

# Coming Home to Roost: The Growth of BRICS and the Quest For De-Dollarization

Written by Alexandra Hofer

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ALEXANDRA HOFER, NOV 6 2024

In a 1997 speech at the Atlantic Council, Joe Biden recounts telling the General Secretary of the Russian Communist Party Zyuganov, who threatened to turn to China in reaction to discontent over NATO's expansion in Europe, "good luck, and if that doesn't work try Iran". According to Biden at the time, trade with China and Iran "is not an option" and that while countries such as Russia may "resent [it], they need to look West" (see here from 21'55" to 22'34"). Biden's story triggered laughter among the audience, but a (social-)psychologist may have told him to be wary of resentful actors. Resentment is triggered in reaction to being placed in a lesser, undeserved social status, and motivates actors experience the emotion to form alliances and challenge the *status quo*. Indeed, little did Joe Biden know that during his presidency, countries that have been on the receiving end of US economic statecraft, such as Russia, Iran, and China, would deepen their ties and actively pursue 'de-dollarization', which McDowell defines as "the intentional reductions of the dollar's role in a nation's cross-border economic activities" (2023: 5). States engage in this economic policy by using existing currencies such as the euro and the renminbi, by carrying out international transactions through payment systems that do not require the US dollar. A more difficult approach is to create a new, common currency.

During the BRICS+ summit in Kazan, Russia, Vladimir Putin announced, a BRICS payment system, BRICS Pay. While there is talk of a BRICS currency, this plan is in its infancy. According to Putin's statement, BRICS members are focused on short-term projects that aim to "enhanc[e] the role of BRICS in the international monetary system, expanding interbank cooperation and expanding the use of national currencies in mutual trade." BRICS+ is an informal group, originally composed of Brazil, Russia, India, China and South Africa. In early 2024, its membership expanded to Iran, the United Arab Emirates, Egypt, Ethiopia, and following the October 2024 summit 13 more countries will reportedly join. The appeal of BRICS+ is that it aspires to create an alternative economic order that will rival the system that has been created by Western powers, which many states feel has left them at a disadvantage. It is also through this grouping that states can coordinate de-dollarization, as illustrated by Putin's comments.

The drive to use currencies other than the US dollar, which currently dominates the financial system, is not new (Papa 2023). Over the years, the increased US 'weaponization' of its currency has given further incentive to states to seek alternatives. Replacing the US dollar is no small feat, and while some commentators have expressed skepticism and maintained that the "BRICS de-dollarization dream remains fantasy", US policy-makers seem to be wary, as illustrated by the fact that Congress held a meeting on 'Dollar Dominance: Preserving the U.S. Dollar's Status as the Global Reserve Currency' in June 2023. In March 2016, Jack Lew, the previous US Secretary of Treasury, already cautioned that sanctions overuse would give states incentives to minimise the use of the dollar and avoid transactions through US payment systems (see also McDowell 2023). If policy-makers are paying attention, it is because de-dollarization would have a serious impact not only on the US's standing as a global power, but also on its national economic stability.

While it is not a novel argument to discuss de-dollarization and geopolitical rivalry, this short article argues that the attraction of de-dollarization is, in part, driven by countries' *resentment* against US (and now EU) sanctions practice, which motivates actors to pursue structural change. It first explains how the United States of America has weaponized its currency to impose unilateral (extraterritorial) sanctions, a legally questionable practice, and

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considers to what extent the European Union is engaging in a similar policy. It then focuses on the resentment this has given rise to, providing an incentive to seek alternatives. It should be noted that the growing popularity of groups such as BRICS+ is not only caused by sanctions, but also by structural inequality in the international system more generally, which this article does not delve into.

## Unilateral and extraterritorial sanctions, and the weaponization of currencies

Unilateral sanctions are restrictions that are imposed by a state on the basis of its own executive and/or legislative powers. They also consist of measures imposed by an international organization against non-member states, such as the EU's restrictive measures which are exclusively adopted against non-EU states. Sanctions senders seek to form coalitions to ensure they can impose costs effectively and that the target will not be able to circumvent the restrictions imposed. For example, when Russia launched its full-scale military invasion against Ukraine in February 2022, the EU and the US acted in a swift and coordinated manner to impose maximum costs. One of the restrictions imposed was the exclusion of Russia from SWIFT, an international payment system based in Brussels, Belgium. This ban is already an example of the US and EU 'weaponizing' the financial system, which is largely under their control. The US and EU also collaborated to freeze Russian Central Bank assets, which the *Financial Times* described as "a new kind of war – the weaponisation of the US dollar and other western currencies to punish their adversaries". The two senders have also coordinated their efforts in imposing importation bans on Russian natural resources, most notably crude oil, petroleum products and liquefied petroleum gas.

The challenge for these active sanctions senders is that third states are often reluctant to join in and impose costs (for reasons that are outlined below). While some countries, such as Australia, Japan, New Zealand, and Canada, have joined forces and sanctioned Russia, a majority of states have withheld from doing so. Russia has consequently been able to compensate the unilateral restrictions imposed on it by turning to third countries, especially India and China, and to a certain extent Türkiye (on sanctions circumvention, see generally Early 2015). This situation has led to frustration among the senders. As third states are not cooperating voluntarily, the US, and to some extent the EU, seeks to coerce them in aligning with their restrictions through extraterritorial, also known as 'secondary', sanctions.

The US wields its 'exorbitant privilege' as the global currency holder to impose costs unilaterally by denying third parties that would engage in trade with the target access to the dollar, which is essential for financial transactions and trade. Because the US dollar is the global currency that provides access to the global market, private actors are loath to be barred from the US financial system and prefer to comply with US restrictions, a phenomenon that is known as sanctions' chilling effect. For example, while the French company Total wanted to invest in Iran following the adoption of the JCPOA and the subsequent lifting of the sanctions in 2015, it was compelled to withdraw from the country when the Trump administration imposed 'maximum pressure' in 2018. The fact that 90% of Total's financial operations occurred in dollars gave it little alternative (Demarais 2022: 153).

The way in which the US imposes secondary sanctions is highly controversial under the laws of jurisdiction, as through these measures the US limits the behaviour of actors *outside* its jurisdiction. If the US only limits access to its market, which is under its jurisdiction, this constitutes 'access-restrictions' that do not per se pose a legal problem (for a nuanced view see Silvestre 2024). Controversy arises when the US imposes fines on non-US actors that engage in transactions outside US territory, or when it arrests individuals that have engaged in such behaviour. In essence, extraterritorial sanctions are contested when they restrict, or punish, the behavior of individuals or companies that fall outside of the US's jurisdiction (see generally: Ruys and Ryngaert 2020; Schmitt 2022; Terry 2022).

States, including EU member states, have widely condemned this practice. Nonetheless, the EU has a rather ambiguous position (Kerbat 2021). While it was previously an ardent critic of extraterritorial sanctions, as illustrated by the Blocking Statute, it appears to be joining in order to strengthen the impact of its restrictive measures against Russia. When the EU, the US and other their G7 partner states imposed on Russia and banned gas imports, the latter continued to trade with China and India. This has led the EU (and G7 states) to impose an oil-price cap – which prohibits EU ports from providing services to ships that do not respect the EU's price restriction –, and to target actors that engage in sanctions circumvention through the imposition of export controls against countries that engage in trade with Russia, or to designate third-country operators that facilitate circumvention (see Council Regulation

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(EU) 2013/1214). Furthermore, the EU implemented a 'no-Russia' clause, which requires EU operators to "contractually prohibit re-exportation to Russia and re-exportation for use in Russia" when engaging in trade with third states (Council Regulation (EU) 2023/2878, Article 12g). For some, such practices demonstrate that the EU has adopted extraterritorial sanctions in all but name (Timofeev 2022).

In sum, senders want third states to cooperate with their restrictions to maximise their impact on the target. When they do not voluntarily cooperate, sanctioners apply pressure in the form of extraterritorial, or secondary, sanctions. The following section further explains why these measures are so unpopular. Thereafter the article argues that this gives rise to resentment, a driving force for structural change.

## The injudicious adoption of unilateral sanctions

The 2024 BRICS+ summit in Russia has been presented as an attempt to challenge Western, and particularly, US hegemony. Commentators have noted that while the US, the EU and their allies have sought to separate Russia from the global economy through 'unprecedented' sanctions, the number of States that participated in the BRICS+ summit illustrate that Vladimir Putin is not as isolated as the West would like.

BRICs gradually emerged in 2008, after the fallout of the global financial crisis, as a counterweight to the G7 to collaborate in creating a multipolar financial system that would be less centralized around the US. According to Roberts, Armijo and Katada, the original founders of BRICS do not necessarily have shared values and a sense of collective identity, they have a "shared aversion to US hegemonic practices and Western double standards" across many policy fields (2018: 6). They aspire to challenge not only the institutional set-up that arose from Bretton-Woods, but also financial statecraft such as economic sanctions. BRICs is not the only group to align on collective misgivings against unilateral sanctions. As recounted elsewhere (Hofer 2017), alliances such as the Non-Aligned Movement and the G77 are very critical of these tools, often coined 'unilateral coercive measures'. For these countries, such restrictions are contrary to international law and undermine multilateralism; they constitute an unwanted interference, undermine states' development goals, and impede the fulfillment of human rights. These criticisms are echoed in the Kazan Document, adopted at the end of the 2024 BRICS+ summit:

10. We are deeply concerned about the disruptive effect of unlawful unilateral coercive measures, including illegal sanctions, on the world economy, international trade, and the achievement of the sustainable development goals. Such measures undermine the UN Charter, the multilateral trading system, the sustainable development and environmental agreements. They also negatively impact economic growth, energy, health and food security exacerbating poverty and environmental challenges

Such statements point to the illegality and illegitimacy of unilateral (extraterritorial) sanctions. The injudicious manner in which the EU and US adopt unilateral sanctions has given rise to many grievances (Hofer 2024). While senders often invoke norms to justify the restrictions imposed, the EU and US come across as taking sides in defence of their own interpretation of the 'international rules-based order' (for a critique of this term, see Dugard 2023), which they themselves have failed to uphold. States do not have an obligation to respond to breaches, which results in like cases not being treated alike. Unilateral sanctions are not only adopted inconsistently but are also tainted with double standards. Whereas sanctions are justified in normative terms, the inconsistencies in their adoption undermine their proclaimed normative objectives, not to mention their negative consequences on targeted states' civilian populations (Hofer and Kanfash 2024; Gordon 2023).

Writing on the Global South's reluctance to join in on the sanctions against Russia, Trita Parsi comments that these states:

see flagrant hypocrisy in framing the Ukraine war in terms of the survival of the rules-based order. From their vantage point, no other country or bloc has undermined international law, norms or the rules-based order more than the U.S. and the West.

This was made clear by Ugandan President Museveni who, when asked about his neutral stance in the Ukraine-

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Russia conflict, pointed to the West's own shortcomings by recalling the globally condemned blockade against Cuba (Bertot Triana 2024) and the illegal and unsuccessful intervention in Libya. Speaking before the UNGA in February 2023, the representative of Egypt (another country that has chosen to remain neutral in the war in Ukraine) explicitly condemned applying double standards to the conflict in Ukraine:

Egypt hopes that the current crisis will serve as a reminder to everyone internationally of the need to stop using double standards in dealing with situations of this kind, in accordance with international law. We emphasize that using double standards will lead only to the erosion of international law and the toppling of the entire system of international legitimacy (UN Doc A/ES-11/PV.19: 9).

This was supported by Indonesia: "We must not apply double standards in addressing situations of conflict in all parts of the world" UN Doc A/ES-11/PV.19: 9). These comments were made after the adoption of UNGA Resolution 'Principles of the Charter of the United Nations underlying a comprehensive, just and lasting peace in Ukraine', which, *inter alia*, condemned Russia's aggression against Ukraine. Whereas 141 states voted in favour of the resolution, signalling they view Russia's actions as unlawful, a number of them explained that they do not believe peace is being given an adequate chance, notably because room is not being made for diplomacy, while others criticized the adoption of unilateral sanctions that further escalate the conflict (see generally the debates here, here, and here). The accusation of double standards has only increased with the war in Gaza, where the actors that proclaim to uphold international law in Ukraine are doing little to prevent it from being systemically violated in Gaza (and one may argue that they are complicit in the commission of these breaches).

## Resentment as an impetus for structural change

Countries in the Global South have been "mostly at the receiving end of imperialism and colonial rule, with African countries as perhaps the most visible example of this" (here). These states have often expressed their frustration for not being treated as an equal, sovereign nation by the 'West'. President Macron appeared rather flustered when the President of the Democratic Republic of Congo, Felix Tshisekedi, scolded him: "Françafrique no longer exists. We must establish a policy of equals." Speaking before a rally in Mexico City, Mexican President Obrador proclaimed: "Mexico is a free and independent country, not a colony or protectorate of the United States (...) Cooperation, yes, submission, no!".

Unfair and unjust treatment leads to a negative emotional arousal, such as anger, contempt, shame, or resentment (Brighi 2016). In fact, commentators frequently refer to the Global South's resentment against the West as a driving factor towards de-dollarization. Resentment is a social emotion (Barbalet 1998: 9); it relates to our position within society and our social interactions, and is connected to how we are treated by others. It has been described as "the feeling that occurs when we perceive others enjoying privileges in an improper or unequal way" (Hoggett, Wilkinson and Beedell 2013: 577; see also Fukuyama 2018), or when we believe our social status is 'undeserved' (Wolf 2018: 234). Very often, resentment serves as a catalyst for social change.

Contrary to 'hot emotions' such as anger, the resentful subject will not act upon this negative feeling right away but will wait for the opportune moment to amend the perceived wrong. This can, of course, take time as the resentful actor is usually in a less powerful position and therefore unable to react immediately to correct the perceived undeserved social position. While resentment smoulders beneath the surface as the actors waits for the opportunity to act and adjust the status quo, it will protest its 'lesser' status and may seek allies "who might later support forceful attempts to cut down the object of resentment" (Wolf 2018: 236).

As previously explained, among the 'Global South' there is the general impression that the US and the EU abuse their privileged position. They invoke international norms when it suits them, and undermine these same norms when it serves their interests. Sanctions only add to the sentiment of being treated as 'lesser than' by powerful actors; they are illustrative of the *de facto* inequality between states (Hofer 2020). Senders obviously have the upper hand when it comes to sanctions; they set the tone for how unilateral sanctions are implemented and do not appear to consider their broader repercussions. Grievances arise from the abuse of sanctions, which can have severe negative impacts on third parties, whether they are states, economic operators, or civilians. For instances, African nations depended

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on the sanctioners to mitigate the impact their restrictions were having on agricultural imports from Russia (in addition to the consequences of the war), which were being caused by Russia's exclusion from SWIFT and private actors' 'over-compliance' with the restrictions imposed on Russia.

The desire to change the status quo and correct unjust hierarchies comes across clearly in de-dollarization efforts, which have been described as "an opportunity for rising powers to seek greater status and representation in global governance" (Liu and Papa 2022: 1). The shared Russian and Chinese goal of weakening the US-led international order has brought the two countries together (see here), and they have sought allies to strengthen their efforts to reform the global financial system. Other countries may find this attractive, as "[t]he emergence of a multipolar system provides [...] a degree of protection against American adventurism" (Parsi 2022).

Another source of grievance is the inequality and unfairness of the current economic and financial systems. For instance, South Africa's Foreign Minister Pandor commented:

The systems currently in place tend to privilege very wealthy countries and tend to be really a challenge for countries, such as ourselves, which have to make payments in dollars, which costs much more in terms of our various currencies. (...) So I do think a fairer system has to be developed, and it's something we're discussing with the BRICS ministers in the economic sector discussions.

This was also raised by Vladimir Putin during the Kazan BRICS summit: "What did the world's leading economies do? They abused their exclusive positions in global finance, in terms of both the dollar and the euro. [...] Is this fair? We do not think so, and we would like to change this. This is what BRICS is doing." Per his statement, one of BRICS+ objectives it to create "a fair global financial and trade system".

It should be noted that is not only countries of the Global South that wish to gain independence from the dollar. France, Germany and the European Commission have expressed the desire to use other currencies (McDowell 2023: 1-2). After a three-day visit to China in April 2023, French President Macron said that the EU should not be the US's 'vassal' in its competition with China – a word that speaks of the French's president concern about being perceived as an equal to the US. Instead, Europe should pursue strategic autonomy and France should be a 'third world power'. In his visit to Vanuatu he made similar statements, cautioning smaller countries against the rise of 'new imperialism', the power competition between China and the USA. Multipolarity and different currencies are thus not only attractive to countries of the Global South.

## Conclusion

According to Papa (2023), a new economic order may not emerge overnight, but it could "potentially emerge out of BRICS' commitment to coordinating their policies and innovating – something this currency initiative represents." Based on statements made in Kazan in October 2024, and de-dollarization policies that are already underway, the fact that BRICS+ are committed to a new economic order is undeniable.

To close this article, it is worth recalling Lew's 2016 forewarning:

Global norms are hard to reshape, existing alternatives are not well positioned to fully fill the role of U.S. markets and the U.S. dollar, and there are many factors that will continue to make the United States the most attractive financial system in the world. But our central role must not be taken for granted. If foreign jurisdictions and companies *feel* that we will deploy sanctions without sufficient justification or for inappropriate reasons—secondary sanctions in particular—we should not be surprised if they look for ways to avoid doing business in the United States or in U.S. dollars (emphasis added).

As argued throughout this article, many states have come to feel that unilateral sanctions, including the weaponization of currencies to impose costs, are not being employed in a just manner and are gradually seeking to be less dependent on the US and the EU. If the rise of BRICS+ and the efforts to de-dollarize tell us anything, it is that our interactions matter and (gradually) shape the world. It is also testimony to the fact that collective emotions should be

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taken into account in discussing global politics, as these can serve as the drivers that make, reform, and potentially break social structures.

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**Dr Alexandra Hofer** is an assistant professor in public international law at Utrecht University, and a member of the RENFORCE research institute. Her research primarily focuses on unilateral sanctions under public international law, often drawing from other disciplines in order to have a broader understanding of how these tools impact and shape inter-state relations.