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DAILY EDITORIAL ANALYSIS

TOPIC

HOW BRICS IS CHALLENGING SWIFT: ROAD TO BRICS PAY

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Context

- For over a decade, the **BRICS** countries have been steadily working to reduce its dependence on the dollar-dominated **Society for Worldwide Interbank Financial Telecommunication (SWIFT)** global financial system.

About BRICS Financial Integration: Idea of a Unified BRICS Currency

- **Currency Cooperation and Local Settlements:** The BRICS began exploring ways to use **national currencies** for trade and investment among themselves **after Western sanctions on Russia** in 2014.
    - In **2017**, they took the first steps toward deeper **currency cooperation**, considering mechanisms such as **currency swaps**, **local currency settlements**, and **direct investments**
    - By the early 2020s, this cooperation had matured into a more formal structure with the creation of the **BRICS Payments Task Force**, which aimed to design systems facilitating transactions in local currencies.
- **Fortaleza Summit** (**2014**): It created the **New Development Bank (NDB)** and the **Contingent Reserve Arrangement (CRA)**, aimed to meet the development financing needs of BRICS members and to assist other emerging economies.
- **Kazan Summit (2024)**: BRICS nations emphasized 'strengthening correspondent banking networks within BRICS and enabling settlements in local currencies'.
    - It culminated in the announcement of the **BRICS Cross-Border Payments Initiative**, popularly known as **BRICS Pay**, and unveiled a **symbolic BRICS banknote**.

About Society for Worldwide Interbank Financial Telecommunication (SWIFT)

- It is a global messaging network used by banks and financial institutions to securely transmit information and instructions for financial transactions.
- It does not move money, but enables the communication that facilitates cross-border payments.
- It is considered the backbone of international finance, connecting over 11,000 institutions across the world.
- It uses **standardized codes (like BICs)** to ensure accuracy and speed in financial messaging.

BRICS Pay

- It aims to create an interoperable payment network that could facilitate transactions **directly between BRICS members** without routing through SWIFT.
- The group already has robust domestic infrastructure to support this initiative:
    - **Russia:** *System for Transfer of Financial Messages (SPFS)*
    - **China:** *Cross-Border Interbank Payment System (CIPS)*
    - **India:** *Unified Payments Interface (UPI)*
    - **Brazil:** *Pix system*
- These systems, if integrated, could form the **technological backbone of BRICS Pay.**
- **Countries Specific Ambitions:**
    - **India** continues to push **UPI's global reach**.
    - **China** is leveraging the growing acceptance of the **Renminbi (RMB)** after its inclusion in the **IMF's Special Drawing Rights (SDR)** basket.
    - **Brazil's Pix**, managed by its central bank, is expanding **across Latin America.**

Why BRICS Financial Integration Matters?

- **Reducing Dependence on Western Systems:** BRICS nations are increasingly motivated to reduce reliance on Western-dominated financial systems like SWIFT and the US dollar.

- It stems from concerns over sanctions, financial exclusion, and geopolitical leverage wielded by Western powers.
- The **inclusion of Iran in BRICS (2024)** collectively seeks insulation from unilateral financial coercion.

- **Push for Local Currency Trade:** BRICS foreign ministers have called for enhanced use of local currencies in trade and financial transactions.
  - It aims to insulate member economies from currency volatility and external shocks.
- **Cross-Border Payment Systems:** Russia and China have developed **alternatives to SWIFT — SPFS and CIPS respectively** — but integration across BRICS remains limited.
  - Leaders proposed a cross-border payments system to streamline trade and investment flows within the bloc.
- **Investment Platforms and Development Finance:** Russia proposed a new BRICS investment platform to support joint projects and promote low-emission economic models.
  - **NDB** plays a key role in financing infrastructure and sustainable development across member states.

Limits of a Common BRICS Currency

- **National Currency Promotion:** Each BRICS member **prioritizes internationalizing its own currency** — particularly China with the Cross-Border Interbank Payment System (CIPS), and India with UPI.
- **Macroeconomic Coordination Challenges:** Establishing a common currency **requires deep fiscal and monetary alignment,** as illustrated by the European Union's experience with the **Euro**.
  - Thus, BRICS Pay appears as a **pragmatic alternative** — a tool for financial connectivity and autonomy without the complications of a shared currency.
- **Geopolitical Divergence:** BRICS nations have vastly different political systems, foreign policy goals, and strategic interests, that make it difficult to align on a unified monetary policy or central governance structure.
- **Economic Asymmetry:** The bloc includes both commodity-driven economies (like Brazil and Russia) and manufacturing powerhouses (like China).
  - Their inflation rates, interest regimes, and fiscal policies vary widely.
- **Lack of Geographic Continuity:** BRICS countries are spread across continents, unlike the Eurozone.
  - RBI Governor pointed out that the lack of geographic proximity poses logistical and regulatory challenges for a shared currency system.

Conclusion

- **BRICS Pay** embodies a credible, incremental step toward **reducing dollar dependency**, **strengthening economic resilience**, and **rebalancing global financial governance,** while a BRICS currency may remain a distant goal.
- Its success will hinge on technology and political will of its diverse members to align ambition with cooperation.

Source: TH

Daily Mains Practice Question

[Q] Discuss how BRICS is challenging the dominance of the SWIFT financial messaging system through initiatives like BRICS Pay. What are the strategic motivations behind this shift, and what implications could it have for global financial governance?

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