BRICS bet on blockchain

Introduction

In an effort to reduce the BRICS member state's dependence on global financial institutions in 2024, they will be testing exchanges between themselves in national currencies, through a common system.

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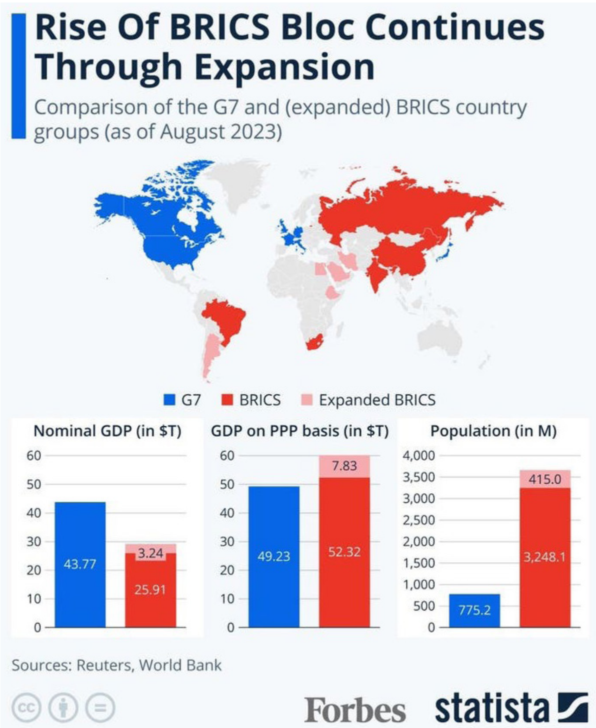
The "BRICS" (comprised originally of Brazil, Russia, India, China and South Africa), have joined forces to create a unified payment system based on the innovative technologies of digital currencies and blockchain. This ambitious move is not just a technological breakthrough; it also represents a strategic maneuver aimed at strengthening financial autonomy, reducing their dependence on dominant currencies such as the US dollar, and bypassing traditional banking networks such as SWIFT, which is a source of vulnerability for these nations due to geopolitical tensions.

This initiative cannot be overstated. Collectively, the BRICS represent a substantial share of the world's population and economic output. Their economies are growing fast, and they control a high proportion of the world's raw materials. By proposing a payment system based on digital currencies and blockchain technology, the BRICS bloc is positioning itself at the forefront of financial innovation, aiming to create a more inclusive, efficient and secure global financial infrastructure. This initiative reflects a broader trend towards de-dollarization and the search for alternative financial channels capable of supporting the dynamic needs of emerging economies and ensuring their resilience in the face of external shocks and manipulations, as well as possible collapses in geopolitical relations.



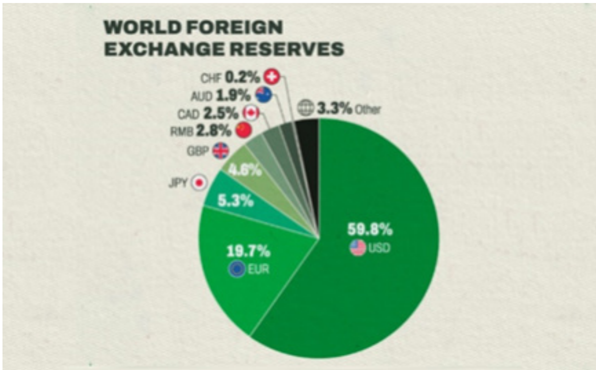
Source: Forbes, Statista

Reducing dependence on Western financial systems

The collective ambition to reduce dependence on established Western financial systems, in particular the predominance of the US dollar in international trade and the SWIFT banking network, is probably the most powerful driving force behind this initiative. The role of the US dollar as the world's main reserve currency and the widespread use of SWIFT for international financial messaging have given Western countries, and the USA in particular, considerable economic power.

This influence has manifested itself in sanctions and other economic measures likely to have a negative impact on recipient countries. The exclusion of several Russian banks from the SWIFT network by the European Union in March 2022, in response to geopolitical tensions, underlined the vulnerability of dependence on a financial infrastructure whose access can be politically motivated. However, this decision is not only aimed at reducing dependency, but also at asserting a greater role on the world stage, reflecting their economic power and geopolitical influence.

Another key aspect of the BRICS payment system drive is the desire to foster smoother, more cost-effective global transactions. Traditional cross-border payment mechanisms can be slow, costly and fraught with regulatory hurdles. By leveraging digital currencies and blockchain technology, BRICS hope to streamline these processes, dramatically reducing transaction costs and times. This efficiency could boost trade and investment flows within the BRICS bloc and with other nations, fostering greater economic integration and cooperation.



Source: Visual Capitalist 2023

Challenges ahead

Despite the promising aspects of this initiative, major challenges remain. One of these is ensuring interoperability between the various digital currencies and national payment systems. The technical standards, regulations and operational frameworks of digital currencies and payment systems in each individual BRICS country will need to be harmonised to enable seamless cross-border transactions. This implies complex technical integration and regulatory alignment to ensure compatibility and efficiency. Secondly, navigating the regulatory landscapes of different countries represents a major challenge. Each BRICS nation has its own set of financial regulations, compliance standards and legal frameworks governing digital currencies and blockchain technology. Aligning these disparate regulatory environments to facilitate a unified payment system will require extensive collaboration and negotiation.

In addition, as with any digital financial system, it is essential to guarantee the security and confidentiality of transactions. The system must be designed to protect against cyberthreats, fraud and unauthorised access, while respecting user privacy and adhering to the data protection laws in force in the various jurisdictions. The security challenge will only grow in importance in the coming years with the advent of quantum computing, something against which existing crypto-currency projects are already striving to protect themselves.

Beyond its immediate benefits for the BRICS countries, the introduction of a new payment system has major implications for global economic power dynamics. It directly challenges the dominance of the US dollar and traditional financial institutions, signalling an evolution towards a more multipolar financial world. This evolution could enable other emerging economies and regional blocs to explore other financial systems and currencies, leading to a more diversified and balanced global economic landscape.

The move towards de-dollarisation and the development of independent financial systems by groups such as the BRICS could kick-start a reassessment of global economic dependencies and alliances. As countries increasingly seek to reduce their exposure to geopolitical risks and economic sanctions, we could see a fragmentation of the global financial system into multiple, more regional financial networks. This could foster a greater degree of financial autonomy and resilience among emerging markets and developing economies, further accelerating the shift to a multipolar global economy.

Political and strategic considerations

Beyond the technical and regulatory hurdles, the initiative faces potential political and strategic challenges. The ambition to reduce dependence on the US dollar and bypass traditional financial networks such as SWIFT is likely to meet with scepticism and resistance from global financial institutions and Western powers. These entities have a vested interest in maintaining the status quo, where the US dollar plays a central role in global finance and may view the BRICS payment system as a threat to their financial dominance. It's worth noting that while the US is renowned for its military might, its most powerful weapon in recent decades has been the greenback, and you can never be sure how a nation that has led the way for so long will react when its back is against the wall. The geopolitical implications of creating an alternative global payment system cannot be overlooked. The initiative is likely to exacerbate the already growing tensions between some BRICS countries and the West, which could lead to diplomatic conflict or economic sanctions. It is precisely this delicate balance of international relations that could influence the willingness of other countries to commit to or support the BRICS payment system, impacting on its global adoption and effectiveness.

Future developments and expansions

The BRICS payment system is poised for significant future developments, particularly with the potential integration of new technologies. Blockchain has laid the foundations, but advances in artificial intelligence, quantum computing and cybersecurity could further enhance the system's efficiency, security, and scalability. As these technologies evolve, they could enable the BRICS system to process transactions faster, with greater transparency and less vulnerability to cyber threats. Another interesting prospect is the potential expansion of the system. Currently focused on the BRICS nations, which recently added 5 new members, there is a real possibility for other countries seeking alternatives to the dollar-dominated financial system to join this new economic alliance. Such expansions could transform the BRICS payment system into a global platform for international trade and financial transactions.

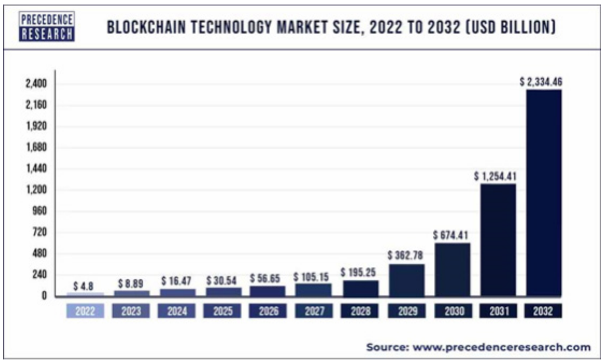
What's more, the success of the BRICS payment system hinges on seamless cooperation between member nations. This movement towards greater financial independence and a balanced world economic order has a good chance of success, as it seems to be an easy cause to support. It underscores the importance of diversifying economic dependence, fostering resilience to external shocks, and enabling nations to participate more equitably in the global marketplace. The BRICS payment system is a step towards a future where financial transactions are no longer tied to the interests of a few but are instead guided by the collective will of a more diverse group of nations.

Implications for crypto-currencies and blockchain

Furthermore, this decision represents a significant endorsement of crypto and blockchain, with far-reaching implications for these sectors as a whole.

Not only does it highlight the growing acceptance and institutional interest in blockchain and crypto currencies, but it also serves as a catalyst for further innovation, adoption, and investment in the space. For crypto-currency proponents, this commitment by BRICS countries to blockchain technology lends substantial legitimacy to this long-awaited field and comes just months after bitcoin was recognised as an asset class by the SEC through the Spot Bitcoin ETF. The adoption of these technologies as part of a major international financial initiative signals to the world that blockchain and crypto currencies offer viable solutions to real-world economic challenges. This endorsement could encourage other countries and multinational companies to explore and adopt blockchain and digital currencies, widening the acceptance and application of the technology, creating a snowball effect of adoption.

This in turn could attract more retail and institutional investors, stimulating investment in startups and blockchain-related projects. These innovations benefit the entire blockchain ecosystem, further expanding the boundaries of possibilities offered by distributed ledger technologies.



Source: Precedence Research

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