SHODH PRAKASHAN
An International Open Access, Peer Reviewed, Refereed Journal
ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

Advantages and Disadvantages of BRICS Currency: An In-depth Analytical Study

Parhlad Singh Ahluwalia, Editor, Shodh Prakashan, Hisar, Haryana

Abstract

The BRICS (Brazil, Russia, India, China, and South Africa) nations have increasingly discussed forming a unified currency to counterbalance the dominance of the U.S. dollar in global trade. This paper seeks to provide a comprehensive analysis of the advantages and disadvantages of a potential BRICS currency. By exploring economic, political, and geopolitical implications, this paper offers insight into how a BRICS currency could reshape international financial systems and the risks associated with it. The study uses historical examples of currency unions, economic theories, and recent policy announcements to contextualize the debate.

This research paper provides a comprehensive analysis of the potential advantages and disadvantages of a unified BRICS currency. The BRICS nations (Brazil, Russia, India, China, and South Africa) represent a significant portion of the world's population and economic output. Their collaboration on economic, political, and social fronts raises questions about the establishment of a BRICS currency to challenge the dominance of the U.S. dollar. This paper explores the implications of such a currency, focusing on its impact on international trade, currency stability, geopolitical influence, and economic sovereignty, while also analyzing the potential risks and challenges related to its implementation.

Introduction

The global economic landscape has long been dominated by the U.S. dollar as the world's reserve currency. However, the BRICS nations, representing significant economic and political power, have expressed interest in forming a new currency bloc to enhance their collective influence in international markets. The idea of a BRICS currency has been floated in response to growing dissatisfaction with the dollar's hegemony, exacerbated by issues like trade

SHODH PRAKASHAN
An International Open Access, Peer Reviewed, Refereed Journal
ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

imbalances, sanctions, and currency volatility. This paper explores the feasibility, potential advantages, and the inherent risks associated with establishing a common BRICS currency.

The BRICS nations are considered some of the fastest-growing economies in the world, accounting for over 40% of the global population and nearly a quarter of the world's GDP. As these economies seek to enhance their influence on the global stage, the idea of a unified BRICS currency has gained traction, particularly in response to the dominance of the U.S. dollar in global trade. The potential establishment of such a currency, while not imminent, poses several opportunities and challenges, both for the BRICS nations and the global financial system.

Research Question

The central research question of this paper is: **What are the primary advantages and disadvantages of a unified BRICS currency in the context of global economics and geopolitics?**

Literature Review

- **The Rise of BRICS and the Global Economic Order**

The BRICS bloc was formally established in 2009, following the global financial crisis, as emerging economies sought to increase their coordination and influence in global governance (O'Neill, 2001). Historically, the U.S. dollar has been the global reserve currency, accounting for a majority of international trade and financial transactions (Chinn & Frankel, 2007). However, the BRICS countries have expressed concerns over the dominance of the dollar and its potential volatility, particularly in times of economic crisis. The emergence of a BRICS currency is often framed as a strategy to enhance economic stability and reduce reliance on the U.S. dollar (Subacchi, 2010).

SHODH PRAKASHAN
An International Open Access, Peer Reviewed, Refereed Journal
ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

- **Historical Precedents of Currency Unions**

Currency unions have been attempted in various forms throughout history, with the European Union's adoption of the euro being the most prominent modern example. The eurozone offers important lessons regarding the potential benefits and risks of currency unification, such as economic integration, enhanced trade, and the need for strict fiscal coordination (Mundell, 1961). However, it also highlights the dangers of insufficient fiscal and political union, which can lead to crises like the sovereign debt issues experienced by Greece and other southern European economies (De Grauwe, 2013).

- **Historical Context and Background**

BRICS as an economic bloc was formalized in the late 2000s, initially focusing on enhancing economic cooperation among emerging markets. Over the years, the BRICS countries have sought ways to reduce their dependency on Western financial systems. A significant step in this direction was the establishment of the New Development Bank (NDB) in 2014, created to fund infrastructure and sustainable development projects in member countries, and bypass traditional financial institutions like the International Monetary Fund (IMF) and World Bank (O'Neill, 2013). The BRICS currency proposal stems from these early initiatives and seeks to provide an alternative medium of exchange for global trade, particularly for transactions between BRICS nations.

Analysis

Potential Advantages of a BRICS Currency

1. **Reduced Dependency on the U.S. Dollar**

   One of the primary advantages of a BRICS currency is that it could reduce the bloc's dependency on the U.S. dollar. The dominance of the dollar in global trade, particularly in commodity markets, has exposed BRICS nations to risks associated with fluctuations in the value of the dollar (Subacchi, 2010). A common currency could allow BRICS nations to trade directly with one another without the need for currency conversions, potentially lowering transaction costs and exchange rate risks (Prasad, 2014). Primary motivations

ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

behind a BRICS currency is to reduce dependency on the U.S. dollar. Currently, most global trade is conducted in dollars, which subjects BRICS nations to currency fluctuations and trade imbalances. For instance, Russia and China have long advocated for using national currencies in bilateral trade to avoid the need for dollar reserves (Triffin, 1960). A unified BRICS currency could diminish the dollar's role in trade, thereby reducing vulnerability to sanctions and other economic pressures imposed by Western powers.

2. **Enhanced Economic and Financial Stability**

A unified currency could foster economic and financial stability within the BRICS bloc. By reducing exposure to external shocks tied to the value of the dollar, the BRICS economies may experience more stable exchange rates and reduced inflationary pressures. This could lead to a more favorable investment climate and increased cross-border trade and investment flows within the bloc (Kenen, 1969). A BRICS currency could provide greater economic sovereignty by enabling member countries to have more control over monetary policy. Given the diverse economic conditions among BRICS countries, such a currency could also act as a stabilizing force, particularly during periods of global financial uncertainty. Countries like Russia and South Africa, which have volatile currencies, may benefit from the stability that a unified BRICS currency might provide (Rajan, 2016). Moreover, a BRICS currency could lead to more balanced trade within the bloc, reducing the trade deficits some members currently face due to exchange rate fluctuations.

3. **Increased Geopolitical Influence**

The creation of a BRICS currency would also have profound geopolitical implications. It could enhance the collective bargaining power of BRICS nations in global financial institutions such as the International Monetary Fund (IMF) and the World Bank, where the U.S. and other Western economies currently dominate (Stiglitz, 2010). A BRICS currency could serve as a counterbalance to the dollar, euro, and other dominant currencies, potentially shifting the global financial order (Armijo & Roberts, 2014). A BRICS currency would enhance the geopolitical influence of its member countries. As emerging economies, BRICS nations collectively represent a significant share of the world's population and

GDP. The adoption of a common currency would signal a shift in the global economic power dynamic, as it would offer an alternative to the existing dollar-centric system. This could enhance the political leverage of BRICS countries, particularly in negotiations with Western powers, multilateral organizations, and other economic blocs (Frankel, 2000).

4. **Trade Facilitation within BRICS**

The elimination of exchange rate risks between BRICS nations could facilitate greater trade within the bloc, fostering economic integration. Currently, BRICS trade often relies on the U.S. dollar, which increases the cost and complexity of transactions. A unified currency could streamline trade processes and reduce financial barriers (Subramanian, 2011). With the introduction of a single currency, trade barriers related to currency exchange among BRICS members would be removed, potentially boosting trade flows and investment within the bloc. Such an arrangement would reduce transaction costs, making it easier and cheaper for businesses in BRICS nations to engage in cross-border trade and investment. This increase in intra-BRICS trade could, in turn, stimulate economic growth across the member nations (Stiglitz, 2002).

The Disadvantages and Risks of a BRICS Currency

1. **Economic Disparities and Divergent Policies**

One of the significant challenges of a BRICS currency is the economic disparity among its members. Brazil, Russia, India, China, and South Africa have distinct economic structures, levels of development, and monetary policies. A one-size-fits-all monetary policy may not suit all members, leading to conflicts of interest. The European Union's experience with the Euro highlights this issue, where countries with differing economic performances struggled under a unified monetary policy (Eichengreen, 2007). For example, Brazil and South Africa have faced issues of inflation and low growth, while China has experienced more robust economic growth, raising concerns about policy alignment. The BRICS nations have highly diverse economies, with significant differences in their levels of development, inflation rates, monetary policies, and fiscal

SHODH PRAKASHAN
An International Open Access, Peer Reviewed, Refereed Journal
ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

structures. Establishing a unified currency would require a high level of economic coordination and harmonization of monetary policies, which may prove difficult given the varying economic priorities of each member nation (Eichengreen, 2011). For example, China's export-driven economy contrasts sharply with Russia's dependence on energy exports and Brazil's agricultural focus.

2. **Political Tensions within BRICS**

BRICS countries do not share the same geopolitical objectives, and internal political tensions could pose significant challenges to the creation and management of a unified currency. For instance, China and India have ongoing border disputes, and their political relations have been historically strained. Moreover, Russia's geopolitical stance in recent years, particularly with regard to its actions in Ukraine, has led to international sanctions, which could create instability within a unified BRICS currency (Nye, 2017). Political instability in any of the member nations could undermine the stability of a shared currency. The success of a unified currency would depend on strong political coordination, something that is currently lacking within the BRICS bloc. The member nations have vastly different political systems, ranging from China's one-party authoritarianism to Brazil and South Africa's democratic systems. These disparities in governance could make it difficult to achieve the political cohesion necessary for effective monetary and fiscal policy coordination (Armijo, 2007).

3. **Loss of National Monetary Autonomy**

Adopting a BRICS currency would require member nations to surrender a degree of monetary autonomy, as decisions regarding interest rates, inflation targeting, and money supply would likely be centralized. This could be particularly problematic for nations with fragile economies or those undergoing significant economic reforms. For instance, countries like Brazil and India, which use monetary policy as a tool to control inflation, may find their ability to respond to domestic economic issues limited (Alesina & Barro, 2002). Adopting a common currency would entail a loss of monetary sovereignty for BRICS nations, as they would no longer be able to implement

ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

independent monetary policies tailored to their specific economic conditions. This lack of flexibility could pose significant risks in times of economic crises, as member states would not be able to adjust interest rates or engage in currency devaluation to manage economic shocks (Feldstein, 1997). The eurozone crisis serves as a pertinent example of the dangers of this loss of policy autonomy (De Grauwe, 2013).

4. **Currency Fluctuation and Exchange Rate Risk**

Managing a unified currency across diverse economies could lead to issues related to currency valuation and exchange rate risk. For instance, should the BRICS currency appreciate or depreciate significantly due to economic issues in one member state, it could create imbalances across the bloc. The stability of such a currency would depend heavily on the fiscal discipline of its members, a challenge that the Eurozone has encountered over the years (Krugman, 2012).

A BRICS currency could lead to significant economic imbalances among member states. Larger economies, such as China, could dominate the currency union, potentially leading to disparities in economic benefits. Smaller economies, like South Africa, may find it difficult to compete or adjust within the confines of a unified monetary system (Arestis & Sawyer, 2013). Additionally, economic shocks affecting one country could spill over to others, as seen in the eurozone during the 2008 financial crisis (De Grauwe, 2013).

Conclusion

The establishment of a BRICS currency presents both opportunities and risks for the member nations and the global financial system. While a unified currency could reduce reliance on the U.S. dollar, enhance trade within the bloc, and increase geopolitical influence, it also poses significant challenges. These include divergent economic conditions, the loss of monetary sovereignty, governance disparities, and potential economic imbalances. Ultimately, the success of a BRICS currency would depend on the ability of its member nations to coordinate their economic policies and align their political goals, which remains a significant hurdle.

SHODH PRAKASHAN
An International Open Access, Peer Reviewed, Refereed Journal
ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

The proposal for a BRICS currency represents an ambitious attempt to reshape the global financial order by offering an alternative to the dollar-dominated system. While the potential advantages, including reduced dependence on the U.S. dollar, increased economic stability, and enhanced geopolitical influence, are enticing, the risks are significant. Economic disparities among BRICS nations, political tensions, and the potential loss of monetary autonomy pose substantial challenges. Learning from the experiences of other currency unions, such as the Eurozone, will be critical in determining whether a BRICS currency is viable or whether the disadvantages outweigh the potential benefits.

Ultimately, a BRICS currency is not a panacea for the economic challenges facing its member countries. While it offers certain strategic advantages, careful consideration of the economic and political realities is essential. The future of a BRICS currency depends on the ability of its members to navigate these complexities and find common ground in their diverse economic and political interests.

References

- Alesina, A., & Barro, R. J. (2002). *Currency Unions*. The Quarterly Journal of Economics, 117(2), 409-436.
- Arestis, P., & Sawyer, M. (2013). *Economic and Monetary Union Macroeconomic Policies: Current Practices and Alternatives*. Springer.
- Armijo, L. E. (2007). The BRICs countries (Brazil, Russia, India, and China) as analytical category: Mirage or insight?. *Asian Perspective, 31*(4), 7-42.
- Armijo, L. E., & Roberts, C. (2014). The Emerging Powers and Global Governance: Why the BRICS Matter. *Global Governance, 20*(4), 461-481.
- Chinn, M. D., & Frankel, J. A. (2007). Will the euro eventually surpass the dollar as leading international reserve currency?. *G7 Current Account Imbalances: Sustainability and Adjustment*. University of Chicago Press.
- De Grauwe, P. (2013). *The Limits of the Market: The Pendulum Between Government and Market*. Oxford University Press.

SHODH PRAKASHAN
An International Open Access, Peer Reviewed, Refereed Journal
ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

- Eichengreen, B. (2011). *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. Oxford University Press.
- Eichengreen, B. (2007). *The Breakup of the Euro Area*. Journal of Economic Perspectives, 11(2), 93-102.
- Frankel, J. A. (2000). *The Euro and the Dollar in the Developing World*. International Finance, 3(2), 211-228.
- Feldstein, M. (1997). The political economy of the European economic and monetary union: Political sources of an economic liability. *The Journal of Economic Perspectives, 11*(4), 23-42.
- Kenen, P. B. (1969). The Theory of Optimum Currency Areas: An Eclectic View. *Monetary Problems of the International Economy*.
- Krugman, P. (2012). *Revenge of the Optimum Currency Area*. NBER Macroeconomics Annual, 27, 439-448.
- Mundell, R. A. (1961). A theory of optimum currency areas. *The American Economic Review, 51*(4), 657-665.
- Nye, J. S. (2017). *Is the American Century Over?* Political Science Quarterly, 132(1), 1-17.
- O'Neill, J. (2013). *The Growth Map: Economic Opportunity in the BRICs and Beyond*. Penguin.
- O'Neill, J. (2001). Building Better Global Economic BRICs. *Global Economics Paper No. 66*. Goldman Sachs.
- Prasad, E. (2014). *The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance*. Princeton University Press.
- Rajan, R. (2016). *The Third Pillar: How Markets and the State Leave the Community Behind*. Princeton University Press.
- Stiglitz, J. E. (2002). *Globalization and Its Discontents*. W.W. Norton & Company.
- Stiglitz, J. E. (2010). *Freefall: America, Free Markets, and the Sinking of the World Economy*. W. W. Norton & Company.
- Subacchi, P. (2010). The global monetary order and the dollar: Towards a new Bretton Woods?. *International Affairs, 86*(3), 665-680.

ISSN : 2583-9861
Vol. 2, Issue 6, December 2024
Available Online : http://shodhprakashan.in/

- Subramanian, A. (2011). *Eclipse: Living in the Shadow of China's Economic Dominance*. Peterson Institute for International Economics.
- Triffin, R. (1960). *Gold and the Dollar Crisis: The Future of Convertibility*. Yale University Press.