How can the BRICS economic policy of Gold-Backing Currencies affect the strength of the US Dollar?

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Introduction

Within the space of international economics and geopolitics, there has been a considerable rise of economic policies that are working to bring an increased value of trade to currencies other than the US Dollar. Countries such as China and Russia are making efforts to compete against the United States, thus bringing the intergovernmental organization of BRICS to fruition. BRICS is an intergovernmental organization founded by the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China, and the Republic of South Africa (Melvin). Founded through a small meeting at a UN conference on September 20, 2006, BRICS has grown to add more member countries to their organization. By 2013, the BRICS nations as a whole had accounted for 27 percent of the global GDP (defined as the gross value of all products produced within a country/region in one year) and 42 percent of the global population.

According to The Global Observatory, BRICS plans to combat Western Economic Policies by freeing themselves from trade around US and European Currencies and Banking Systems. The forced trade in US dollars has especially left countries' economies vulnerable to the interest rates of the US, thus making a non-domestic threat to these countries' economies. They have begun the work to do this through establishing an independent development bank, the New Development Bank that would work to provide funding to BRICS countries for the development of their nations. Along with this, In times of emergency, they developed the BRICS Contingency Reserve Arrangement (CRA), a pledge-based system designed to protect member countries in times of crisis (Conrig). However, the most important trade policy would be the policy for BRICS nations to trade with one another using their currencies by using gold as the basis for international exchange. As these countries continue to develop their relationships with one another and establish their economic systems, the US Dollar would begin to see a decline in usage as a medium of trade. A prominent example of this could be seen with oil, leading to the decline of what would be considered the US Petrodollar system. Petrodollars are a label term for talking about the value of crude oil traded denominated in the US Dollar (Chen). The US Dollar's stability made it a viable medium of exchange for foreign oil exporters but the BRICS policy of exchange has now made competition with the US Dollar in regards to medium of trade.

Through this change of medium of exchange, however, we see surprising impacts on the true value of the US Dollar. According to the Dollar Dominance Monitor, The US Dollar has continued to be the majority of foreign exchange reserves with a 58% share in 2023, a modest two percent decline over the last eight years (Atlantic Council). The question is raised of how the Dollar continues to hold power in international trade while other currencies have begun to measure to distance themselves from the US Dollar. Why would other smaller countries not turn to the BRICS system of trade to better their economies and make them less reliant on the US Dollar? The Atlantic Council notes that China has made efforts to establish its own Cross-Bank

Interbank Payment System (CIPS) which has received mixed opinions and adoption rates from member countries of BRICS (Atlantic Council). This mixed opinion slowed the process of converting economic trade routes from the US to China. The US could see a favor be made for them by other countries refusing to use China's services through their lack of trust toward the Asian nation and instead choosing to trust the globally trusted Western currencies.

I believe that the gold backing of BRICS Currencies along with the new trade policies implemented by BRICS could bring a negative impact on the value of the US Dollar as BRICS would establish stronger currencies which would attract more member countries to use their currencies rather than the western currencies. This essay aims to explore the negative impacts that this BRICS policy would bring to the United States and show the fragility of the current economic and geopolitical state of the United States in the wake of a modern conservative movement.

Petrodollar System in the United States

When looking at the BRICS's goals of bringing a hedge against the US Dollar and other Western currencies and other Western economies, the medium and process of trade would be the biggest question. If you can control the medium of exchange, the more leverage you have over other countries to import and export goods and services. We could see this as the interdependence between countries can rise when certain currencies are the mediums of exchange needed to trade.

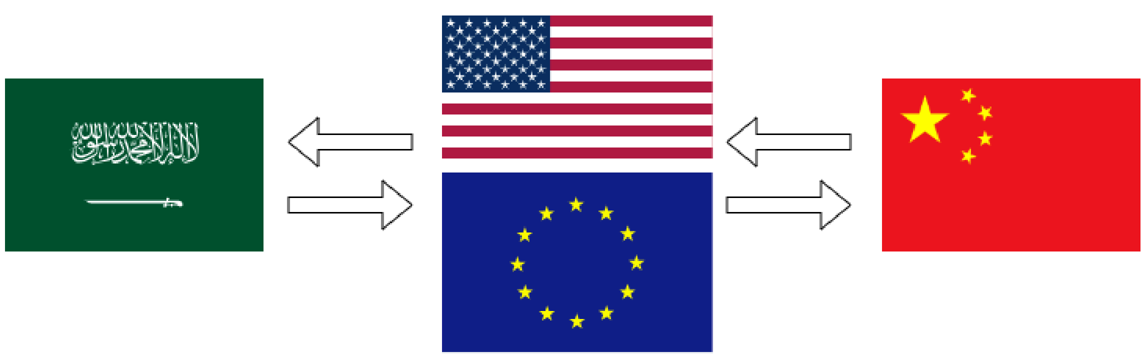

Figure 1.1 describes how trade would occur between countries using the petrodollar system. Any country that would trade oil or other petroleum products would trade them through Western currencies such as the Dollar or the Euro.

Since the 1970s, countries around the world have been trading in US Dollars as they had found the US Dollar to be a strong medium of exchange through the Cold War and beyond (Tun). A system like this would cause most oil trade between countries to occur in US Dollars. This in turn makes the process harder for countries to trade as governments must spend on exchanging their money to US Dollars to trade only to get the oil and for the receiving country to have to exchange the US Dollars back to their own local currency or keeping it as a foreign reserve. This would in turn lead to countries investing in US Treasury Bonds and other securities to keep returns on their reserves of US Dollars, keeping the Interest rates lower in the US for both the government and the consumers (Tun). When countries who are exporting oil now hold US Dollars and give those US Dollars back to the US government in terms of bonds, the US Government now has more money which they could use for managing their government. Through the trade that is done over time, foreign countries would have their reserve of US Dollars while the US government would hold reserves of foreign currency. We can see this in Figure 1.2 below:

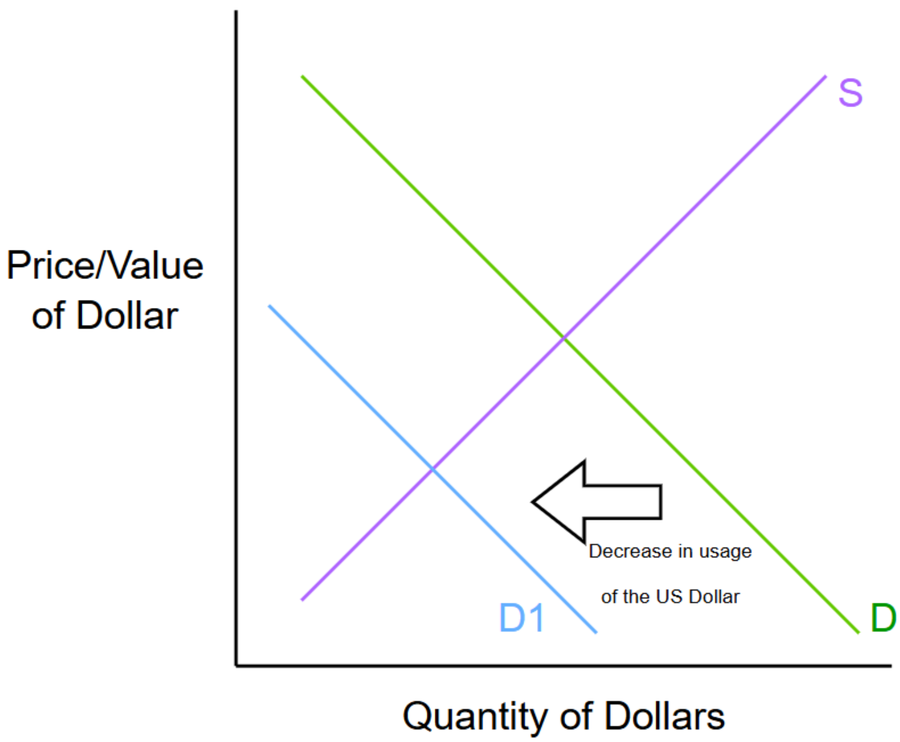

Figure 1.2: This Supply and Demand Curve shows the impact the new BRICS policy would have on the value of the Dollar. With a fixed supply of Dollars, the decreased demand for the Dollar will kill its value over time.

In recent times, the BRICS policy of trade has made large efforts to reduce the power of Western currencies over this trade, and through their efforts have shown to bring elementary effects to their ideas. Reuters reporter Andrea Shalal says, “Negotiations around an intra-BRICS payment system were still in the nascent stages, but bilateral and multilateral agreements within the group could form the basis for a currency exchange platform over time” (Shalal). China’s proposal (as mentioned in the introduction) for the Cross-Border Interbank Payment System has seen adoption by over 1400 banks worldwide. China’s support and expansion of the renminbi could see impacts with the hold of the US Dollar but current geopolitical concerns present with China and their sides in the issues. Shalal says, “This is ypossible because of reserve managers’ concern about China's economy, Beijing's position on the Russia-Ukraine war, and a potential Chinese invasion of Taiwan contributing to the perception of the renminbi as a geopolitically risky reserve currency" (Shalal). Reserve managers understand that the flow of a currency and its value would ultimately depend on the government and their specific actions. Countries owning these reserves almost seem like shareholders in the country, and if shareholders are not happy, they will leave their holdings to protect their investments.

Ultimately, this has resulted in new policies from BRICS and the idea of creating a hedge against the US Dollar. Systems have been suggested for this sort of system, both in a centralized and decentralized method. For example the BRICS pay from in late October 2024. BRICS pay is a decentralized system that has been created for the efficient exchange of messages and monetary funds. The main advantages of this decentralized system are that it establishes mutual trust between all members of the BRICS organization and leaves no room for corruption or manipulation. However, with this system, BRICS has made themselves interested in a centralized currency backed by the value of gold for all trade purposes between the BRICS nations. This idea of building a gold-backed system will bring new opportunities for the BRICS nations to rise but may face downfalls with the process all while having the US and other Western nations work to repair the economic issues that could be caused form this.

History of Gold-Backing Currencies

Through their meetings, BRICS proposed a gold-backed common currency to facilitate commercial transactions between member states. The first steps of these actions could be seen with the New Development Bank making efforts to increase inter-trade of local currencies making each member state hold reserves of the other member states' currency. Along with this, China and other BRICS countries have been buying gold for their reserves. Vinod Dsouza reports that China added 225 tonnes of gold to its reserves in 2023 alone (Dsouza). The extensive reserves of gold would allow the BRICS member states to make more of their new currencies and create a more attractive currency that would have countries switch sides.

The United States in the past has kept its currency on and off the gold standard. We could see this with President Franklin D. Roosevelt taking the US Dollar off the gold standard to protect the US Reserves of Gold. "During the financial crisis of 1933 that culminated in the banking holiday in March 1933, large quantities of gold flowed out of the Federal Reserve" (Richardson). This outflow would lead to issues with the trading power of the US and would make the US give up its goal for a loss as seen in Figure 2. Establishing the Gold Reserve Act of 1934 made protective efforts with the Gold Reserves in the US. Richardson states, "The Act transferred ownership of all monetary gold in the United States to the US Treasury and prohibited the Treasury and financial institutions from redeeming dollars for gold" (Richardson). The US's efforts to protect their gold by bringing the US dollar to the gold standard helped them significantly. After this act had taken place, we could see a gradual increase in the US Gold Reserves, making the Treasury hold $3 Billion of Gold to $7.6 Billion of gold and have a clear increase to $24 Billion in May of 1949 ("Gold Held in the Treasury and Federal Reserve Banks for United States"). This temporary action to remove the gold standard would be replaced with the Bretton Woods System. In 1944, a policy that allowed the pegging of the US Dollar to a specific amount of gold was implemented to help European Nations and the US recover from the wartime economic damages (Chen). This system led to the creation of the World Bank and the International Monetary Fund, both becoming important systems for the preservation of international currency exchange. The system had made the US Dollar pegged to the value of gold and made all other currencies based on the value of the US Dollar. This would make the US Dollar, the fundamental basis of economic trade between countries.

This economic policy to gold-back the US Dollar brought a downturn in the value of the US Dollar moving into the 1960s. This would lead Nixon to remove the US Dollar from the gold standard in 1971. According to the US Office of the Historian, "By the 1960s, a surplus of U.S. dollars caused by foreign aid, military spending, and foreign investment threatened this system, as the United States did not have enough gold to cover the volume of dollars in worldwide circulation at the rate of $35 per ounce; as a result, the dollar was overvalued" ("Nixon and the End of the Bretton Woods System, 1971–1973"). The gold standard held the US dollar in a position where the supply of gold did not meet the available demand, there was too much of a dollar supply in the world. It was clear to Nixon that if people began to trade their dollars for gold, the US treasury would run dry and there would be no way to guarantee the true value of the dollar afterward. From that point forward, the US Dollar became a fiat currency that relied on the full faith of the US Government to pay forward their debts as necessary (Chen). The main benefit of the fiat currency is that there is no longer a physical supply that is needed to be given upon demand but now leaves the users of the said currency to wonder about how the gold-backing of certain currencies would impact the way we could trade with them and if the exchange for the US Dollar to a specific BRICS currency makes the US Dollar comparable to the value of gold again.

Implications of Gold-Backing in Current Times

When looking toward putting the gold standard in modern times, the biggest implication would be with the value of gold and if the BRICS nations would be able to keep up with their demands and supply of gold currently. We could see that the BRICS nations have been stockpiling the world's gold supply to do this. According to Joesph Moss from the International Banker, "The World Bank noted that as of Q1 2024, the aggregate central-bank holdings of gold within the BRICS+ nations represented nearly 17 percent of all the gold held in the world's central banks, with Russia, India, and China sitting within the global top 10" (Moss). The overall increase in the BRICS gold holdings will allow the BRICS nations to hedge their financial holdings of other countries and keep more of their assets for themselves. As the BRICS countries work to build up their foreign exchange reserves (reserves within a country holding gold or other foreign currencies), they continue to have an adamant vision to create competition with the US

Dollar. Reporter Maroosha Muzaffar writes, “At a summit of BRICS nations in October, Russian President Vladimir Putin accused the US of “weaponizing” the dollar and described it as a “big mistake” (Muzaffar). The Goldbacking of BRICS does not merely present an advantage with foreign exchange but is seen as a way to seduce “neutral” countries away from the clutches of the United States. With a larger scale of economic power, more concerns would rise in the West.

The biggest question that would need to be asked with this foreign currency is if the common man would have a way to access this currency and be able to hold this outside of the BRICS member nations. If so, the New Development Bank would have the power to make investments and deposits from non-BRICS nations and be able to hedge over these nations. However, this would also lead to non-BRICS nations being able to use their gold-backed system, leading to an inflation of the currency until the point where the gold supply will not meet the amount of currency in circulation.

The biggest benefit of the gold-backing of the BRICS currency would be to have trust and an efficient backing of the trades executed between countries, especially when looking at the amount of trade going on between countries. China alone exported over $308 billion of goods in August 2024 alone (Trading Economics). When looking at the dollar amount behind the transactions performed, ensuring that the trades are made with cash is very important. By having a gold-backed currency we can ensure the value of these trades that are away from the inflation of the two nations in trade.

The negative aspects that could be present with the adoption of the gold standard for this currency are if it would be able to affect the member country currencies and their methods of trade. Along with this, we would have to wonder about how countries in these states would value their currency against the price of gold. This would create the issue that as gold gets more expensive in a specific nation, it would be harder for that nation to have trading power as the demand for gold within stays the same while the price of having said gold for trade would increase.

Challenges with the implementation of BRICS Gold-backing currencies?

The biggest challenges present with the implementation of the BRICS currencies would be to have the proper infrastructure to manage, store, and maintain the assets needed to have their currency operate. There have been many proposals made with the creation of a management system for trade within the BRICS nations but none of them have been fully implemented as a BRICS idea. However, only a couple of ideas have continued to stand out: the gold-backed central currency and the decentralized trade system. The gold-backed currency system has continued to be seen as favourable but issues would arise with possible corruption of the central currency. The Decentralized system instead would give each country equal power with trade without causing other interferences or variables to have to be considered.

A notable idea that has been implemented revolves around the Reminibi and banks within China. For example, “China has also been encouraging other countries to start using the renminbi in their bilateral trade with China. For example, in March 2023, China announced an agreement with Brazil to use the Chinese renminbi and the Brazilian real, rather than the U.S. dollar, for trade settlement between the two countries” (Beschwitz). The continued efforts to adopt new currencies to trade between BRICS nations have been proven to be effective in providing trade methods without reliance on the US Dollar, this is also present with the idea that those currencies do not have the benefit of gold backing. The issue of trade dominance repeats itself, however, with the fact that if the renminbi finds more usage, more of the trade would be reliant on China’s economy. This has brought new interests in creating a decentralized idea of trade where individual countries would have reserves of other countries’ currencies available for usage, preventing the old issues of singular currency dominance because each country would be able to hold every other country’s currencies for trade.

The theory to develop a central currency backed by gold operated by the New Development Bank would be able to create a centralized system of trade but not in the power of one country. This sort of system would allow countries to trade with one another with the backing of the value of their gold reserves. However, more importantly, it would bring on a system that does not allow a government to overpower others and maintain equal power within their trade with others. Figure 1.3 below shows how it could be facilitated.

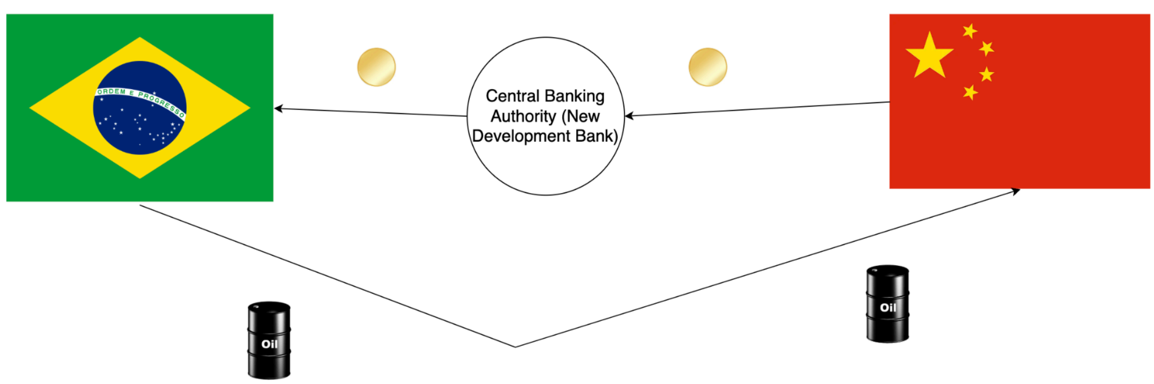

Figure 1.3: This diagram shows how the new gold-backed currency would work, with a management intermediary (the New Development Bank) managing the exchanges of gold for the countries engaging in the trade.

The central currency made by the New Development Bank and its development would also help maintain order regarding trade between nations that lack good foreign relations. This issue with foreign relations as well as the geopolitical relations between BRICS countries could also affect the formation of good infrastructure for trade. “India has tried to resist China’s efforts to turn the BRICS group into a support organization for China’s geopolitical agenda, such as promoting Beijing’s Belt and Road Initiative, its Global Development Initiative, and explicit anti-US rhetoric. Instead, India has focused BRICS discussions and activities on South-South economic and financial cooperation projects, initiatives to reduce global reliance on the US dollar-based international financial and payment system, and reforms of international financial institutions to give developing countries more voice and representation" (Tran). Conflicts like these present within the BRICS organization present issues with coming to a proper ideal and would instead lead to a dividing of the organizations, making a uniform commitment to the policies they would want to implement. As BRICS like many other organizations continue to grow and bring in more governmental members, they must be able to have firm ideals to hold to and have complete agreement on if they wish to bring forward a new agenda of gold-backed currency to make trade more secure.

Conclusion

In conclusion, the BRICS policy of making a currency that is backed by gold will impact the US Dollar negatively by providing competition to the US dollar as a means for countries to trade with one another. The US Dollar has kept its dominance in global trade for many decades now but is now susceptible to losing its dominance as countries look for ways to be unreliant on the US Dollar. Credit Rating Agencies have now reported the US Government to have a credit rating of AA+ instead of AAA due to political polarization and the decreasing levels of debt affordability in the country. ("Moody's Lowers U.S. Credit Rating to Negative, Citing Large Federal Deficits"). While this change seems to be insignificant, if the trend of the US Government to have a lower credit rating, nations will begin to have less faith in the US government and in turn the value of the US Dollar. When foreign nations choose which currency they wish to trade, they would prefer to go with the value of gold as an intermediary asset than to rely on a specific nation for their trade. In the future, the way we trade will adapt and perhaps a new currency will take over as the dominant method of trade. A currency not bound by a nation, but a currency every nation agrees on to use as a valid method of trade keeping geopolitics and macroeconomics out of their international trade relations.

With consideration of the recent rise of threats of tariffs issued by the United States against the BRICS countries to continue to preserve the US dollar as the primary trading currency, BRICS will now continue to find different systems to bypass this threat while meeting their objective of dethroning the US dollar as the primary method of trade. However, as writer Bree Stimson writes, "Replacing the dollar has been a goal of the BRICS group for years, but it has been previously thwarted by infighting among the various countries" (Stimson). Another challenge that can arise from fighting the US and its tariff threats is the continued infighting with nations such as India and China, which have held such political quarrels for decades. A system relying on gold-backed currencies would have the potential to create wars between these countries for the gold. Besides, the consideration that the gold-backing policy has the issues of possible corruption and will cause damage for non-BRICS countries still relying on trade with the US dollar, BRICS using a decentralized payment system (BRICS Pay) can make their trade simple between member country currency instead of having to use a corruptible intermediary and ensuring that trade could happen between member countries even during times of certain member countries going against others.

In the future, the United States must think wisely about its actions with BRICS and keep firm commitments to thwart any economic trade systems that would kill the reliance on the US Dollar. This would pose a challenge as many countries have understood the US Dollar to be a fiat currency based on trust with the government. This means that the US will need to continue to keep good relations with its constituents within the country and keep international affairs to a good standard. When trust is exposed and weakened through improper governmental action, there is an impact on the value and trust of the US Dollar, leading to a cyclical effect of downfall in the value of the Dollar as more people move away from using it.

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