

BRICS smooths financial wrinkles with win-win approach

Progress has been marked in the effort of BRICS nations to function independently of the US dollar, and, ultimately, to fashion a new, fair financial architecture desperately needed by *the entire world*. Member nations—Brazil, Russia, India, China, South Africa, Saudi Arabia, the United Arab Emirates, Egypt, Iran and Ethiopia—have been thrashing out problems associated with the growing use of local currencies for trade. A 29 February editorial in the “Business Line” section of *The Hindu* revealed notable success in this endeavour, on the part of India and Russia, which is due to the emphasis on long-term investment for mutual benefit rather than short-term profit.

The Hindu reported that “the major impediment to settling India’s global trade in rupees has been the trade deficits it runs with most countries. Trading partners were thus far reluctant to hold large quantities of rupees which had limited avenues for deployment.” In the case of India and Russia, while India has need for large quantities of roubles because of its significant imports of Russian goods, Russia, which does not import as much from India, does not have great need for rupees.



Goa Shipyard Limited, a Government of India-owned military ship maker, is building 24 ships by 2027, including chemical tankers, bulk carriers, and container cargo ships. The Russian Agency for Export Credit and Investment Insurance (EXIAR) will take part in the project’s financing with business interest rates being set at 2-3 per cent. Photo: Goa Shipyard Ltd/Govt. of India

The paper reports on the path to resolving this: “Russia—which had been accepting the rupee for its trade with India over the last two years—has managed to use most of the rupee balance estimated at about US\$8 billion, lying in special rupee vostro accounts with Indian banks. Not only does this help diversify away from the dollar, it boosts the rupee’s position internationally too. Russia has reportedly used the rupees held by it to pay for imports from India, invest in infrastructure projects, in equity markets and for purchase of government securities. Both governments seem to have worked together to identify projects, such as the joint venture to make and maintain 120 trains for Indian Railways or the prospective deal to build 24 cargo ships in Goa shipyard for operating in the Caspian Sea.”

These projects are elements of joint initiatives that are moving forward rapidly, such as the International North-South Transportation Corridor, which benefit the economies of both nations. With the help of such investments, India’s engineering exports to Russia more than doubled in the nine months to December 2023, according to an Indian exporters’ group.

Reportedly, the Reserve Bank of India has approved similar vostro accounts for banks from 18 countries, including Germany, Mauritius, Singapore, Sri Lanka and the United Kingdom. The article adds that India and Indonesia are working on “real-time settlement and trading in local currencies” and use of alternatives to the SWIFT messaging network. At the current time, observes the piece, it is easier for this to work when the importing or exporting entities are government-controlled, but “It should be the endeavour of the government to create avenues where the rupees in the vostro accounts can be gainfully deployed. That can help bring private enterprises on board.” This points to the necessity for shovel-ready development projects, just as China envisioned with its Belt and Road Initiative, to deploy excess reserves. Those projects transform idle reserves into credit that fosters growth, providing returns both to the host country as well as the investor nation.

Recreating a stable financial order

Some of the world’s best minds are applying themselves to figuring out how to take the next steps in building a new financial architecture, including a broader currency framework that will facilitate trade among a wider array of nations, the settlement of accounts among nations, and mechanisms to support productive investment and to suppress currency speculation.

The uninitiated may protest, but isn’t that what we have already? Far from it.

The post-World War II Bretton Woods monetary system was designed to support exactly those functions, but even as it was rolled out, the means of its extinguishment were being put in place. In the course of early moves towards creation of the European Union, which also commenced right after the war, British financiers fashioned new markets to trade the US dollar offshore, opening a massive, lawless and untouchable (outside the jurisdiction of any one nation) speculative realm which

undermined the regulated, fixed exchange rate domain of Bretton Woods. The withdrawal of the US dollar gold peg in 1971 merely marked the formal end of a system long-since hollowed out. The financial crises of the decades since have convinced notable leaders and thinkers of many nations that the new free-for-all system was a failure; the sanctions of the last decade, which excised nations refusing to continue following the rules of the failed game, confirmed its demise. ("[Who ended the Bretton Woods system and opened an age of infinite speculation?](#)", ACP pamphlet, 2021.)

One man at the centre of discussions about construction of a new financial order—between the nations of the BRICS—is Sergei Glazyev, Minister for Integration and Macroeconomics of the Eurasian Economic Commission (EEC), the policy arm of the Eurasian Economic Union (EAEU). Glazyev, who has written extensively about the need to reconnect finance with physical economic growth, has provided more insight into the process in recent interviews.

In an interview with CNN TURK on 23 February, Glazyev provided a window into BRICS discussions about building a “stable, accessible and convenient market for countries seeking new economic developments.”

The infrastructure for willing nations to trade in local currencies has been established, said Glazyev: “This infrastructure is already in place, allowing us to make payments without using the SWIFT system.”

Busting up neoliberalism: a ‘religious sect’

The big topic still to be decided is the form that a new currency, as a unit of international trade, could take. (That is, a currency used solely to conduct international trade, not to replace national currencies.) Glazyev confirmed that “we have reached a new model in our talks” but it is not yet at the “policy stage”. In general terms, he confirmed that either a “a new international digital currency to be used in foreign trade” would be set up, or the same end could be achieved by “digitising local currencies”. A new currency, he explained, would operate “as an index of commodities and national currencies” of the countries involved, in order to create stability. As part of that, he revealed, establishment of mechanisms to determine commodity prices to prevent Western speculation are being considered. “It’s impossible to make any strategic planning for economic development if you do not control prices of basic commodities.”



Sergei Glazyev. Photo: Wikipedia

Commodities would be priced based on long-term state-to-state contracts, rather than on speculative futures exchanges, Glazyev explained in another interview, this time with geopolitical analyst Pepe Escobar, published by Sputnik on 28 February. Glazyev highlighted the role of the BRICS New Development Bank (NDB) in developing the new financial infrastructure, foreshadowing the possibility of “an international conference with the draft of an international treaty”. The NDB could be reorganised to become more than an “ordinary international development bank”. The central banks of BRICS nations, however, have been a major obstacle, he noted, with their insistence that new arrangements maintain the role of the dollar. Focusing on his own country, he elaborated: “Here in Russia, we promote the discussion via papers, conferences, seminars, but there’s still no political decision on introducing this mechanism even on the BRICS agenda. The proposal by our team of experts is to include it in the agenda of the BRICS summit next October in Kazan. The problem is the Russian Central Bank is not enthusiastic. ... I’m not sure the Ministry of Finance understands how serious this is. The President understands. I personally promoted this idea to him. But the chairman of the Central Bank, and ministers are still thinking in the old IMF paradigm.”

Indicating that the NDB should push the agenda forward, Glazyev reported that former Brazilian President and current head of the NDB, Dilma Rousseff, was “rather enthusiastic” when presented with the proposal, but he has not had an opportunity to follow up.

Discussions at the highest level are required, he insisted, “A political decision is needed.”

The neoliberal status quo, which many have accepted by default, must be busted up, Glazyev added: “People have been educated in the paradigm of financial equilibrium, totally libertarian. They don’t care that prices are manipulated by speculators; they don’t care about volatility of national currencies. They think it’s natural ... [but] It’s a kind of religious sect. Religious sects don’t create innovation.”

Nonetheless, following a meeting of BRICS finance ministers and central bank governors in São Paulo, Brazil on 27 February, Russian Deputy Finance Minister Ivan Chebeskov told Sputnik: “We are already a big BRICS family of 10 countries. Most countries supported the fact that it is necessary to build new mechanisms of settlements and shared the experience of developing digital currencies by central

banks, the experience of building platforms, and participation in trials of various platforms.”

Chebeskov said he had brought up the Russian idea of a unified digital platform, which he described as a technological gateway for the unification of both digital currencies from central banks and national systems of financial messaging, with software created to facilitate these transfers. “We propose to simplify in this way interactions between banks and create independent channels for payments and the transmission of financial messages”, he clarified.

In an interview in the first issue of a newly created TASS “BRICS Bulletin” published 13 March, Russian Deputy Foreign Minister Sergei Ryabkov, who serves as Russia’s Sherpa in the BRICS, ruled out the creation of a BRICS currency for the foreseeable future, but did support creation of new payments and settlements systems “that do not depend upon [the] whims of the West”. He noted that “A group of experts, led by the ministries of finance and representatives of the central banks of the respective countries, is working on this issue”, and interestingly, hinted at the inclusion—in other formats—of representatives of the “historical West” in this dialogue.

Opposition to this agenda continues to flourish, of course. An article published 29 February, by Herbert Poenisch, who was a senior economist at the Bank for International Settlements for almost 20 years, insisted that whatever currency the BRICS settles on, it must be “freely convertible” with the US dollar. The Chinese currency, he insinuated, is unsuitable because it exists in a “highly managed”, restricted rather than free, market. It does not offer the trading flexibility of the (highly speculative) offshore Eurodollar market, he observed, in an earlier article. Poenisch, now a senior research fellow at Zhejiang University, China, called for the Saudi financial system or the “welldeveloped financial centre in the UAE” to be adapted into a eurozone-style payments union, citing the European Payments Union of 1950, which operated as a clearinghouse for several currencies before the euro was established. The Poenisch articles were published by the OMFIF, a likely mouthpiece for City of London-Wall Street interests, given it bills itself as “an independent think tank for central banking, economic policy and public investment” with “teams in London and the US”.

By Elisa Barwick, Australian Alert Service, 20 March 2024