ISSN 1019-3316, Herald of the Russian Academy of Sciences, 2021, Vol. 91, No. 1, pp. 37–50. © Pleiades Publishing, Ltd., 2021.
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Point of View

Internationalization of the Currencies of BRICS Countries

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Received September 18, 2020; revised October 2, 2020; accepted November 24, 2020

Abstract—The ongoing large-scale transformation of the global economy, caused primarily by the economic recovery of the leading developing countries, forms a multipolar map of the world with new centers of power—the BRICS countries (Brazil, Russia, India, China, and South Africa). Thanks to their increased industrial and financial power, these countries are among the key players in the international markets for goods, services, and capital, exerting a significant, and sometimes decisive, impact on their functioning. However, it would be premature to say that in the coming years the representatives of this association will be able to achieve a balance of power in monetary and credit relations with the United States and the European Union, overcoming their long-term dominance in world finance. Achieving such a balance will become possible only as the monetary units of the BRICS countries turn into influential reserve assets that can squeeze the US dollar and euro in servicing world economic relations and create large international financial centers in them that can compete on equal terms with London or New York.

Keywords: growth factors for BRICS countries, imbalance in the economies of BRICS countries, BRICS New Development Bank, internationalization of the currencies of BRICS countries, international reserve currencies, PRC monetary policy, RMB internationalization prospects, Russian–Chinese trade relations.

DOI: 10.1134/S1019331621010044

Over the past two decades, significant changes have occurred in the balance of power in the world economy due to a significant increase in the economic power of a relatively small group of developing countries that are commonly called emerging markets. The rapid rates of GDP growth in the emerging markets, as a rule, are combined with an active transformation of the sectoral and social structure, which makes their development highly dynamic [1]. Thanks to this, in 2000–2020, the emerging markets, according to IHS Markit, were able to strengthen their positions significantly in the international markets for goods, services, and capital, seriously displacing the traditional leaders—developed countries (Fig. 1). The share of the emerging markets in the world GDP[1] grew from 39.1% in 2000 to 55.8% in 2020; accordingly, their contribution to the growth rate of the world GDP increased from 1.4 percentage points (pp) in 2001 to 2.1 pp in 2019.

The key states that provided a 52% (52.4%, including South Africa) growth of the world GDP in 2000–2020 were China, India, Russia, and Brazil—the four largest emerging markets, which together with South Africa comprise the BRICS integration association. The high rates of economic growth, reaching over the years 2000–2020, on average, 8.6% per year in China, 5.9% in India, and 1.8–2.7% in Russia, Brazil, and South Africa, allowed them to increase significantly their shares in the global production of goods and services, become some of the leading countries in terms of attracting direct foreign investment and accumulating international reserves, significantly improve the situation in the budgetary and social spheres, and multiply the scale of the domestic financial market. These successes were the result of deep institutional reforms carried out in the BRICS countries in the 2000s, which unlocked more fully the potential of national economies and which had not been previously used for structural reasons: due to socialist reforms in China, excessive import substitution in Brazil and India, and the apartheid policy in South Africa.

The list of growth factors in individual BRICS countries is different [2]. The economic growth of China and India was based primarily on maintaining high saving and accumulation rates, as well as attracting numerous and cheap labor resources in export manufacturing industries. Brazil and South Africa are the largest raw material exporters. In addition, social programs implemented by the authorities of these countries to stimulate the expansion of the final consumption of households, including the poorest strata of the population, are of great importance for the economic situation. In the 2000s, Russia increased the

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[1] Hereinafter, GDP is calculated at purchasing power parity (PPP) in constant 2015 prices.

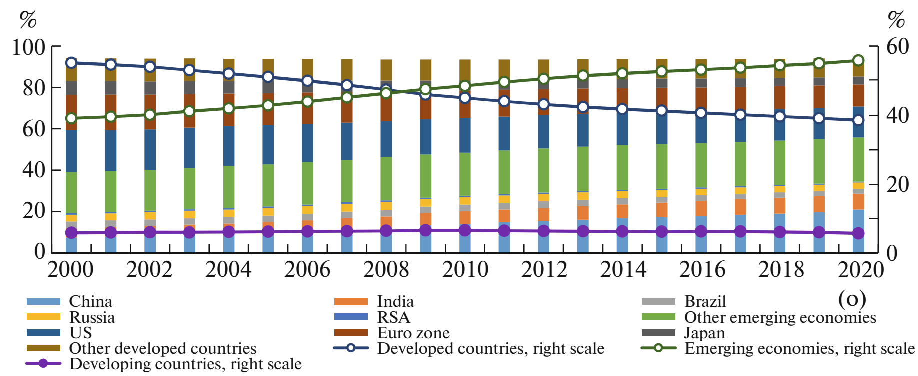

Fig. 1. World GDP structure (PPP constant 2015 Prices). *Source:* IHS Markit.

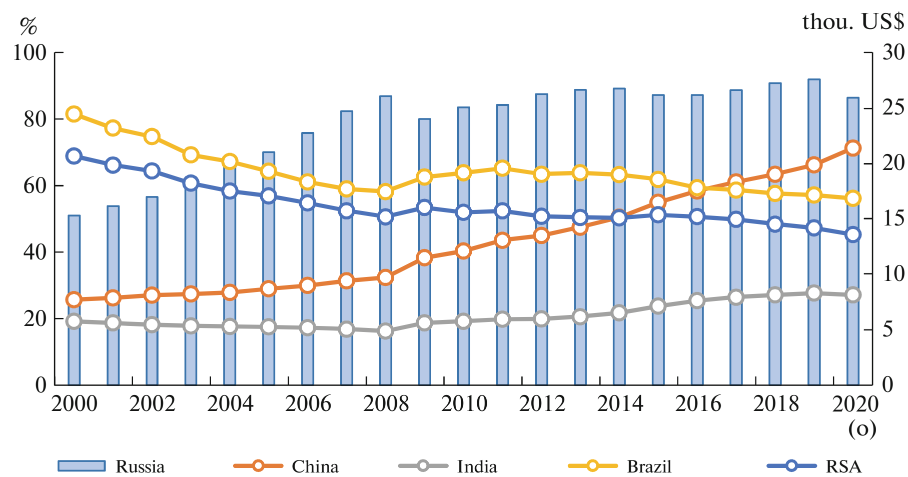

Fig. 2. GDP (PPP in constant 2015 prices) per capita of the BRICS countries (Russia = 100). *Source:* IHS Markit.

export of fuel and energy products and used the potential of the capacious domestic consumer market. Thanks to the growth of the economy, the well-being of the population has noticeably improved, in terms of which our country, despite the slowdown in business activity in recent years, is ahead of other states of the association (Fig. 2).[2]

Despite the progress achieved, serious imbalances remain in the BRICS economies, threatening their sustainable development. In China, due to institutional factors, gross fixed capital formation is excessive, the economy is characterized by an orientation towards consumer demand, and the export of goods and services no longer serves as a support for GDP growth. India is characterized by imbalances between accumulation and consumption, which are reproduced largely due to the continued poverty of a significant part of the population. In Brazil and South Africa, on the contrary, the GDP dynamics is determined primarily by the state of domestic demand, while the indicators of accumulation and saving in them are relatively small. In general, there is no shortage of savings in Russia, but the available financial resources are not efficient enough for investment, as a result of which the economy is heavily dependent on the export of mineral products.

All BRICS countries also have a number of common socioeconomic problems, including underdevelopment of the most important public institutions, a large share of the shadow sector, a high level of corruption in the state apparatus, sanctions, significant social stratification, and increasing degradation of ecological systems in industrial and raw-material production areas. The difficulties noted seriously worsen the state of the business climate in the BRICS countries, which is reflected in their low positions in international rankings of doing business. Thus, in the Doing Business

[2] Despite the slowdown in economic activity in Russia, the real GDP per capita in the Russian Federation (at PPP in 2015 prices) in 2020, according to IHS estimates, amounted to $25913000, which is 28.7% higher than in China.

rating, Russia occupies only 28th place among 190 countries, China 31th, India 63th, South Africa 84th, and Brazil 124th.

The vulnerabilities of the BRICS economies were clearly manifested during the 2020 pandemic. At the initial stage, some experts expressed hope for a "splitting" of economic cycles in the developed and developing parts of the world, believing that against the backdrop of a recession in Western countries, the emerging markets would be able to maintain autonomous growth dynamics and act as an alternative locomotive of the world economy. However, this did not happen. The BRICS economies showed a sharp decline in GDP in the first and second quarters of 2020. If China, according to the IHS forecast, manages to maintain positive GDP dynamics (at the level of 1.5%), then its volume will decrease in India, South Africa, Brazil, and Russia and will be –6.9, –8.9, –7.0, and –6.0%, respectively.

Thanks to large anticrisis programs, as well as an improvement in the global market situation, the positive GDP dynamics in the BRICS countries began to recover in the third and fourth (in China, in the second) quarters. However, the tightening of financial conditions that followed the recovery growth will lead to a slowdown in GDP growth in 2022–2023. In recent years, the turning points during internal economic cycles in the leading emerging markets still coincided with changes in the market situation in developed countries, refuting the hypothesis of the "splitting" of their economic cycles.

Due to the insufficiently diversified structure of national production, in which the extraction and export of fuel and energy resources play a disproportionately large role, Russia turns out to be perhaps the most vulnerable if one evaluates the BRICS countries from the point of view of a possible deterioration of the external situation. Moreover, as shown by Russia's low GDP growth rates in 2013–2019, the accumulated industry and sector imbalances in the economy do not allow the country to gain high dynamics even with a relatively favorable price situation on the international raw-materials markets. All this makes the task of modernization and restructuring of the domestic economy, aimed at ensuring its sustainable and balanced development, more urgent than ever.

Modernization will require a certain adjustment of the national economic policy. Unlike other BRICS countries, in Russia it is mainly focused on maintaining macroeconomic stability. Given the unconditional importance of this goal in the future, the main efforts of the state should be directed at stimulating qualitative changes in the domestic economy: increasing the output of high-tech and science-intensive products, labor productivity, the share of investments in fixed assets, and small and medium-sized innovative businesses. The transition to a policy of modernization and industrial development, in turn, implies a more active, consistent, and systematic use by the state of various instruments to support priority industries and sectors of the economy, including tax and customs benefits, public–private partnerships, and the provision of loans, guarantees, and investments through federal and regional development institutions.

Additional opportunities for accelerating the processes of restructuring the economy of the Russian Federation are opened by its political and economic rapprochement with the leading developing states—members of the BRICS integration association. In particular, it creates preconditions for expanding domestic business into the markets of these countries, especially in segments such as energy, agricultural production, metallurgy, transport and special machine building, and financial and banking activities. Strengthening trade and investment cooperation in these areas, where Russia has certain competitive advantages, will contribute to the formation of new growth poles in the domestic economy and strengthen the country's position in international markets for nonprimary products.

BRICS: from dream to reality. Back in 2001, experts from the American investment bank Goldman Sachs united the four largest emerging market economies—Brazil, Russia, India, and China—into the BRIC group.[3] In 2006, the first meeting of the countries of the union took place in New York, on the sidelines of the UN General Assembly. Its participants expressed their intention to continue contacts during international forums. In 2008, in Japan, the heads of state and government of the four countries agreed to cooperate on pressing economic problems.

On June 16, 2009, at the first official summit in Yekaterinburg, the heads of state formulated the goal of the association—the development of a consistent, active, and open dialogue and mutually beneficial cooperation. From that year, the leaders' meetings began to be regular; the structure of economic cooperation between states was gradually taking shape; and the interests of the countries of association with the rest of the world, primarily with Western Europe and the United States, were coordinated. After the fifth member, South Africa, joined in 2011, the community acquired a new name, BRICS. It is assumed that by 2050, while maintaining economic dynamics, the total GDP of the BRICS countries will be 2.4 times higher

[3] It is generally accepted that the starting point for the creation of the association is 2001, when in the report of Goldman Sachs, "Dreaming with BRICs: The Road to 2050," the term BRIC first appeared. Thus, four countries were identified with the highest potential for economic growth at that time—Brazil, Russia, India, and China. The term became widespread among financial companies, which, since the early 2000s, began to create investment funds specializing in operations with the securities of these countries. In 2006, the American Dow Jones Indexes introduced the BRIC-50 stock index, which included 15 leading companies in Brazil, China, India, and five Russian companies the shares of which were the most liquid on world exchanges.

(or 46.2% of the world GDP) than that of the developed countries—members of the G7.

The progressive development of the BRICS countries in 2010–2019 and the preservation of positive dynamics by some of them even during the pandemic prompts some international analysts, particularly from the Organization for Economic Cooperation and Development (OECD), to view this bloc as a counterbalance to developed countries with their low rates of economic growth amid a prolonged recession.

The BRICS countries do not have a secretariat, charter, or other formally established norms. The states have consolidated to create a model of a new world that will allow them to choose their path of development [3].

Official BRICS summits are held annually in one of the countries of the association. A certain sequence is observed: Brazil, 2014; Russia, 2015; India, 2016; China, 2017; South Africa, 2018; Brazil, 2019; Russia, Russia.[4] The host country of the summit is appointed as the chair; it ensures the coordination of current activities. Now the BRICS countries have more than 20 formats of interaction, including energy efficiency, climate change, and international financial institutions.

In 2015, the process of creating a pool of foreign exchange reserves intended for use in emergency situations was completed, and the New Development Bank of BRICS with a share capital of $100 billion became operational.

The peculiarity of BRICS is that each member of the association is at the same time a leading economy on its continent or region: Russia in the CIS; Brazil in MERCOSUR, the common market of Latin America; South Africa in the South African Development Community; India in the South Asian Association for Regional Cooperation; and China in the Shanghai Cooperation Organization. In these regional integration groupings, the countries, being BRICS partners, can form BRICS+ [3].

In 2017, the Chinese leadership invited representatives of 28 states to dialogue in an expanded format: Indonesia, Malaysia, the Philippines, Cambodia, Egypt, Nigeria, Ethiopia, Kenya, Argentina, Chile, Mexico, and others. It is assumed that BRICS+ will help form a wide range of the association's partners, cooperating with it on a permanent basis.

BRICS New Development Bank. Promising areas of cooperation include energy and finance, in which the association opens up additional investment opportunities. The BRICS New Development Bank plays an important role here. Its main task is to finance infrastructure and sustainable development projects in the BRICS member states, as well as in developing countries. Since 2016, when the bank began operating, more than 20 projects have been approved for a total of $5.1 billion: five each in China, India, and Russia; four in Brazil; and two in South Africa.

In 2016, the first seven projects were approved, including those on renewable energy sources, for an amount exceeding $1.5 billion. One of them is the construction of two hydroelectric power plants in Karelia—Beloporozhskaya HPP-1 and Beloporozhskaya HPP-2—worth $100 million and with a total capacity of 50 MW, which are part of the Kemskii HPP cascade. The small hydropower plant project was the first in Russia to be financed by the BRICS New Development Bank. The construction of the facility, which began in 2016, uses the latest technologies to increase equipment life and plant efficiency. However, most of the equipment, including turbines and power generators, was manufactured in Russia. At the end of 2019, a trial run of the hydroelectric units was carried out successfully at both power plants.

In 2018, the bank approved four infrastructure projects in Brazil, India, China, and South Africa worth over $1 billion. According to the New Development Bank Annual Report 2019, the BRICS operating portfolio includes 51 projects with a total value of $14.9 billion.

The bank received high AA+ credit ratings from S&P and Fitch, opening access to the international bond market. In 2018, it supported the installation of renewable energy facilities with a total generated capacity of 1500 MW. The approved development strategy for 2017–2021 indicates that the total volume of loans approved by the bank by 2021 could range from $32 to $44 billion. According to experts, investment cooperation of the BRICS countries within the BRICS New Development Bank will help increase the degree of investment protection and the accumulation of funds for projects that are of interest to several states.

Over the past decade and a half, leading developing countries have managed to strengthen their economic potential significantly, turning into new poles of global economic growth. The rapid replenishment of export earnings and foreign investment allowed them to improve the state of their balance of payments noticeably, accumulate large foreign exchange reserves, and significantly increase domestic financial stability. This, in turn, contributed to the consistent abolition of currency restrictions that were widely used by developing countries to maintain the stability of national currencies and protect the domestic financial market in conditions of weak balance of payments.

At present, the world monetary system is dominated by three currencies—the US dollar, the euro, and the Japanese yen, in which more than 80% of settlements in international trade are carried out and about 90% of official reserve assets and global debt obligations are nominated (Fig. 3) [4–6]. Dominance

[4] The BRICS summit was to be held on July 21–23, 2020, in St. Petersburg, but it was postponed due to the epidemiological situation associated with the spread of coronavirus infection.

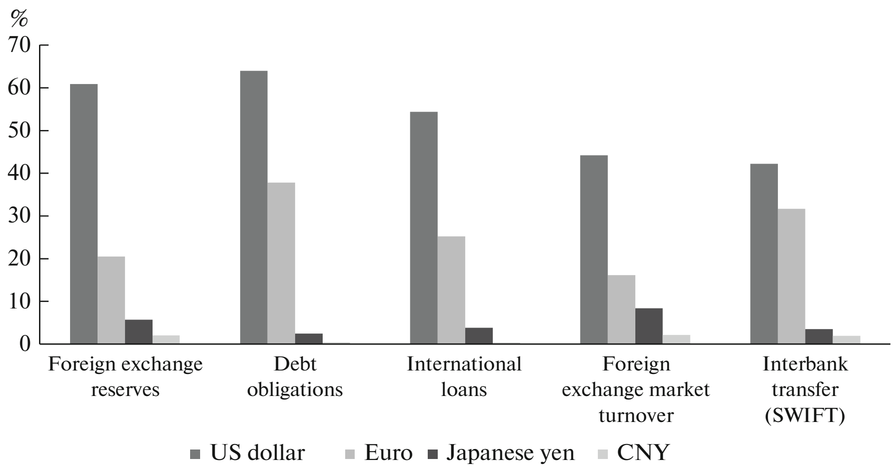

Fig. 3. Share of national currencies in official reserves, world trade, international borrowings, and debt markets in 2019. *Source:* European Central Bank.

in the monetary sphere is one of the main factors helping developed countries to maintain their leading positions in international finance, enabling them to lock the main global capital flows onto themselves. In addition, the United States has been actively using the dollar's status as a key global currency for many years to cover chronic current account deficits (Fig. 4) by placing its debt obligations among foreign investors. The growing US corporate and public debt since 2012, which reached 78.3 and 101.6% of the GDP by the end of the first quarter of 2020, respectively (Fig. 5), poses a significant threat to the stability of the economies of other countries, including emerging markets, where the dollar is widely used both for servicing foreign trade contracts and in domestic financial transactions. This makes the task of internationalizing the currencies of the BRICS countries and the formation of a polycentric world monetary system even more urgent.

Full or partial liberalization of foreign exchange legislation provided conditions for the promotion of the currencies of the largest developing countries to international markets. They are beginning to be used in cross-border lending and issuance of debt securities. Under the influence of the growing instability of the monetary system and the increasing volatility of the rates of key world currencies, there has been a tendency to involve the monetary units of developing countries in intraregional, including border, trade.

The scale of the use of currencies of developing countries in international circulation is still small and does not correspond to the increased contribution of these countries to world production and exports. Thus, according to the Bank for International Settlements, the aggregate share of the currencies of Russia,

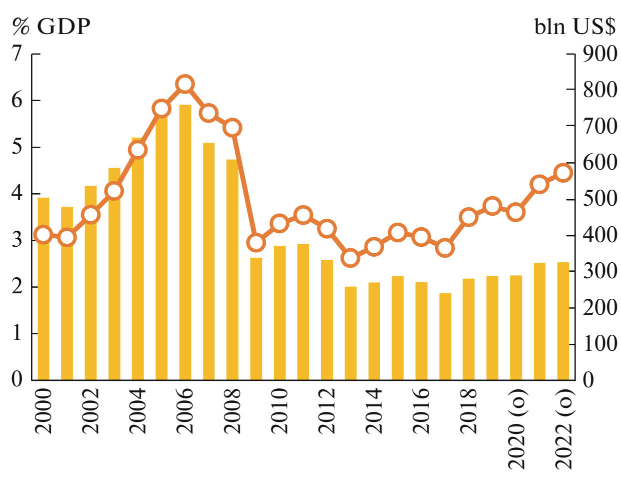

Fig. 4. US balance of payments current account deficit.

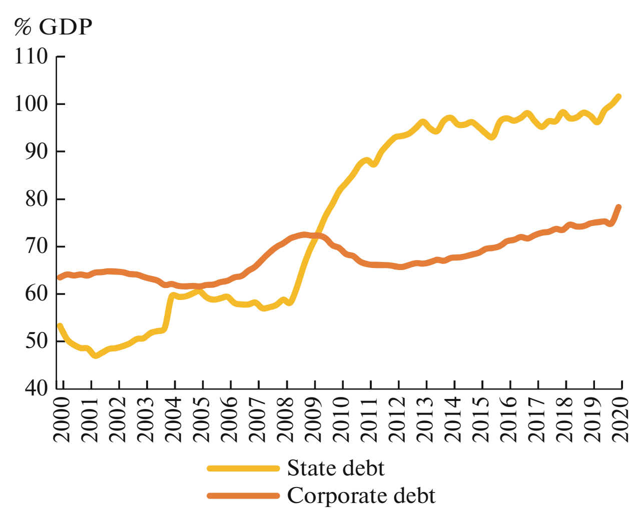

Fig. 5. US corporate and government debt. *Sources:* OECD, US Federal Reserve, and Bank for International Settlements.

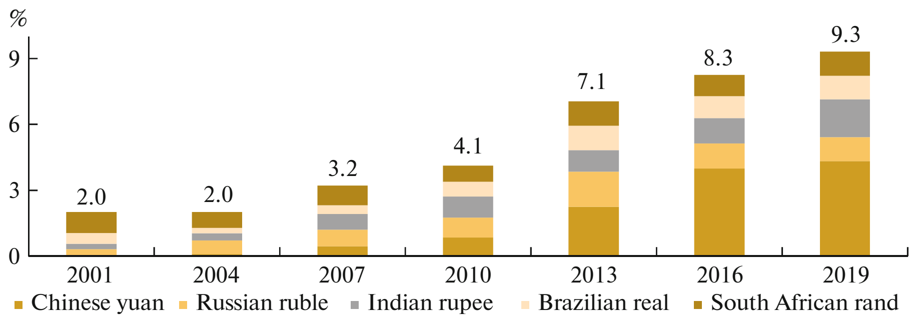

Fig. 6. Share of currencies of the BRICS countries in the total turnover of the foreign exchange market. *Source:* [13].

China, India, Brazil, and South Africa in the total turnover of the global foreign exchange market in 2019 was 9.3% (Fig. 6), while their total contribution to the global GDP (data for 2020 at PPP in constant 2015 prices) was estimated at 34.6%.

The reasons for the weak internationalization of the national currencies of developing countries are well known. The raw materials they import are traditionally quoted in US dollars. Domestic companies prefer to operate in dollars, thus taking on the currency risk. There are some restrictions on international financial transactions in national currency units. The financial capabilities of nonresidents in terms of managing ruble and other assets are extremely limited due to the underdevelopment of the capital market. Finally, the general economic environment, including the tax and legal systems, does not favor the use of BRICS currencies by nonresidents.

In the future, as these barriers are overcome, one should expect a significant increase in the role of national currencies of the largest developing countries in servicing international trade and cross-border capital flows, which will allow them to take a noticeable place in the modern monetary system, corresponding to their importance for the global economy.

The PRC's monetary policy. The Chinese authorities strive to support national exports comprehensively. This is primarily due to the fact that the yuan has been undervalued against the currencies of its main trading partners for many years. Today, the yuan against the dollar, according to the OECD, is undervalued by 20–25%, which stimulates not only Chinese exports but also a large-scale inflow of direct investments into the country from abroad, making it cheaper for foreign entrepreneurs to implement investment projects in China. At the same time, this policy hinders the internationalization of the yuan and its widespread use in world trade and finance. Fearing a large-scale inflow of speculative capital into the country and increased pressure on the national currency exchange rate and the creation of an uncontrolled international yuan market that could undermine domestic financial stability in an unfavorable external environment, the Chinese authorities maintain numerous restrictions on transactions with this currency.

Despite maintaining strict currency restrictions, the PRC leadership does not take steps to internationalize the yuan, involving it, in particular, in servicing border trade with neighboring countries through the conclusion of interstate agreements on the mutual exchange of national currencies. The yuan has already become the main currency in China's border trade with Mongolia, Vietnam, Myanmar, and Nepal. It is increasingly used in trade with Russia, the Philippines, and South Korea.

Another notable step towards the internationalization of the Chinese currency is the permission of the country's authorities to conduct certain transactions with the yuan in Hong Kong, whose residents can now use it for money transfers, bank card transactions, and opening deposits in local banks. In turn, Chinese companies and banks were able to place bonds in yuan on the Hong Kong Stock Exchange, which opened the way for the development of a market for financial instruments denominated in Chinese currency in this administrative region. This process may accelerate significantly after the planned creation of a unified system of trading in shares of Chinese companies traded on the Hong Kong and Shanghai stock exchanges.

The increase in the volume of financial transactions in yuan in Hong Kong is accompanied by an increase in trade in Chinese currency in the world market. Over the past five years, the international market for forward contracts in yuan in Hong Kong and Singapore has formed almost from scratch; in 2013, the daily turnover averaged $30 billion, or almost half of the turnover of the domestic foreign exchange market in China.

After Hong Kong, the leading positions in the yuan market in operations such as banking services, foreign exchange transactions, issuing bonds, granting loans, etc., is occupied by the London Financial Center, followed by the Paris Financial Center. The head of the Bank of France, C. Noyer, announced his intention to develop the offshore yuan market. The Parisian financial center, backed by a strong banking sector and a high degree of internationalization, has always been prone to innovation. By becoming the main offshore center in the euro area, France gains significant advantages [7].

From 2011 to 2019, the volume of foreign trade operations denominated in yuan increased by 6.1 percentage points, up to 13.8% of the total volume of export–import transactions.[5] Chinese partners of French enterprises are increasingly offering to carry out settlements in yuan. There are good reasons for this. With currency liberalization, the yuan has fluctuated against the dollar. By nominating foreign trade contracts in yuan, Chinese companies smooth out the risks of changes in the exchange rate. Local governments support international settlements in renminbi in a variety of ways, including through tax incentives, simplified administrative procedures, and export settlements. In addition, the payment cycle for RMB transactions is significantly shortened.

By offering their partners to conduct foreign trade operations in yuan, Chinese enterprises receive additional commercial benefits, which are sometimes crucial for them. In general, the internationalization of the yuan allows Chinese enterprises to strengthen their positions in foreign and domestic markets and significantly expand their room for maneuvering. However, one should not forget about the risks that increase with the expansion of international relations. Thus, international trade is associated with changes in the exchange rate, noncompliance with the terms of the contract and its cancellation, and transport and political risks.

In China, a classic financial instrument of trade, such as commercial letters of credit, is widely used. Commercial letters of credit, being a reliable, understandable, and relatively competitive instrument, provide good risk coverage. However, with large volumes of foreign trade transactions, other financial solutions are needed, in particular, operations to securitize payments. New opportunities have emerged for large enterprises and their partners in the PRC, for example, supply chain finance and e-invoices.

On the territory of mainland China, an account in yuan can be opened for nonresidents, but first one must obtain permission from the State Administration of Foreign Exchange (SAFE). This account must work exclusively with foreign trade operations. Hong Kong has more flexible rules: if an account is opened, then the funds deposited in it can be used for investments and bank transfers outside the continent.

Large international banks provide their clients—exporters and importers—with the opportunity to open an account in RMB to finance operations with Chinese partners. They usually offer a variety of services and products related to currency exchange, payments, deposits, loans, and trade finance.

Chinese banks based in France and French banks also offer services and products to European enterprises to facilitate their settlements on foreign trade contracts in yuan. For example, loans in yuan for a period of 5–7 years can be used to invest in China or pay for imports. As a result, European businesses are spending fewer dollars and are more flexible in spending.

In 2012, the central banks of the PRC and Taiwan signed an agreement on clearing settlements in yuan, which is considered by analysts as the largest economic event in the region. A breakthrough was the strengthening of the yuan's position in financial transactions carried out in the UK, the world's financial center, with a turnover of $4 trillion per day. According to the Bank of England, in February 2013, the United Kingdom was the first of the G7 countries to have the opportunity to sign a currency swap (exchange) agreement with the People's Bank of China. The deal allows the Bank of England to supply up to RMB 400 billion (about $64 billion) to other banks. According to P. Lintern, Head of Interbank Operations at Standard Chartered Plc, this event will completely revolutionize financial markets [8].

In March 2013, the People's Bank of China and the European Central Bank signed a $45 billion swap agreement. Earlier, on March 30, 2013, the monetary authorities of the PRC entered into a currency swap with Brazil in the amount of $30 billion. It is envisaged that, in the event of destabilization of the international financial system, these states will be able to offer the other party borrowed funds in the partner's currency without using dollar reserves. China is gradually seeking to consolidate the yuan in international finance.

In June 2011, China and Russia signed an Agreement on the transition to settlements in national currencies. As a first step, trading in rubles began on the exchange in China and yuan trading started in Moscow. On October 24, 2011, the Russian bank VTB opened deposits in yuan for legal entities.

In order to increase the international confidence of foreign currency heavyweights in the yuan, the PRC is increasing its national reserves of monetary gold, the accumulated reserves of which at the end of the second quarter of 2020 amounted, according to the World Gold Council, to 1948.3 tons (5.6% of world savings). By increasing its gold reserves, China wants to secure its reserve assets, which are estimated at $3.244 trillion, and minimize the risks in the path of establishing the yuan as a world currency. Within the framework of global monetary and financial policy, China seeks to lay an institutional basis and advance its interests in those world financial institutions where the United

[5] The share of the national currency in servicing export and import flows in the PRC reached a maximum of 29% in the third quarter of 2015. From the third quarter of 2017 to the first quarter of 2019, this indicator fluctuated in the range of 11–14%.

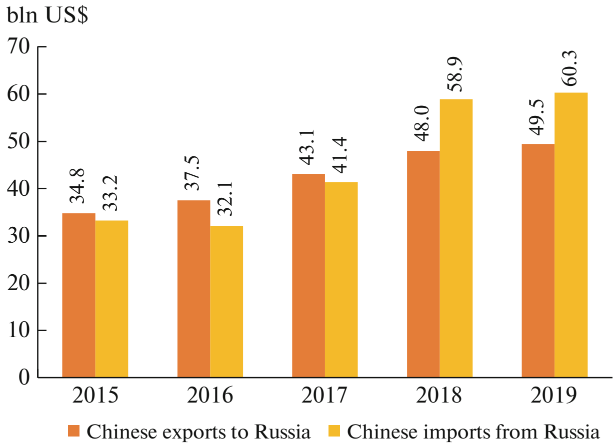

Fig. 7. Trade turnover between China and Russia. *Source:* General Administration of Customs of China.

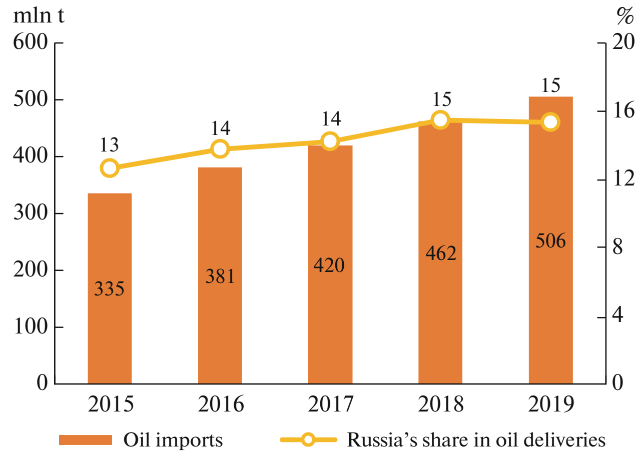

Fig. 8. China oil imports. *Source:* General Administration of Customs of China.

States and the countries of Western Europe (IMF and World Bank) traditionally dominate.

The expansionary monetary policy of the PRC authorities contributed to the rapid development of the corporate debt market. Nevertheless, China in terms of the volume of corporate bonds (about $1.9 trillion) at the end of 2019 was significantly inferior to Europe ($2.9 trillion) and the United States. The bond market in the United States was about $6 trillion, or 44.4% of the global corporate bond market.

The PRC attaches great importance to the BRICS format and actively participates in the work of this association, since the interstate mechanism serves as an important platform for the implementation of national and global interests and corresponds to the country's foreign policy concept. One of the reasons for the creation of the BRICS group was the dominance of Western countries in matters of world development, while other states experienced discriminatory pressure. Therefore, China began to look for ways to advance its interests in the world arena, believing that the international community needed to create equal conditions for different countries.

Within the BRICS association, the PRC is primarily interested in the financial system. The Celestial Empire sees one of its tasks in increasing the share of the yuan in interstate settlements and making it an international currency, which will reduce the dependence of member countries on the IMF. States come together to limit US dominance. In this regard, the BRICS Reserve Fund and the BRICS New Development Bank were created back in 2014. The fund is $100 billion: China's share is $41 billion; Russia's, India's, and Brazil's is $18 each; and South Africa's is $5 billion. The BRICS New Development Bank is seen as a counterweight to the IMF and the World Bank. It is designed to finance large-scale projects within the framework of the association and reduce the risks from shocks in the global economy. If it is possible for other countries to join the bank, the share of the five founding countries in the capital cannot be lower than 55% (it is interesting that a similar minimum threshold is in effect in the IMF for the United States and European countries).

Russian–Chinese trade relations. In June 2019, Russia and China took the first steps to de-dollarize bilateral trade relations by concluding an agreement on the development of mutual trade and financial transactions using their national currencies, the ruble and the yuan. This decision is of particular importance in the context of growing economic ties between the two countries.

In 2019, the trade turnover between Russia and China, according to the General Customs Administration of the PRC (the figures differ from the customs statistics of the Russian Federation due to various estimates), amounted to $109.7 billion (Fig. 7), an increase of 2.7% compared to 2018, including China's exports to Russia, $49.5 billion (+3.1%) and China's imports from Russia, $60.3 billion (+2.3%).

In the structure of Chinese imports from our country, the bulk of supplies falls on fuel and energy products, mainly oil and coal. Cooperation within the BRICS group allows the PRC to meet the growing demand for energy resources, in the import of which the country ranks first in the world: 778.7 million toe in 2018, or about 13.5% of world imports of primary energy resources; in particular, China's share in 2019 was 20.8% in oil imports, 21% in coal imports, 10.1% in gas (including LNG) imports, and 4.7% in oil products. In addition, the countries entered into an agreement on cooperation in the oil sector in 2009. Russia has become one of the largest oil suppliers to China. In 2019, the share of our country in oil imports, according to the General Customs Administration of the PRC, amounted to 15.4% (Saudi Arabia, 16.5%). During this period, oil imports from the Russian Fed-

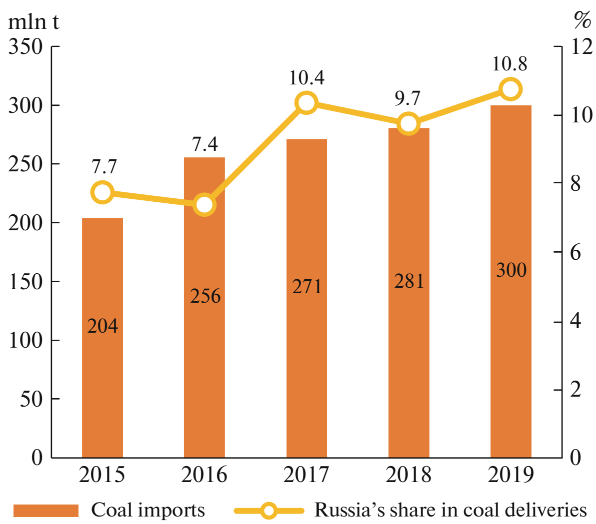

Fig. 9. China coal imports. *Source:* General Administration of Customs of China.

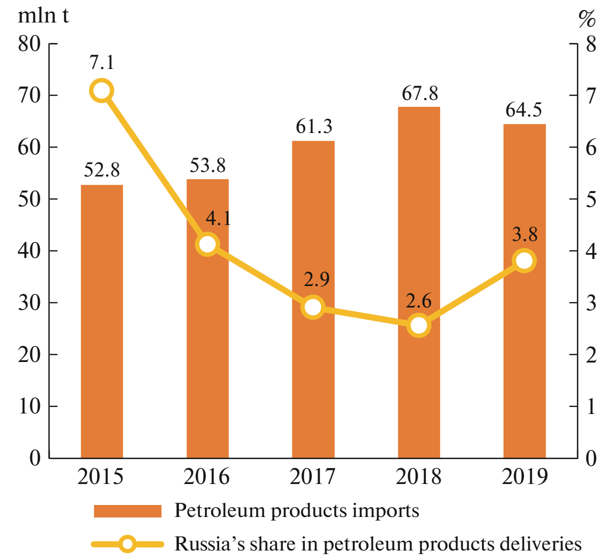

Fig. 10. China import of petroleum products. *Source:* General Administration of Customs of China.

eration exceeded 77.7 million tons (Fig. 8), which is 8.6% higher than the level of 2018 (the data differ from the indicators of customs statistics of the Russian Federation).

In 2019, Russian coal supplies to China reached 32.2 million tons (Fig. 9), which is 4.9 million tons more than in 2018, including the import of 17.2 million tons of steam coal (+2.4 million tons to the level of 2018), 5.4 million tons of coking coal (+1.1 million tons), 3.1 million tons of lignite (+1.9 million tons), and 6.5 million tons of anthracite (–0.5 million tons).

The supplies of petroleum products (Russia's share in China's imports in 2019 was 3.8%) and gas, including LNG (about 2.6%), is insignificant (Figs. 10, 11). At the same time, it is expected that with the growth of Russian gas exports through the Power of Siberia trunk system (in 2019, 0.328 bcm), the share of pipeline supplies of blue fuel to China will increase (Fig. 12).

Among the factors contributing to the internationalization of the yuan is the strengthening of confidence in it in the domestic and international markets, which is possible after the stabilization of the financial system and the revival of economic growth. We are talking about restoring the medium and long-term macroeconomic balance disturbed by the pandemic. First of all, the People's Bank of China and the Ministry of Finance of the PRC need to stabilize the exchange rates of the dollar, euro, and yuan.

The internationalization of the yuan is impossible without ousting the dollar out of Southeast Asia. In the field of foreign trade, China will have to adjust currency regulation so that exporters abandon the practice of uncovered currency risk and focus more on the level of profit rather than on gross revenues. One of the solutions persistently promoted by the Chinese authorities is the creation of a currency basket of key world currencies, which would serve as a benchmark for monetary policy in Asia. Moreover, it is stipulated that the weights in the basket should be determined by real economic factors, in particular, regional trade, which contributes to a decrease in the share of the dollar and an increase in the share of the yuan. If the Asian currency unit project is implemented, the correlation between the exchange rates of the yuan and the currencies of Southeast Asian countries will increase sharply, and the volatility of the yuan will decrease.

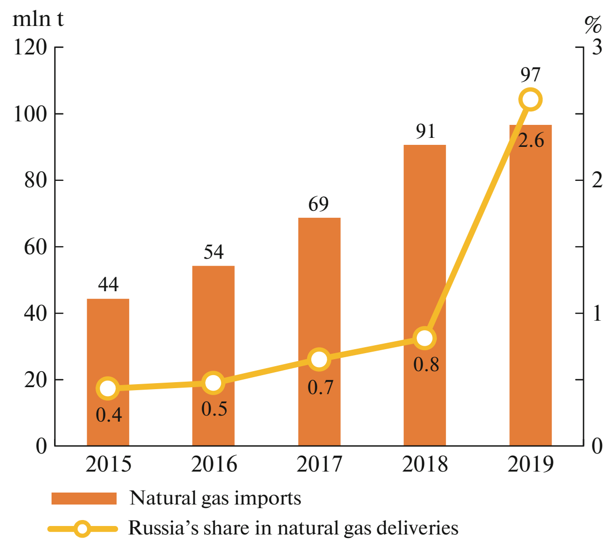

Fig. 11. PRC gas imports, including LNG. *Source:* General Administration of Customs of China.

Another aspect of yuan internationalization is the improvement of Chinese financial markets. A number

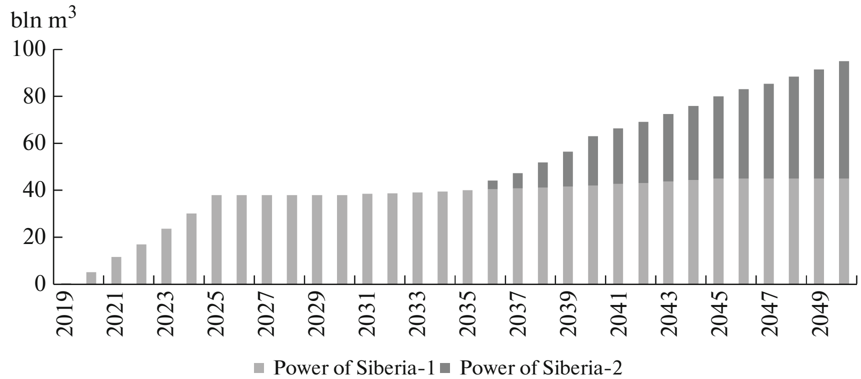

Fig. 12. PRC gas import forecast by destination. *Sources:* PAO Gazprom, CNPC, the author's estimates.

of steps—the issuance of new types of government obligations, the revision of the taxation system, and the facilitation of the conditions for access by nonresidents to the domestic market—have already been taken by the Ministry of Finance of the PRC. Further, it is planned to introduce REPO transactions by analogy with the United States and Europe. To form an effective yield curve for government bonds, it is necessary to abandon ten-year securities as a benchmark issue and switch to five-year bonds. Soon, the authorities of the Celestial Empire intend to introduce the STRIPS program (Separate Trading of Registered Interest and Principal of Securities) and trading coupons separately from bonds.

In addition to internal problems, the development of the offshore yuan market is on the agenda. If stimulated, it will not only internationalize the yuan but also facilitate more efficient recycling of excess Chinese savings abroad. The offshore market can serve as a springboard for the expansion of Chinese financial institutions in the foreign market. It is necessary to attend to the market infrastructure. In January 2002, the People's Bank of China launched the China UnionPay national payment system. It is planned to improve the settlement system for commercial papers and certificates of deposit. In the long term, the country will sooner or later have to switch to a single centralized settlement system for all types of securities.

On October 1, 2016, the yuan was officially included in the Special Drawing Right (SDR) calculation [9]. In the new basket, it pushed out the Japanese yen and the British pound, but the most noticeable (by 6.5 pp) decline was in the share of the euro. At the same time, the share of the US dollar remained practically unchanged.

The mere fact that the yuan is included in the IMF basket does not make this monetary unit a world reserve currency. It reflects the progress China has made in reforming its financial and monetary systems. However, the lack of an official position of the PRC authorities on plans to liberalize currency legislation and the role of the yuan in the global economy suggests that the transformation of the national currency into a full-fledged international currency is not among the priority tasks of the country's state policy in the medium term. According to experts from the Bank for International Settlements and the Reserve Bank of Australia, the Chinese authorities have not yet considered the yuan as an instrument of foreign economic expansion, considering maintaining strict control over the domestic financial market as a priority. At the same time, China's ever broader trade and economic ties with the rest of the world and a surplus in current account balance will contribute to a natural expansion of its use in world trade and finance.

In March 2018, the Shanghai International Energy Exchange Co. (INE) launched trading in yuan-denominated oil futures. China spent almost a quarter of a century preparing the project. It has been most actively promoted in the past six years. The result was not long in coming: a few months after the launch of trading, Western analysts called the "Shanghai phenomenon" the most significant event in the history of financial markets. The new benchmark oil grade Shanghai Oil, created within the framework of the program, in the first year began to crowd out the positions of recognized oil brands—American WTI and British Brent.

In many respects, the success of Shanghai Oil was predetermined by the organization of exchange business on the Shanghai International Energy Exchange, which is considered a branch of the Shanghai Futures Exchange (SHFE). INE was registered on November 6, 2013, in the China Experimental Free Trade Zone (Shanghai), which is a kind of testing ground for economic and social reforms. More than 400 Chinese and foreign brokers are currently trading on INE. The latter are still keeping a close watch, conducting test transactions and preparing to step up their activities in

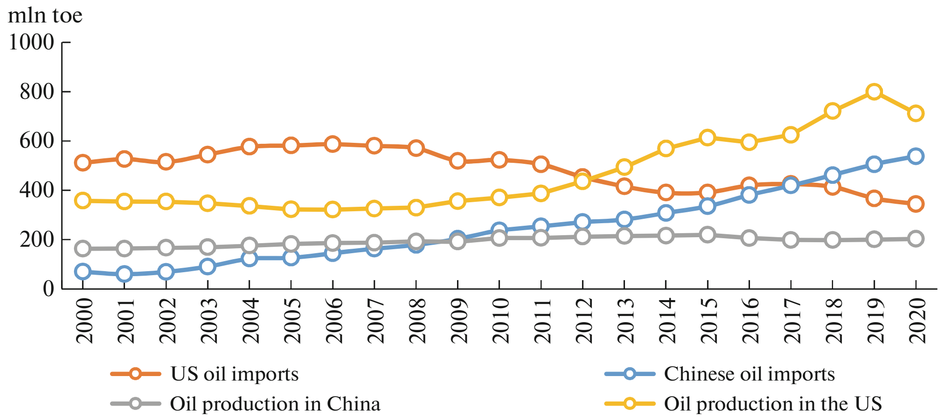

Fig. 13. Import and production of oil, including gas condensate liquids, to the People's Republic of China and the United States. 2020, estimate. *Source:* International Energy Agency, JODI, the author's estimates.

the near future. Of the 40 accredited international intermediaries, the majority are from Hong Kong and Singapore. Famous financial corporations—J.P. Morgan Securities, GF Financial Markets Limited, and Goldman Sachs International—have declared their representation. Brokers of the world's largest oil traders—Glencore Plc and Trafigura—are trading on the Shanghai Energy Exchange. Note that Russian participants have not yet registered at INE.

It is noteworthy that all Chinese traders, as well as representatives of the Chinese oil producing companies (Unipec, China National Petroleum Corp., Zhenhua Oil), have moved to Shanghai from the New York Mercantile Exchange (NYMEX) and the International Petroleum Exchange in London (in 2001, it changed its name to ICE Futures Europe). An important event for successful trading was the exemption of INE traders from taxes for three years.

Much has been done to secure physical supplies. A transport infrastructure has been created that allows the delivery of oil under the terms of futures contracts, and eight points have been equipped for oil storage. These measures led to the fact that the Shanghai International Energy Exchange in terms of oil trading volumes outstripped the exchanges in Dubai, Tokyo, and Singapore and became the third largest in the world after New York and London.

Since 2018, China has surpassed the United States as the world's largest oil importer (Fig. 13). Given the effect of the American shale revolution and the decline in Chinese oil production in the medium term, China will import significantly more oil than the United States.

Other factors contribute to the internationalization of the yuan [10–12]. Thus, US sanctions are pushing China to develop a payment system alternative to SWIFT,[6] using the dollar for calculations. The PRC has developed the Cross-border Interbank Payment System (CIPS), which Iran has joined. China is expanding cooperation with other countries in the field of financial technologies for settlements without the US dollar. In addition, the number of international institutions using the yuan as a reserve currency is increasing. These include the Asian Infrastructure Investment Bank, the BRICS Fund, and the Russia–China Investment Bank.

Prospects for yuan internationalization. Experts believe that China's chances of strengthening the global position of the yuan are quite high. The reserves of the People's Bank of China are nearly $5 trillion. If the country continues to move towards liberalizing the capital market, the desire of central banks to acquire Chinese currency will increase. A stronger yuan will enable the PRC to reduce the dollar-denominated external debt of national banks and corporations and thereby reduce the risk of a financial crisis. In addi-

[6] The yuan, along with the British pound, Japanese yen, and Canadian dollar, remains a second-tier currency in the cross-border payment system. Initially, the implementation of the RMB internationalization strategy led to an increase in the RMB role in servicing cross-border payments. In the second half of 2015–early 2016, its share in interbank settlements increased to about 2% (a historical peak of 2.79% was reached in August 2015). However, then it began to decline and has been fluctuating in the range of 1–1.2% since 2018. The refusal to liberalize the financial sector and the capital account in the balance of payments and the decline in the role of the yuan in servicing cross-border interbank transactions are due to its devaluation. The share of the Chinese currency in servicing interbank settlements grew during the period when the yuan was strengthening against the dollar. Market players counted on the continuation of this trend, and it was profitable for them to transfer settlement transactions into a rising currency. The periodic devaluation of the yuan, carried out by the financial authorities of the PRC, which began in January 2017, sharply reduced the attractiveness of transferring settlements into yuan for market agents.

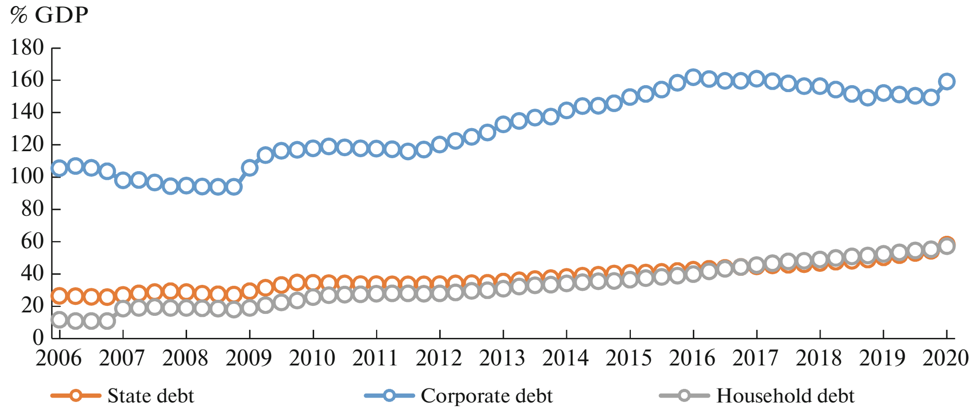

Fig. 14. Household, corporate, and government debt of the People's Republic of China.
Source: Bank for International Settlements.

tion, capital outflow from the country will decrease, weakening control over its movement [14–17].

In the long term, experts say, one should hardly expect a steady rise in the value of the yuan, since the Chinese economy will face serious problems: a high level of corporate debt and its rapid growth rates, excess production capacity, an unbalanced real estate market, and uncertainty in the development of the global economy (Fig. 14). These factors will cause fluctuations in the yuan exchange rate. Competition between the United States and China is likely to lead to a weakening of the dollar [18].

India in the global capital market. Unlike China, India's monetary policy is more open and is largely focused on creating conditions that facilitate the inflow of foreign capital into the domestic market. In particular, ensuring an annual inflow of foreign direct investment in the amount of at least \$25 billion has been declared as one of the priority economic tasks facing the country.

India's foreign exchange liberalization policy in the 2000s helped to increase the convertibility of the rupee and create conditions for its gradual internationalization. In particular, residents of the country received the right to acquire foreign assets and raise loans abroad, and nonresidents, to make direct and portfolio investments in the Indian market. At the same time, the liberalization of foreign exchange transactions in India is still far from complete. Significant differences remain in the foreign exchange regulation regime for companies, banks, and individuals, as well as for certain types of capital transactions.

Another barrier to the internationalization of the rupee is the fairly high inflation rate in the country: 3.9% in 2018, 3.7% in 2019, and 6.4% in 2020, according to OECD estimates. In addition, the involvement of the rupee in international circulation is constrained by India's low share of global merchandise exports (about 1.6% in 2020, according to OECD data),[7] reducing the demand by foreign partners for the national currency.

The growth of the Indian economy, the expansion of trade and economic ties, and the country's increasingly active participation in the international movement of capital contribute to the acceleration of the volume of foreign exchange transactions with Indian rupees in the domestic and foreign markets. Thus, daily turnovers in the domestic foreign exchange market increased from an average of \$3 billion in 2001 to \$114 billion in 2019. Foreign exchange forward contracts for the rupee rose from \$0.4 billion to \$62.7 billion over the same period. The rapid expansion of the rupee's trade within the country and abroad has led to a more than threefold increase in its share in the turnover of the global foreign exchange market: from 0.2% in 2001 to 1.7% in 2019. Currency liberalization in India is closely linked to the successful implementation of reforms in the banking sector, public finance, the securities market, and the growth of domestic financial stability.

In 2014, the Reserve Bank of India and the Bank of Japan signed a Swap Agreement that allowed both countries to exchange their national currencies in the amount of up to \$50 billion. However, this contract also involves the use of the dollar. If India concludes more such agreements with other countries involving the rupee on one side of the transaction and the partner's currency on the other, internationalization of the rupee will become more intense.

The swap agreement in local currencies stimulates trade and investment cooperation between India and is a testament to the increased level of financial coop-

[7] India's share in world merchandise exports rose from 0.7% in 2000 to 1.6% in 2020, but it continues to play a secondary role in world trade. India's industrial exports are small. The country specializes in the export of services and makes extensive use of the overseas migration of Indian labor.

eration between the Reserve Bank of India and other central banks.

The internationalization of the rupee is taking place within the framework of the South Asian Association for Regional Cooperation (SAARC); in particular, in 2016 swap lines were concluded between the Reserve Bank of India and other central banks of the association in the amount of $2 billion. However, until now, in accordance with the gradualist policy in the field of economics, India does not allow wide, unlimited use of the national currency abroad, except for in Bhutan and Nepal.

Thus, these factors do not allow us to speak of the Indian rupee as a likely candidate for the role of a world reserve currency in the medium term.

Currency policy of Brazil. The internationalization of the Brazilian real is taking place within the framework of the large regional integration association MERCOSUR, the member countries of which account for more than 75% of the total GDP of Latin America. The development of trade and economic ties between the states of the region contributes to the involvement of national currencies in the service of mutual trade, which is actively supported at the official level. Thus, in July 2008, at the MERCOSUR summit, Brazil and Argentina agreed to expand the use of the real and the peso in bilateral settlements and to link their exchange rates within a single corridor in relation to other currencies. In the opinion of the leaderships of these countries, this initiative will provide conditions for de-dollarization of mutual trade, increase the stability of the national currencies, and create preconditions for the introduction of a single currency in the future on the territory of MERCOSUR.

The ruble in the world currency market. Russia is unlikely to be able to oppose its currency to the dollar or the euro in the near future. The ruble has to adapt to the already existing new international bipolar monetary system. At the same time, 2020 began with strengthening Russia's ties with Asian countries; so the need to reorient its currency relations towards the Japanese yen and the Chinese yuan is obvious.

The leadership of our country has repeatedly stated the need to make the ruble convertible. Russian President V. Putin believes that, when entering the world market, it is useful for Russian enterprises to conclude profitable contracts not only in dollars and euros but also in rubles. Otherwise, it will take more than a dozen years of progressive development of our economy for the ruble to become fully reversible. It is obvious that this process cannot be carried out solely by administrative measures.

* * *

Multilateral dialogue within the BRICS countries began during the global financial crisis, and the coordination of the efforts of the five countries resulted, first of all, in joint initiatives to reform the global financial regulation system. According to the leadership of the association, the existing international monetary and financial architecture is outdated. The de facto dominance of the United States and the European Union in decision-making in the International Monetary Fund and the World Bank came into conflict with the increased role of the BRICS group in the world economy and finance. The 2007–2009 financial crisis in the United States has once again shown the problematic nature of the situation when the national monetary unit of a certain country, albeit the most powerful financially, acts simultaneously as a world reserve currency.

As a result of the anticrisis summits of the G20 in Pittsburgh and Seoul, the BRICS countries managed to achieve a redistribution of quotas in their favor in the authorized capital of the IMF. Their total share increased by 3.35 percentage points, from 11.49 to 14.84%. In addition, in April 2010, a redistribution of voting shares in decision-making at the World Bank was approved, resulting in the most tangible gains to China and India.

However, the proposals put forward by some BRICS countries to use their currencies as reserve currencies, to include such currencies (except for the Chinese yuan) in the SDR basket, or to construct a new supranational currency do not yet seem sufficiently substantiated. Among the states of the association, only Brazil, Russia, and South Africa have regulatory regimes close to the full convertibility of the national currency. The currencies of the three countries are used as a means of international settlements in relations with neighboring states. However, the same can be said about the currencies of India and China, where the transition to full convertibility is considered by the authorities only as a promising goal, which should be achieved through a number of intermediate stages.

The BRICS countries have already taken a number of decisions on the use of national currencies in interstate settlements. At the 2012 summit in Delhi (India), the General Agreement on the General Procedure for Opening Credit Lines in the National Currencies of the BRICS and the Multilateral Agreement on the Confirmation of Letters of Credit were signed.

It can be assumed that the strengthening of the positions of the BRICS group in global finance in the medium term will proceed consistently, in an evolutionary way, and with a slight increase in the contribution of these countries to global production and trade. As the 2020 crisis has shown, a prerequisite for sustainable development is the consistent strengthening of the positions of emerging markets in global finance, which ensures a stable inflow of foreign investment, independent of the situation in the global environment; reduces capital flight; and, ultimately, allows creating a reliable resource base for long-term innovative growth of the BRICS countries. This will require the adoption of a wide range of measures aimed, among other things, at the formation of large international financial centers in the BRICS countries, the acceleration of the processes of internationalization of national currencies, and the creation of effective mechanisms for state regulation of cross-border financial flows. In particular, states could stimulate the import and export of investments in the most important areas for the BRICS countries, providing mainly through development institutions, loans, guarantees, and other types of financial support for priority international projects and transactions. It is advisable to fund such operations mainly at the expense of funds attracted by development institutions in the domestic and foreign capital markets by issuing debt securities.

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Translated by B. Alekseev