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Analysis - GCC, BRICS+, China, Russia & Iran, currency diplomacy on De-dollarization

Introduction

The exclusion of the US dollar has become a reality when Iran and Russia have chosen to trade in their local currencies. This signifies a significant shift in banking relations between the two countries. This was a decision announced in July 2022, which is a joint commitment by Iran and Russia. The Central Bank of Iran provided information on the establishment of new financial and banking platforms, which represents a noticeable departure from the use of the US dollar (Reuters, 2023). The agreement was explicitly outlined following a meeting among central bank governors from various countries, convened in Russia (Sing Maini, 2024).

De-dollarization

Several countries, such as the United Arab Emirates, Brazil, India and Saudi Arabia, have moved in a pattern that moves away from dependence on the US dollar, when the more continuously used term, de-dollarization, is used. This after strong American sanctions were imposed on Russia, when the invasion of Ukraine transpired (UI, Brics). The former members in the BRICS group consisting of Russia, South Africa, India, China and Brazil opted in the summer of 2023 to broaden the group, which now has been determined in January 2024, with an increase of four countries. Egypt, Ethiopia, United Arab Emirates and Iran, although, late as January 16:th, the Saudi minister of commerce, told in a panel at World Economic Forum in Davos that: "Saudi Arabia has been invited to attend BRICs, we have not yet officially joined BRICs," (Al Arabiya, 2024), when multiple media outlets had verified Saudi Arabia's inclusion in BRICS in early January 2024 (Reuters, Saudi Arabia officially joins BRICS bloc - state TV). BRICS+, the present consortium of nations, constituting around 40 percent of the global population, is trying to create a counterpoint to the dominance of the economic strength that western countries control (US News, 2023).

BRICS+ accounts for approximately 28 percent of the world's current economy. Iran's president, Ebrahim Raisi, who supports the BRICS+ ambition to move away from the dollar, expressed himself as follows: "The Islamic Republic of Iran very resolutely supports the successful endeavors of BRICS in line with de-dollarisation from the trade and economic interactions between the members and also making use of local currencies" (Singh Maini, 2024). If countries globally shift towards using their respective currencies rather than the widely recognized US dollar, it would result in decreased demand on the international foreign exchange market. This shift is impactful in trade and may pose challenges for the U.S., altering its previous economic advantages. Instead of causing crises among nations leading to alliances, this move resembles economic diplomacy. It has the potential to strengthen countries, who share, particularly similar economic views, those aiming to distance themselves from the US dollar. Consequently, tensions may arise at a heightened level as nations seek to safeguard their financial and stable interests on the global stage. The agreement between major countries like Iran and Russia weakens the global dominance traditionally associated with the United States.

The Iranian - Russian relation

Between Iran and Russia, the agreement is important for multiple reasons. The Assad regime in Syria has been supported by both Iran and Russia. And since the nuclear deal in 2018, broken by the U.S., the war between Russia and Ukraine, alongside the conflict that has degenerated between Israel and Hamas, the bilateral relations between Tehran and Moscow have further strengthened its relationship. Since the Russia-Ukraine war degenerated, the countries have worked together to circumvent the American sanctions (Singh Maini, 2024). Iran is in a delicate situation economically and is facing rising inflation. While Russia has limited options regarding the economic pillar, they additionally seek Tehran to explore the options available to revive the nuclear deal. In January 2023, the religious leader of Iran, Khomeini, mentioned that Iran was "a decade behind" and needed to maintain its global relevance by getting on the right course with the economy. With the information mentioned earlier, it is pertinent to note that the EEU, Eurasian Economic Union, has signed a free trade agreement on December 25 2023. In the case of Iran and Russia, this agreement will eliminate tariffs on up to 90 percent of goods.

BRICS currency

When nations such as India, China and Brazil demanded various measures to be able to cut out the dollar and trade in their own currencies, they believed that the dollar's global role would diminish. While the financial world of their economies would have more impact in the various global affairs if they have a greater influence. Since about 40 percent of the world's population do live in these countries, the president of Brazil, Luiz Inacio Lula da Silva, embraced the notion of establishing a new currency for the BRICS+ countries, during their trade interactions. No concrete plans to bring this to fruition have been made but the idea from the Brazilian president could create unrest in the status of the US dollar. That BRICS+ would have its own currency has gone from a "silly" element to an idea that has been proposed, and it is evidently being worked on behind closed doors and behind the scenes (US News, 2023).

Gulf Cooperation Council response

The Gulf Cooperation Council (GCC) has previously considered the U.S. as a strong ally. GCC has now, with the U.S. sanctions against Russia and including the oil price ceiling, instead set as a dangerous example from the outside. Which may threaten the international economy even more. This could create a slight rift between the Gulf countries and the United States when the Gulf countries are looking towards India, China and other regional trading partners instead. Having more options available instead of being completely dependent on the U.S., seems to be the most reasonable option from the Gulf's side (IISS, 2023). It could be associated with the U.S.'s foreign policy regarding security in the region, not being in line with the Gulf countries' plans and their strong own will.

China's role

China, the immense nation, has divided for the Gulf states to reduce the dollar sales of gas and oil. In Riyadh 2022, a China-present summit was held with the GCC countries, where China's president, Xi Jinping, would work to expand trade in gas and oil. Where they would use the Natural Gas Exchange and Shanghai Petroleum to indulge in settling the transactions in yuan, the Chinese currency. China has also proposed to the GCC countries the idea of allowing their interbank payment system to cross borders into the Gulf (IISS, 2023). Riyadh has replied to China that it has not ruled out the possibility of settling the ongoing oil trade in a currency other than the dollar. Saudi Arabia's finance minister, Mohammed Al-Jadaan, said

at Davos 2023, the following: "...there are no issues with discussing how we settle our trade arrangements, whether it is in the US dollar, whether it is the euro, whether it is the Saudi riyal" (IISS, 2023).

Closing analysis

Several countries have distanced themselves away from the US dollar, which presents the possibility for a change in the global economy, as well as creating further tensions between various countries. Concerning Iran and Russia, bilateral cooperation has been further strengthened after the agreement was concluded on the subject of trading in local currencies. The Gulf Cooperation Council, whose members are Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman, alongside with BRICS+, are two organizations that are moving away from/considering their own position on the US dollar. While China, being the central figure, elucidated its potential engagement with the GCC using its own currency, the yuan. A reduced dominance of the American dollar is a possible fact that may reflect reality more in the long term, however, the alteration in the global economic scenario is undeniable.

The first half of 2024 will conceivably develop with new ideas, agreements and regulations. It remains to be seen who cooperates, and who is left out in the end. Due to the fact that with Biden as president of the United States, the Saudi / American relationship weakened since Trump left the White House. I believe that if Republican Trump wins the upcoming U.S. election, there is likely that the strong relationship between Saudi Arabia and the United States will be reestablished. Nonetheless the outcome in the discussion on the De-dollarization, I believe will depend on whether it is a returning Trump presidency or a sustained Biden administration, based on Trump's strong ability to unite countries and agreements, which he has demonstrated on previous occasions, especially in the Middle East & Gulf region. Potentially the Saudis alongside with the rest of the Gulf nations, will reapproach the U.S. again, instead of getting closer ties with China.

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