterprises as consumers shift their attention to those goods** and such industries struggle to survive.
- **Preserve National security:**
 - Many imports can **create indebtedness, and countries might eventually become over-dependent on imported products,** thus losing a sense of ownership.
 - **Tariff ensures equal distribution of wealth** and preserves ownership rights of the countries.
- **Avoiding unemployment:**
 - **Dependency on imported goods** will eventually lead to the **shutting down of local industries,** thereby **causing unemployment** for many people.
- Therefore, **tariffs protect the nation's well-being as a whole.**

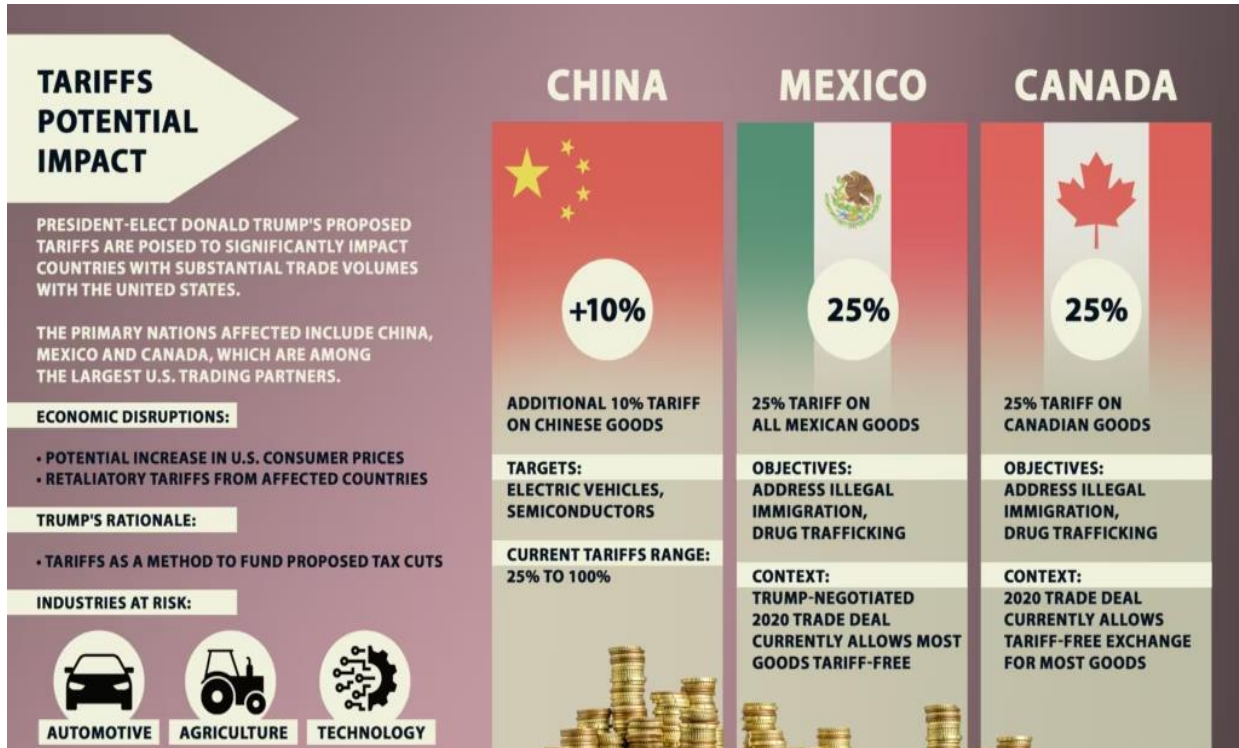
23. What is Donald Trump's tariff proposal?



- With less than two months remaining until **President-elect Donald Trump assumes office**, the self-proclaimed “**tariff man**” has made his intentions clear, threatening **steep tariff hikes of up to 25 per cent** on the **United States’ top three trade partners—Mexico, Canada, and China** on his first day in office.
- Fears of trade conflict are mounting, particularly as the **World Trade Organization (WTO) remains paralysed** due to the breakdown of its dispute resolution mechanism.
- While **Mexico and China have hinted at potential retaliation**, **Canada has already begun negotiating**.
- These **tariffs aim to encourage U.S. manufacturing, rebalance trade, and improve government finances**.



24. What will be the impact of Trump’s tariff?



Impact on	Analysis
BRICS	<ul style="list-style-type: none"> • U.S. tariffs will encourage BRICS nations to strengthen intra-BRICS trade and diversify their export markets. • U.S. tariffs have sometimes prompted BRICS nations to adopt protectionist measures in response, increasing global trade tensions. • U.S. protectionism will lead to realignment of global trade, with BRICS nations exploring trade agreements and partnerships with the EU, ASEAN, and Africa.
China	<ul style="list-style-type: none"> • U.S. tariffs on Chinese goods will reduce exports to the U.S., contributing to an economic slowdown in China.

	<ul style="list-style-type: none"> • Sectors such as electronics, machinery, and consumer goods may face the most significant pressure. • A report by S&P Global, released on Tuesday, indicated that China's growth could slow to 4 per cent by 2025 due to US tariffs weakening exports and investment. • Many companies will move their supply chains to other countries, such as Vietnam, to avoid tariffs, reducing China's dominance in global manufacturing.
<p>Europe</p>	<ul style="list-style-type: none"> • Christine Lagarde, President of the European Central Bank (ECB) and a long-time advocate of globalisation and inclusive economic policies, warned in an interview with the Financial Times that a trade war would benefit no one and could lead to a global reduction in GDP. • Christine Lagarde, who was the first woman to lead the International Monetary Fund (IMF) from 2011 to 2019, had earlier called a second Trump presidency a "threat" to Europe.
<p>India</p>	<ul style="list-style-type: none"> • According to a report by Motilal Oswal Private Wealth (MOPW), while India could benefit in some areas, Trump's policies could bring substantial challenges, especially with his recent threats of imposing 100% tariffs on nations like India. • Trump's tariff threats are particularly concerning for India, which maintains a strong trade relationship with the US. • It could put India in a difficult position, forcing the country to choose between adhering to US demands or facing the consequences of higher tariffs.

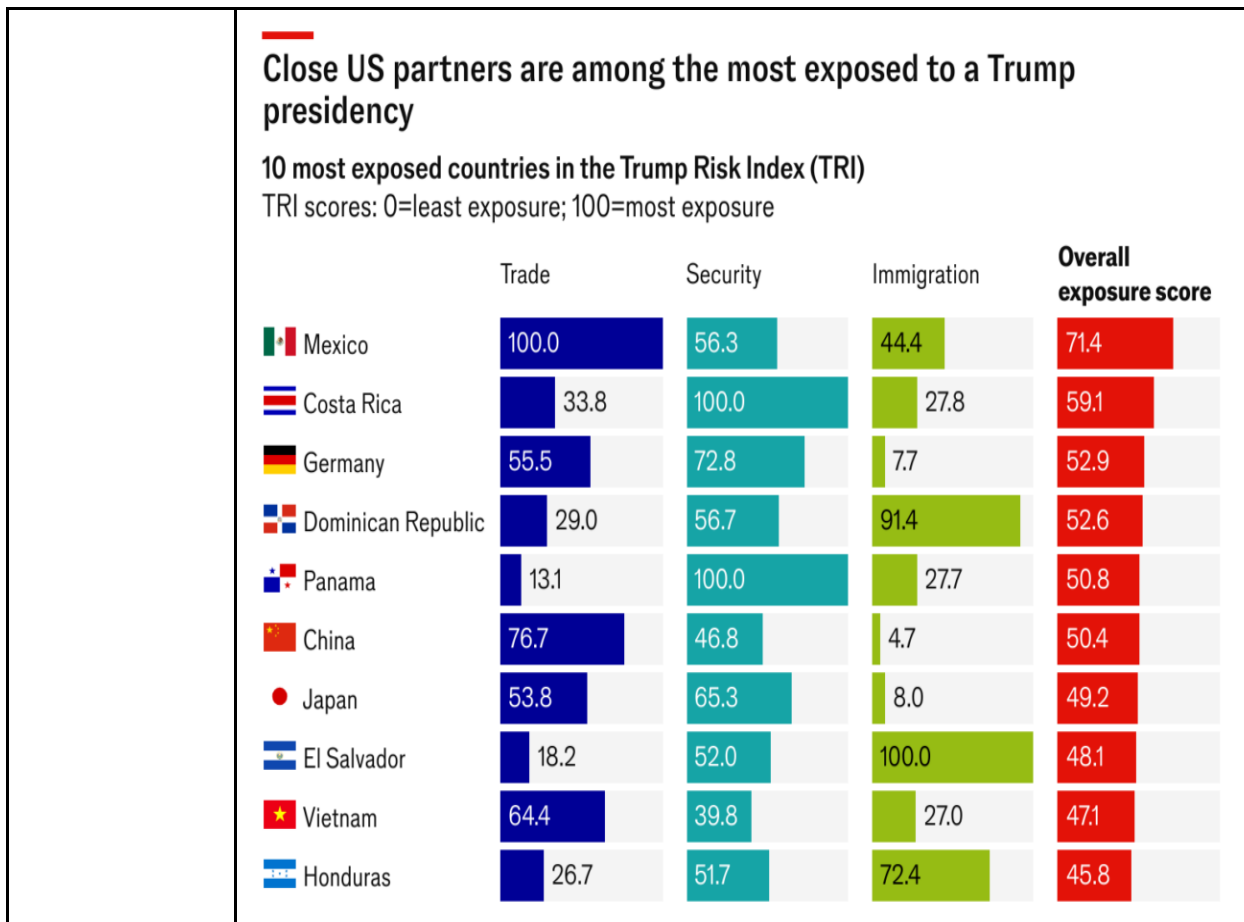
- India’s export sectors, particularly **pharmaceuticals, textiles, and IT services, could bear the brunt of such tariff hikes.**
- If Trump’s tariffs were to come into effect, **Indian businesses would face higher export costs,** potentially leading to a dip in trade volumes and economic slowdowns.



USA

- Economists are generally skeptical, considering tariffs to be a mostly inefficient way for governments to raise money.
- By raising the price of imports, tariffs can protect home-grown manufacturers.

	<ul style="list-style-type: none"> • The non-partisan Peterson Institute for International Economics has estimated Trump’s new proposed tariffs would lower the incomes of Americans, with the impact ranging from around 4% for the poorest fifth to around 2% for the wealthiest fifth. • A study by economists at the Massachusetts Institute of Technology, the University of Zurich, Harvard and the World Bank concluded that Trump’s tariffs (in the past) failed to restore jobs to the American heartland. • The tariffs “neither raised nor lowered U.S. employment” where they were supposed to protect jobs, the study found. • They may also serve to punish foreign countries for committing unfair trade practices, like subsidizing their exporters or dumping products at unfairly low prices.
<p>Global economy</p>	<ul style="list-style-type: none"> • The global economy is already bracing for the consequences of Trump’s protectionist policies. • A potential trade war between the US and major economies like China, Mexico, and the European Union could destabilise markets worldwide. • Countries that rely heavily on exports to the US could see a decline in demand for their goods, which would, in turn, affect their economic growth.



25. What is the relevance of the topic for UPSC CSE?

- **For Prelims:** 16th BRICS Summit, Global South, BRICS group expanded, UN, WTO, World Bank, IMF, Contingency Reserve Arrangement (CRA), New Development Bank (NDB), Line of Actual Control (LAC), voice for the Global South,, Russia- Ukraine conflict, Global Financial Safety Net.
- **For Mains:** Significance of International Groupings and Agreements for India’s Strategic Interests.

Some previous years prelims questions.

Q1. Consider the following statements:

1. New Development Bank has been set up by APEC.
2. The headquarters of the New Development Bank is in Shanghai.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)

Q2. The ‘Fortaleza Declaration’, recently in the news, is related to the affairs of (2015)

- (a) ASEAN
- (b) BRICS
- (c) OECD
- (d) WTO

Ans: (b)

Some previous years mains questions.

Q1. India has recently signed to become a founding member of the New Development Bank (NDB) and also the Asian Infrastructure Investment Bank (AIIB). How will the role of the two Banks be different? Discuss the strategic significance of these two Banks for India. **2014**

Some questions from this year and previous years interview transcripts.

Board Dinesh Dasa sir:

- Tell me something about BRICS expansion.
- What will be its benefits?

Board Lt Gen. Raj Shukla sir:

- Have you heard about BRICS?

- What are its significance and advantages
- Have you heard about BRICS EXPANSION?
- Can you name the countries recently added?
- Among all these, which one had recently decided to quit?

Board Satyavati mam:

- Have you heard of De-dollarisation? What is it?
- Why are countries doing it?
- Have you heard of BRICS alternate currency?
- What is BRICS and what do you think of this idea of floating alternate currency.

Board Satyavati mam:

- Have you heard of BRICS?
- In light of tensions between India-China and Russia-Ukraine war, how do you see the future of BRICS?

Some questions for QUIZ.

Q1. Consider the following Countries:

1. China
2. India
3. Russia
4. Brazil
5. Iran

How many of the above countries are part of the BRICS group?

- (a) Only two
- (b) Only three
- (c) Only four
- (d) All five

Ans: (d)

Some questions for POLL.

Q1. Can Trump economic policies impact BRICS economy?

- (a) YES
- (b) NO
- (c) Can't say.

Q2. Should India fear Trump economic policies?

- (a) YES
- (b) NO
- (c) Can't say.

