

## **BRICS: THE DRIVING FORCE FOR THE NEW WORLD ECONOMIC ORDER**

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During the structural global transformations, the strategic developments are usually accompanied by economic ones that support them and reflect their depth at the same time. The end of World War II with the American nuclear bombing to Hiroshima and Nagasaki on August 6 and 9, 1945, was preceded by an economic nuclear bomb that destroyed the world economic order based at that time on pluralism. Washington has launched Bretton Woods's system in 1944, with its triple foundations. It took the advantage of the European economies and governments' collapse on the backdrop of the war, to dominate the world economy. Although Moscow participated in the discussions of Bretton Woods' conference, it did not join the agreement, considering it a clear American hegemony over the proposed economic system. Actually, Washington dominated the conference work, through adopting the American "White Plan," which reflects the United States point of view and interest only, and ignored the "Keynes Project," which represented the British ones.

After six decades of total American economic hegemony, the world order has witnessed fundamental changes at the strategic and economic levels. Since the economic crisis of 2008, developments are accelerating and the challenge to the United States unipolarity is rising both politically and economically. Those who are complaining and refusing the unipolar system with all its dimensions, including economic ones,

are growing. Demands are rising for a pluralistic global system that is more just, more stable, and more responsive to the interests of all countries.

The inauguration of BRICS was the beginning of such transformation and the leading force for it. BRICS works for economic multilateralism by moving along three main pillars that together represent a triangle of solid base for the new world economic order.

### **I. De-dollarization:**

BRICS is working on a complete abandonment of dollar in trade and commercial transactions through a steady shift towards the use of local currencies. The dominance of a single currency over trade is an unprecedented exception in history. The rise of the United States at the beginning of the twentieth century was linked to the rapid growth of the American economy, its endeavor to translate its huge economic power into global political and strategic influence, and the sharp decline of competing European economies in the wake of the devastation that befell Europe during World War II. That enabled Washington to extend its control over the global economy through a set of mechanisms. The most important and influential of which is the adoption of the dollar in all financial and commercial transactions globally. For more than seven decades, the dollar has dominated the trade as all commodities have been priced in dollars, most notably oil, stocks and financial reserves all over the world. The destination of money around the world has been linked to the value of the dollar and the interest rate determined by the US Federal Reserve, which was obvious when the latter began rising the interest rate 11 times in a row since February 2022.

During the last two years, BRICS' countries have taken important steps towards ending the dollar's global dominance. Including increasing transactions between them in the local currencies. The world seems

ready to build on such seismic trends and further accelerate the process of de-dollarization as US policymakers continue to weaponize the dollar. The developments accompanying the Ukraine crisis gave strong impetus to such trend, which might have taken decades longer. Russia is working seriously to completely abandon the dollar in trade, as well as in paying for Russian energy and arms as well. The share of local currencies has increased to represent 65% of Russia's total trade with foreign countries and 70% with main trade partners by the end of 2023.<sup>2</sup> The European companies are paying for Russian gas in rubles for the first time. In January 2023, the Russian Central Bank added 9 currencies to the list of currencies for which it sets an official exchange rate with ruble, bringing the number to 43 currencies.<sup>3</sup> The expansion using local currencies with Russia's trading partners, accelerated the pace of de-dollarization, and placed the ruble in an unprecedented economic position as an international trading and evaluation currency.

China and India are following the same path. The proportion of mutual dealing in yuan and ruble reached 95% of the total trade between Russia and China in November 2023.<sup>4</sup> India began settling accounts with Russia in rupee in December 2022. Tehran and Moscow began dealing in ruble and riyal as well since July 2022. Same with Turkey, where Turkish exports to Russia in lira increased by approximately 400%. The Turkish imports from Russia in lira increased by

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<sup>2</sup> Доля нацвалют во внешней торговле РФ по итогам 2023 года вырастет до 65%, 12 декабря 2023, <https://www.interfax.ru/russia/935855>.

<sup>3</sup> Банк России начинает устанавливать официальные курсы рубля еще к 9 иностранным валютам, 18 января 2023, <https://cbr.ru/press/pr/?file=638096472718284108DATABASES.htm>

<sup>4</sup> 95% торговых операций между Россией и Китаем прошли в рублях и юанях, РБК, 20 ноября 2023, <https://www.rbc.ru/rbcfreenews/655b40d69a7947e7013c1967>

approximately 150%, and in rubles by 260% in November 2023.<sup>5</sup> India has also signed an agreement with the UAE allowing it to settle commercial transactions in rupees instead of dollars in July 2023. The volume of bilateral trade between India and the UAE reached \$84.5 billion in 2022/2023. India is the third largest importer and consumer of oil in the world. The Indian Central Bank announced in 2022 a framework for settling global trade in rupees.<sup>6</sup> That reflects a worldwide trend that goes beyond the BRICS group. It is a growing trend as many countries lost confidence in dollar, which Washington is printing large quantities of without a gold backing.

During the BRICS summit on June 22, 2022, it was agreed to create an international reserve currency based on the BRICS basket of currencies. The new currency will be backed by gold to support its value and its ability to compete with the dollar in international trade. BRICS countries are increasing their gold reserves in preparation for the creation of that common currency. The BRICS Bank is also working to develop a unified digital currency for the group's countries. According to the head of the monetary policy department at BRICS Bank, Ivando Cassino, the issuance of the digital currency will take place through stages, within 5-10 years. It may be used initially as an investment instrument, and later in business dealings.

In this context, the share of dollar reserves held by central banks globally declined to 59%, the lowest level in 25 years, during the fourth quarter of 2020, according to a survey conducted by the International Monetary Fund on the official foreign currency reserves. In 2016, the

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<sup>5</sup> Россия и Турция увеличили использование нацвалют в двусторонней торговле, РБК, 25 ноя 2023, <https://www.rbc.ru/rbcfreenews/656241a89a794716ef14560e>

<sup>6</sup> India ties up with UAE to settle trade in rupees, Reuters, July 15, 2023, <https://www.reuters.com/world/india-ties-up-with-uae-settle-trade-rupees-2023-07-15/>

IMF included the Chinese yuan as a reserve currency in the basket of currencies that make up the Special Drawing Rights, along with the US dollar, euro, pound sterling, and yen. Central banks in the world are moving to use the Chinese yuan as part of their efforts to diversify their foreign currency reserves. In a sign indicating the gradual decline of the dollar's dominance, in light of the tensions ravaging the global political arena. The percentage of reserve managers in central banks who invest or have a desire to invest in yuan has increased to about 85% during 2022, according to a survey was conducted by the UBS investment firm on 30 major central banks in the period between April and June 2022. The increasing desire for the Chinese currency came after Western countries froze about \$300 billion of Moscow's hard currency reserves, as part of the sanctions they impose on Russia. Concerns related to American inflation, and the efforts made by the Federal Reserve to combat it, also affected confidence in the dollar.

The dissolution of dollar's status as a dominant global currency will inevitably affect the American economy. Washington would also lose an important tool for international influence, which is a strong indicator of the shift towards a new multipolar economic order.

## **II. Alternative payment and financial transactions systems:**

The second pillar is to create banking and payment systems independent from "SWIFT", which is dominated by the United States. BRICS countries are working to integrate their national payment and financial transactions systems. That includes the Russian SPFS, the Chinese CIPS, the Indian SFMS, and the Brazilian Pix. More than 159 foreign institutions from 20 countries have been linked to the Russian

SPFS.<sup>7</sup> The Chinese CIPS has a huge infrastructure, spanning six continents and 47 countries around the world. It is limited to yuan only. In May 2023, 30 Russian banks were linked to the Chinese payment system CIPS, among dozens of Russian banks that submitted applications to join it.<sup>8</sup> The connection of Russian banks to the Chinese banking system helps them make payments directly without the need for money transfers to pass through Western banks. That would facilitate the trade between Russia and China. The logistics (shipping period) will become more predictable, not only for large companies but also for small and medium-sized business in Russia. Smooth payments are a necessity as faltering payments affect the shipping period and logistics services. Based on this, alternative payment systems are crucial to enhance cooperation, especially with the exit of Russia, Iran, and a number of other countries from SWIFT. However, there are regulatory and technical difficulties facing Russian banks when they join the Chinese system. Each bank needs to individually agree with the Chinese side and adapt to CIPS requirements. Technically, it requires installing software and training staff to implement the exchanges.

On April 18, 2023, an agreement was signed according to which India has adopted the Russian financial messaging system SPFS for bank payments to Russia. In recent years, the Reserve Bank of India (RBI) has been proactively trying to internationalize the rupee and its payment systems. Firm steps are being taken. One of the two significant memorandums of understanding signed mid-July, between the RBI and the Central Bank of the UAE related to the interlinking of respective

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<sup>7</sup> В ЦБ заявили, что к российскому аналогу SWIFT присоединились 557 участников, ТАСС, 16 января 2024, <https://tass.ru/ekonomika/19740461>

<sup>8</sup> Наталья Заруцкая, Косвенными участниками китайской системы CIPS стали 30 российских банков, Ведомости, 26 мая 2023, <https://www.vedomosti.ru/finance/articles/2023/05/26/976987-kosvennimi-uchastnikami-kitaiskoi-sistemi-cips-stali-30-rossiiskih-bankov>

payment systems, to promote the use of rupee and UAE dirham bilaterally and cost-effective fast cross-border fund transfers. They have also included exploring the linking of payments messaging systems.

Alternative payment and financial transactions systems have proven to be an effective and secure way. The continued increase in the number of participants confirms their efficiency. The widening scope of reliance on it represents a qualitative shift in countries' exit from the financial systems related to the United States (Swift) and their freedom from the pressures and sanctions associated with it.

### **III. Alternative monetary institutions:**

The third pillar is establishing alternative financial institutions to the International Monetary Fund (IMF) and the World Bank (WB), which are dominated by the United States and a corner stone to "Bretton Woods".

In 2015, the New Development Bank (NDB) and BRICS Contingent Reserve Arrangement (CRA) were established on the basis of partnership, not hegemony. The initial subscribed capital of the NDB was \$50 billion and the initial authorized capital was \$100 billion. Contributions were distributed equally among the founders of the NDB, with Brazil, Russia, India, China and South Africa having equal shares. The founding bylaws of the NDB stipulate that no shareholder shall have the right to veto, and that the BRICS members shall assume its presidency in rotation. No founder is allowed to increase its share of the capital, and thus its voting share, without the approval of the other founders. The capital of the founding members collectively, when expanding the bank to include other countries, should not be less than 55% of the total capital. As for the CRA, its founding capital reached \$100 billion. China provided \$41 billion of it, Brazil, Russia, and India each provided \$18 billion, and South Africa \$5 billion. Therefore,

China's voting share in it is the largest, meaning that it is actually led by China.

The NDB approach, goals and policy are completely different from those of Western monetary institutions. The IMF and WB follow a policy of political and economic conditionality with the aim of dominating countries and interfering in their internal affairs in a way that serves American interests. They link their loans to the conditions of structural adjustment, liberalizing prices, local currency exchange rate as well, privatizing the public sector, reducing government spending, and increasing taxes in general while reducing them on large companies, especially foreign ones. Unlike Western institutions, both the NDB and CRA aim to support development, especially infrastructure, and build broad international and regional development partnerships. The goal of Western institutions is to impose their political and economic model on other countries. The first loan provided by the World Bank to France after its founding amounted to \$250 million, which was conditional on the removal of communist ministers from the government. The WB did not approve the loan until France complied with that condition. While the NDB provides loans and guarantees for development projects, and is a partner in their establishment. Concerning the CRA, it is supposed to provide short-term loans to help countries overcome imbalance of payments and liquidity pressures, especially those resulting from the deterioration of the exchange rate of their currencies as a result of fluctuating international financial conditions.

Up to the end of 2022, the New Development Bank provided \$32.8 billion loans to 96 development projects in member countries. The loans went to the sectors of transportation, water, sanitation to clean energy and both digital and social infrastructure. Among them is lending \$6 billion to the emergency assistance program for member states to



combat the Covid-19 pandemic, and two loans of \$1 billion each to support economic recovery in India and Brazil.<sup>9</sup>

That encourages many countries to join the NDB. The first wave of membership expansion has been in 2021 with Bangladesh, the United Arab Emirates and Uruguay joining in September, then Egypt in December. The contributions of the new members amounted to less than \$1 billion for Bangladesh, about \$1.2 billion for Egypt, and \$556 million for the UAE. Such contributes would strengthen the bank's capital. The NDB is currently about half of the World Bank in terms of the assets it can lend. The CRA is about one-tenth of the IMF, which has a lending capacity of about one trillion dollars, according to its website. More than 15 countries are reportedly seeking to join the New Development Bank. The NDB president, Dilma Rousseff, noted that the bank is currently considering the applications and is likely to approve the admission of only four or five states.

In parallel with the NDB and CRA, China has established the Asian Infrastructure Investment Bank (AIIB) in 2015. A total of 92 countries contribute to the bank's capital of more than \$97 billion. China owns about 30% of its shares, India 8.4% and Russia 6.5%. What is striking about this bank is the extensive participation of Western and Western-allied countries in it, such as Canada, Western Europe, South Korea, Australia, New Zealand and others. Very notable exceptions that remained outside it, such as the United States and Japan. The bank is considered an alternative to the Asian Development Bank, which was founded in 1966 and is controlled by the Washington and Tokyo, which are the two largest shareholders with 68 countries participate in it.

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<sup>9</sup> New Development Bank, Annual Report 2022, [https://www.ndb.int/annual-report-2022/pdf/NDB\\_AR\\_2022\\_complete.pdf](https://www.ndb.int/annual-report-2022/pdf/NDB_AR_2022_complete.pdf).

A fourth pillar can be added to the previous three main ones. It is the alternative networks and frameworks for partnership and cooperation based on “win-win” principle. The most prominent of which is the Eurasian Economic Union (EEU), led by Russia, and is considered one of the important and promising economic blocs in the Eurasia region. It includes the Customs Union, the Common Economic Space and free trade zone among its five member states, Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan. Its total area is 20.2 million km<sup>2</sup>, which is a large market with a population of about 183 million people. It aims to deepen the integration process among its member states, including the formation of common markets for gas, oil and their derivatives. Despite the recent era of the EEU, as it began its work in 2015, it has received the attention of many countries. About 50 countries have expressed the desire to build partnership and free trade zone with it, most notably Egypt.<sup>10</sup>

Several fruitful rounds of negotiations were held regarding the conclusion of a free trade agreement between Egypt and the EEU. There are several elements that support launching the partnership between them. The most important of which is the solid base of mutual interests. Egypt represents a large market for the EEU member states, and a hub for their exports to African and Arab markets. It provides an advantage for the products of EEU, the most important of which are wheat, metals, chemical industries, plastic products, cars, and tractors. On the other hand, the EEU represents a distinguished gate for Egyptian exports in the Eurasia and Central Asia region, most notably agricultural commodities, and pharmaceutical products. Promising economic areas in which a mutually beneficial partnership could be reached have been

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<sup>10</sup> Порядка 50 стран выразили желание сотрудничать с ЕврАзЭС, РИА Новости, 25.01.2017, <https://ria.ru/20170125/1486437550.html>

identified, including agriculture, pharmaceutical industries, tourism, infrastructure, textile, and furniture and building materials industry. The partnership agreement will also contribute to develop joint investments in light of the technical support that the EEU can provide Egypt in vital areas. The Russian Industrial Zone in Egypt, which is the first in the Middle East and African, will be a fulcrum in this regard.

Likewise, the Belt and Road project led by China. The belt includes the group of land routes linking China to Europe through Central Asia, South Asia, as well as Southeast Asia. While the road includes a maritime network linking China with major ports across Asia, the Indian Ocean, the Middle East, North Africa, and Europe. This initiative is China's grand plan to expand economic cooperation and infrastructure across continents through strategic land and sea routes. It has indeed succeeded in becoming a global project bringing China closer to the world through investments and infrastructure projects in more than 150 countries. Total investments under the initiative exceeded \$1 trillion in July 2023 with broad development opportunities for many countries.

Economic structural changes have always been the backbone for long-term strategic ones. The world is witnessing critical economic transformations that have a profound impact on the structure of the international system. Despite the American resistance, supported by Europe, the train of change has already moved under the driving force of BRICS and it will inevitably reach its final destination, where a more just and equitable pluralistic world order.