



**Reducing the dependence on
the US dollar by establishing a
diversified economic system**



BRICS

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Introduction

De-dollarization refers to the process of moving away from the utilization and global reliance of the U.S. dollar (USD). Ever since post World War 2, and the economic rise of the United States, the U.S. Dollar has remained as the world's reserve currency. Most commodities globally are priced with the U.S. Dollar. However, questions emerge as to if this currency can remain economically sustainable to facilitate global finance.

Worldwide, states are seeking to reduce an overreliance on the U.S. dollar due to over dependence and strive to enhance their economic sovereignty. A dependence on the U.S. dollar does not allow for countries to enhance their own financial system. Using a sovereign currency rather than the U.S. dollar helps pursue a state's own financial objectives and national interests. As of current day, the U.S. has been criticized by nations and BRICS members alike for its attempts to pursue a global dominance, or hegemony. Furthermore, reducing dependency on the U.S. dollar has political connotations. Nations at odds with the U.S. may seek to minimize their exposure to the dollar, reducing vulnerabilities to the consequences of sanctions or further economic pressures. This push shifts the world into a multipolar financial system, where sovereign currencies are used and no single currency can dominate. Proponents for this argue this can reduce vulnerabilities associated with overreliance. From a financial standpoint, central banks are not holding the greenback they once did. Concerns are being raised over the true current power of the U.S. dollar, leading to a paradigm shift in the global economy. BRICS has led several strives for reducing the dependency on the US dollar. As the BRICS block expands, further efforts by BRICS policymakers are being led, some with more feasible options such as the Chinese renminbi. A large selling point to the new members of the BRICS block was frustration over the U.S. dollar. For over a decade, these have been BRICS ambitions, however, with the joining of new members, they are starting to materialize. BRICS has been working on the expansion of local currencies, confronting the destabilizing economy wide dollar shortages. This does not go without opposition, particularly from Washington. However, BRICS is starting to gain traction.

Is de-dollarization popular

According to the analytics group Fitch solutions, the loss of U.S. dollar dominance would be slow erosion. The currency has been so often relied on that turning away from it seems detrimental to some. Despite BRICS showing the slow erosion of its hegemony, the U.S. dollar is not predicted to leave dominance yet. There are not yet feasible solutions which have gained traction, and also balanced reserve shares.

Let us as the BRICS committee convene, and discuss de-dollarization. The process of implementing proper policies and practices to ensure sustainable economic growth, and the necessity of reducing the dependency on the U.S. dollar will be the subject of debate in HMUN24.

Important:

In 2023 at the 15th BRICS Summit, South African President Cyril Ramaphosa announced the expansion of BRICS, known as BRICS+. This expansion would include Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates joining the organization on the 1st of January 2024. However, Argentina's new President Javier Milei has withdrawn the country from these plans. For the Purpose of HMUN24, we will act as if Argentina has formally joined alongside the other new states as of the 1st of January 2024.

Definition of Key Terms

Bilateral agreement

A binding agreement between two parties to fulfill one common goal.

De-dollarization

Countries reduce reliance on the U.S. Dollar in foreign exchange, as a reserve, or within their own finance.

Economically sustainable

Economic practices that support long-term growth without having negative repercussions socially, environmentally, or globally.

Fiscal sustainability

The ability of a government to sustain its expenditure, tax, and other policies without compromising on government solvency or defaulting on liabilities and promised expenditures.

Forex reserves

Cash and other reserve assets such as gold held by a central bank or other monetary authority that are available to balance payments of the country, influence exchange rates of its currency, and help maintain credibility and confidence in financial markets.

Greenback

A term used as a synonym to describe the U.S. dollar. Originated after the Second World War.

Hegemony

The proportionate influence or authority over others, in this case economic domination.

Inflation

The rate of increase in prices over a period of time. A typically broad measure, such as the increase of prices of commodities or the increase of the cost of living within a nation.

Multipolar

Involving several countries having a share of power. A multi-polar world would refer to the world's finances being shared by multiple currencies.

Reserve banks

A regional bank operating and implementing the policies of a nation's government, in the case of the U.S. the Federal Reserve.

Reserve currency

A foreign currency that a central bank holds as a part of a country's formal foreign exchange reserves.

Sanctions

Coercive measures applied against states preventing global peace or implementing actions that affect the interests of sanctioning states.

Sovereign currency

A currency issued by a central bank or national monetary organization, used within a country or region.

Sovereignty

The ability of a state to rule itself. Defined by four distinct properties, defined borders, a permanent population, ability for the government to enter in relations, and recognition from other states.

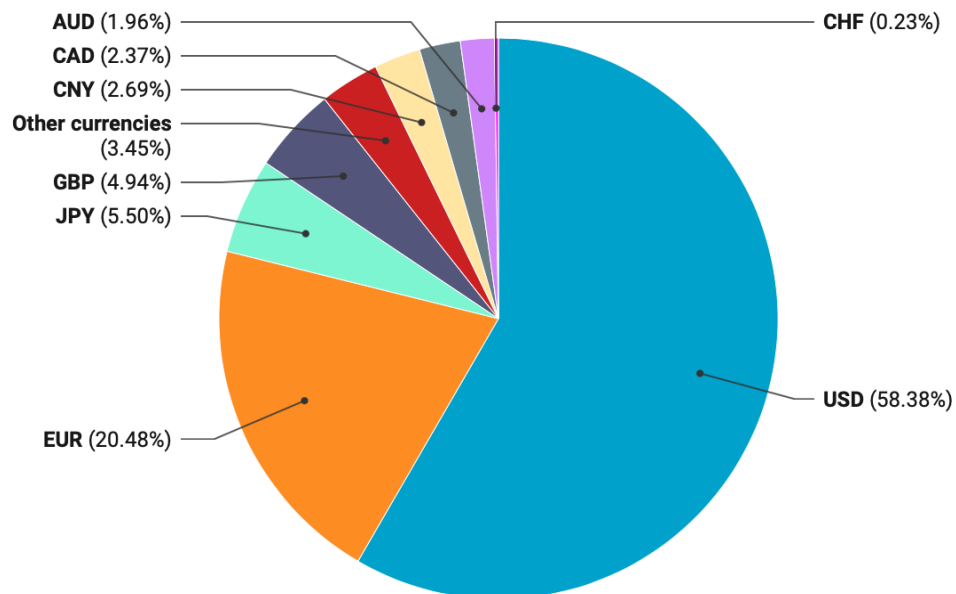
General Overview

U.S. Dollar Dominance

The U.S. Dollar has long remained the most utilized currency. As of 2022, the U.S. Dollar accounted for 58.36% of the world's foreign exchange reserves, according to data from the IMF's Currency composition of Foreign Exchange Reserves (COFER). Comparatively, the EURO is a distant second, and the Chinese yuan accounted for a measly 2.7% (Chen). Since the end of World War 2, the dollar has been the world's most important means of exchange, being the most commonly held reserve currency and most widely used currency for international trade. Most countries would want to hold their reserves in a currency with large and open financial markets, since they want to be sure their reserves are accessible and reliable when needed.

The International Monetary Fund (IMF) is the body responsible for monitoring the global monetary system, and recognizes alongside several other currencies, the U.S. dollar is the most commonly held, making up significant portions of global foreign exchange reserves.

Foreign exchange reserves by currency, Q4 2022



Source: IMF COFER • [Get the data](#) • Created with [Datawrapper](#)

The dollar's status as the global reserve currency, and the hegemonic one was cemented in the aftermath of World War 2 by the 1944 Bretton Woods Conference, in which forty-four countries agreed to the creation of both the IMF and the World Bank. (Some economists argue that the British Pound was once the global reserve currency, overtaken by the U.S. dollar, while others argue the dollar is the first true reserve currency). At Bretton Woods, exchange systems were implemented, wherein each country placed its value of its currency to the dollar, which was afterwards convertible to gold (at the rate of \$35 per ounce). This was designed to provide stability, and was a response to the Great depression in which countries devalued their currencies to try to gain a competitive advantage over one another in the global market.

By the 1960s, the United States no longer had enough gold reserves to cover the dollars in circulation outside the nation. This led to fears of wiping out the U.S. gold reserves. Despite many failed efforts to save the system, President Richard Nixon suspended the dollar's convertibility to gold in August 1971, marking the end of the Bretton Woods exchange rate system. While some agreements, such as the Smithsonian Agreement attempted to salvage the system by devaluing the dollar, the effort was short lived. By 1973, the current system we follow of floating exchange rates was implemented. Many countries still manage their exchange rates by allowing them to fluctuate within a range or by

pegging their countries sovereign currency value to another, such as the U.S. Dollar (Siripurapu & Berman). The U.S. dollar is still king today, and accounting the majority of global reserves still remains the currency of choice for international trade.

BRICS significance

BRICS was originally formed in 2001 as BRIC by economist Jim O'Neil with the goal of promoting cooperation between member states in a transparent manner (Mumbda). In 2010 South Africa joined the initiative, and the name was changed to BRICS. BRICS goal is to promote peace, security, development, and cooperation, wanting to establish a more equitable and fair world. This presented hope to many. In the impoverished and overlooked regions of the world, such as Asia, Africa, and South America, BRICS was a gleaming light and a sign of optimism for the future global economy. Alongside this, India, China, and Russia were all growing economic entities, providing power and legitimacy to the organization. BRICS convenes annually and has created many economic institutions such as the New Development Bank (NDB), which promote an easier path to sustainable development. BRICS has started to seem like a counter to western institutions, often being criticized for acts of imperialism, like that of the International Monetary Fund (IMF).

Additionally, BRICS contributes to about 16% of the world's trade (Mumbda). Member countries have been making efforts to promote trade expansions, and development. The group has also made roles in investment. Foreign Direct Investment (FDI) has significantly contributed to the growth of BRICS economies. A report published by the United Nations indicates the total share of BRICS FDI to global FDI has doubled from 11-22% from 2001-2021.

With the global significance of BRICS economically, they have a large significance to the topic of de-dollarisation. China is the world's second largest economy, and has had an active strife. Based on CNBCs calculation of the IMF's 2022 data on the direction of trade, mainland China is the largest trading partner to 61 countries, while the U.S. is the largest trading partner to 30. China has also been promoting the use of Renminbi, its online currency launched in 2021 with the goal of trade utilization. China is not alone in this endeavor. The several new members of BRICS, set to join by January 1, 2024, have been enticed by the prospect of reducing dependency on the U.S. dollar.

U.S. Dollar on the Decline

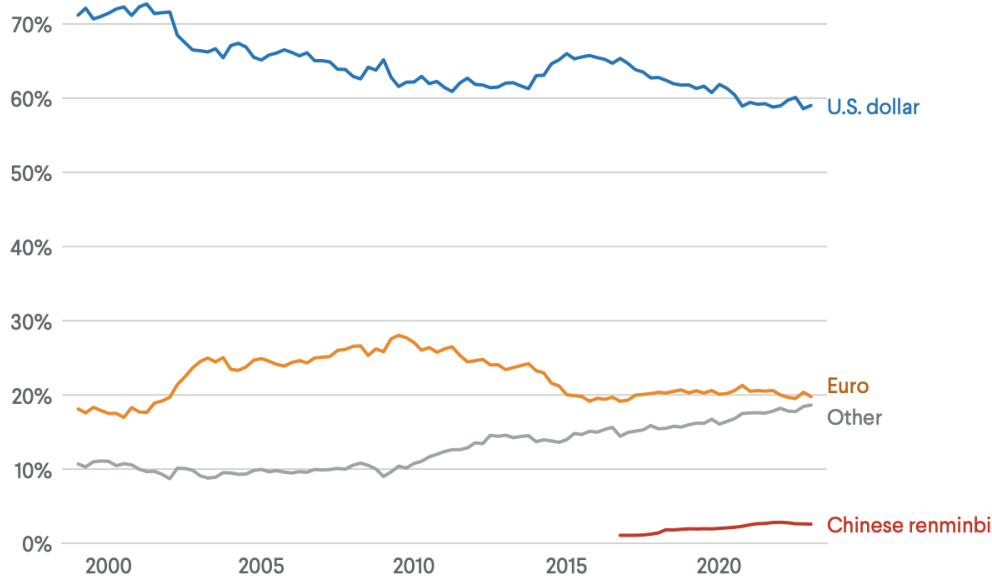
Factors that contribute to the dollar's dominance include its value being relatively stable, the size of the U.S. economy, and the U.S. hegemony. However, the dollar has been losing its popularity. The

U.S. has been involved in several geopolitical conflicts, such as wars with Iraq and Afghanistan, leading to increased tensions between the U.S. and other countries, making nations less willing to use the dollar. The economic upheaval caused by the pandemic and the war in Ukraine has renewed concerns about the downfall of the dollar. After the 2008 financial crisis, many predictions have been asserted about the dollar's demise. At an April 2023 summit of BRICS, Brazilian President Lula da Silva asked, "Why can't we do trade based on our own currencies?", which sparked many questions globally. BRICS has been at the forefront of attempted solutions, however, solutions have not been completely feasible.

For years, leaders of BRICS countries have discussed a framework for a shared currency, arguing it would protect against devaluation when the dollar rises. However, this has been criticized due to political challenges within BRICS countries and a lack of robust monetary policies. The Euro is the second most used reserved currency, and the European Union rivals the United States in economic size, boasting a strong central bank. This is often seen as the most reliable alternative to the dollar. However, the lack of common treasury and a unified European bond market limits the euro's attractiveness as a reserve currency. China, a key player, has also been trying to boost its role in reducing the dependence on the US dollar. Renminbi also known as the yuan accounts for 3% of global reserves, China has increasingly pushed for the use of Renmei in bilateral trade, especially in the wake of conflicts involving the US such as the Ukraine war. Additionally, China has invented digital currency launched in 2020 to further aid trade. However, Chinese policy makers are often criticized for not learning lessons on currency implementation. the renminbi does not follow strict guidelines, the movie does not follow strict guidelines. "China does not have the intention or the capacity to dethrone the dollar," says CFR's Zongyuan Zoe Liu. The last talked about a solution. Our cryptocurrencies often times it is imagined that cryptocurrency such as bitcoin can replace government backed currencies proponents such as El Salvadoran president Nayib Bukele who has made bitcoin illegal tender argues that a system would free countries from the whims of monetary policies. However, the volatility of cryptocurrencies reduces its viability. The whole purpose of cryptocurrencies is to make purchases that cannot be monitored, so the usage of them is highly controversial.

Euro, Renminbi Still Far Behind the U.S. Dollar

Percentage of allocated reserves



Note: Allocated reserves are those reported to the COFER database.

Source: International Monetary Fund.

COUNCIL *on*
FOREIGN
RELATIONS

Dedollarization not achievable?

While being strived for is dedollarization, even achievable. Unlike other world countries, the dollar places a dominant role across border trade and finance, among many Third World countries, helping them develop for many emerging markets. The dollar is more stable and commonly accepted as a medium of payment, rather than the local currency exports and imports, particularly commodities are often priced in dollars. External debts in these countries are often paid in dollars as well. reflecting in the belief in the futures, stability and widespread acceptance, the dollar often much more completely fulfills the functions of money, serving as a widely accepted medium of exchange unit of account store value and standard of deferred payment. The dollar's widespread use in these regards is self reinforcing preserving its dominant role and impeding efforts to deem the rise. Although the expanded brick block would be composed of countries whose economies are all larger than the US dollar. Ration efforts would still face major backlash in part, because of relatively higher costs and inefficiencies of using many non-dollar currencies in cross border trade.

In 2022 data revealed that the US dollar was involved in over 90% of global foreign exchange transactions, and either even higher percentages for specific currencies. The liquidity and lower costs of

the dollar make it a preferred medium for trading, especially in emerging markets with local currency exchange infrastructure lacking. This dominance is even more evident in the fact that significant trade payments in India, China, and South Africa are conducted in dollars despite being BRICS members.

Consequences of De-Dollarization

The transition away from the US dollar as the world reserve currency known as dedollarization is a very complex process. As this is about the global economy, there are a number of potential risks and disruptions that need to be carefully considered before embarking on a strategy. One of the biggest challenges is the potential devaluation or loss of trust in the new currency a reason for the reliance on the US dollar is its stability so if the new currency is not seen as stable or as liquid as the dollar it could lead to economic instability and further hinder financial transactions it is therefore important to build confidence and trust in a new currency before making the switch. Another challenge is the pricing of many commodities such as golden oil, being traded in dollars. Shifting away from the dollar could complicate such transactions and make it more difficult to trade which could further hamper foreign direct investment and capital flows. Countries with significant debt in US dollars will also face special challenges when trying to reduce their reliance as if they suddenly move away from the dollar their debt could become more exorbitant because their currency may lose value or exchange rates could further fluctuate. This is likely why many countries currently stick with the dollar as they are stuck in this spiral.

Finally, dedollarization could lead to increased volatility in currency exchange rates during the transition period. De-dollarization seems feasible to BRICS members due to their developed economies. However, countries with less developed financial markets or limited policies may face greater challenges due to their developed economies. Especially with the enhancement of BRICS, newer industrialised nations wanting to join face the internal struggle of sovereign growth, or joint growth with the BRICS organisation.

Timeline of Key Events

Date

Event

1-22nd of July 1994	Brenton Woods Agreement
15th of August 1971	Abandonment of the gold standard
2008	Global Financial Crisis
2013	U.S. Debt-Ceiling Crisis raising concerns on the fiscal stability of the U.S., and the risks associated with a single dominant reserve currency
14-16th of July 2014	BRICS summit in Brazil for strategies to reduce dependency on the U.S. dollar
3-5th of September 2017	BRICS summit in China with an emphasis on strategies for reshaping the International Monetary landscape
24th of February 2014	Russian invasion of Ukraine leading to more BRICS talks
Post-2014	Global De-dollarization Trend where uncertainties linked with the U.S. dollar were questioned
2nd of April 2020	China's digital Yuan was launched
1st of January 2024	BRICS+ (the expansion of BRICS to include Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates, and in the case of HMUN Argentina)
Ongoing	Ongoing BRICS initiatives including discussions on joint currencies are occurring

Major Parties Involved

Bank for International Settlements (BIS)

The BIS is an international financial institution owned by several member central banks. Its primary goal is to foster international monetary and financial cooperation alongside being the bank for central banks.

BRICS (Brazil, Russia, India, China, South Africa)

BRICS refers to the market countries of Brazil, Russia, India, China, South Africa, and as of January 2024 more, that seek to establish deeper economic ties, promote economic expansion, and counterbalance traditional western influence.

China

China, a BRICS member, and a country with the world's second largest economy is a key player in de-dollarisation due to its 'economic competition with the U.S.' and its own reserve currency.

European Union (EU)

The European Union is a union of 27 states located within Europe. Most EU states utilize the Euro, which is the world's second biggest reserve currency.

International Monetary Fund (IMF)

The IMF is a major financial agency of the United Nations, and a international financial institution funded by 190 member countries

Russia

Russia, a BRICS member, plays a significant role in de-dollarisation due to the Russia-Ukraine war, where Russia was put under copious sanctions. These sanctions have caused Russian efforts away from the U.S. Dollar.

United States

As the owner of the U.S. dollar, and the largest economy of the world, the United States plays a significant role in de-dollarisation as they continue to assert their countries position on top.

World Trade Organization (WTO)

The WTO is an intergovernmental organization (IGO) that regulates and facilitates international trade. With effective cooperation in the United Nations System, governments use the organization to regulate international trade.

Possible Solutions

The evolving landscape of global finance, and questions over the sustainability of the U.S. dollar necessitate comprehensive and direct solutions. While the specifics of what solutions will be shaped will occur through diplomatic negotiations and collaborative efforts within HMUN24, potential directions will be outlined.

Currency Diversification and Regional Initiatives

Rather than complete reliance on the U.S. Dollar, countries can strive towards a more mixed approach of exporting trade commodities in their own currency for stability and sovereign economic help.

The use of bitcoin

Cryptocurrencies, such as Bitcoin are a new form of currency not subject to government control. This could also be used as an attractive alternative to the dollar.

Promotion of Central Bank Digital Currencies (CBDCs)

The development of China's online Yuan presents a more feasible avenue for reducing reliance on the U.S. Dollar. The Yuan does not have to be the only Central Bank Digital Currency, as more collaborative development and research can be done, providing an alternative to traditional monetary systems, or even advancing current ones.

The EU's Euro

As the second largest global currency reserve, the Euro could pose as the next dollar. However, BRICS aims to stray away from western sentiments, so the Euro would not be the complete ideal solution.

Strengthening International Institutions

Reinforcing the role of institutions such as the International Monetary Fund in managing currency related issues can allow its expertise to be resourced, and have a more coordinated approach to de-dollarisation.

Conclusion

By deliberating on these potential directions in HMUN24, the committee can collectively shape a roadmap toward a more resilient and diversified global financial architecture. Implementing the proper management and solutions on this topic proves to be essential, effecting nations as a whole globally. Proper and feasible diplomatic solutions are the hope for HMUN24.

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