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BRICS Summit – key themes and challenges

BRICS expansion and RMB internationalisation will be central considerations

- **The 15th BRICS summit will take place in Johannesburg, South Africa, from 22 – 24 August 2023**. Four of the five BRICS heads of state will attend the summit in person, the exception being Russian President Putin, whose non-attendance de-escalates the political risks for SA related to this conference. In this note, we discuss the summit's geopolitical relevance, as well as what we expect to be its two apex themes – BRICS expansion, and the deepening of trade and investment in BRICS currencies, particularly the renminbi. Within this, we consider the challenges facing the BRICS in forging common purpose, and in representing the Global South in a reconfiguring global political economy, despite the wide divergences that exist within the group.
- **A rise in relevance given broader geopolitical shifts**. The current geopolitical context, epitomized in the main by an evolving shift from US-led unipolarity to a more fluid and uncertain multipolar context (which we discussed here), imbues the BRICS as a group with greater potential relevance – and thus elevates the focus on its upcoming summit. As we discuss in this note, for Beijing specifically the summit (and the BRICS grouping as a whole) holds clear meaning within the context of China's New Era (which we discussed here).
- **BRICS expansion**. There is a spirited push, mostly by China, for the BRICS group to be expanded at the upcoming summit. In all, around 40 countries (including Saudi Arabia, the UAE, Mexico, and Iran) have applied for, or expressed an interest, in joining the BRICS. Such expansion however faces resistance from some BRICS members, particularly India and Brazil, who fear the dilution of their influence and an increase in China's capacity to use an expanded BRICS to elevate its global clout. We expect the framework, or criteria, for BRICS expansion to be discussed, and potentially agreed on, at the upcoming summit – but not for new members to be officially welcomed into the group.
- **Expanding intra-BRICS local currency settlement.** In our view, the conversation around the creation of a BRICS currency is a sidenote to the real topic, which is the expanded use of the Chinese RMB in BRICS commercial exchanges. China is keen to push for change in the international monetary system, eager to expand the geographical reach of the RMB. This objective is uncontested amongst the BRICS. We expect to see concrete policies emerging from the summit, creating mechanisms and avenues for greater use of RMB in transactions and promoting direct trading between RMB and BRICS currencies.
- **China's towering role in the BRICS remains a strength, and a risk.** Except for the surge in India's crude and coal imports from Russia, which pushed India's imports up from USD8.6bn in 2021, to USD41bn in 2022, trade with China accounts for the vast majority (75%) of intra-BRICS trade. China is the largest bilateral trade partner for three BRICS members: SA, Brazil, and Russia. Indeed, China's participation in BRICS imbues the group with much of its broader influence, and potential. And yet, for the group to be a legitimate and collaborative reflection of the interests of the Global South (and of each of its members) it must push against the agenda being singularly established by Beijing. How this tension is navigated will not only be a defining feature of the upcoming summit, but the group's future relevance and capacity for cohesion more broadly.

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(1) Introduction

The 15th BRICS summit will take place in Johannesburg, South Africa, from 22 - 24 August 2023

The 15th BRICS summit will take place in Johannesburg, South Africa, from 22 - 24 August 2023. As things stand, four of the five BRICS heads of state will attend the gathering. The exception is Russian President Putin, who agreed not to attend in person because of the ICC arrest warrant issued against him; the South African government is legally obligated to comply with that warrant given its ratification in domestic law of the ICC's Rome Statute. President Putin's non-attendance (at least physically) has reduced the intensity of the global focus on the summit, and certainly diminished some of its pressing risks for SA authorities. That said, the summit still offers the potential for some substantive agreements, and the symbolic broadening of collaboration within the Global South that is a critical component of the multipolar environment that is gradually replacing US-led unipolarity in global affairs (we commented on this shift in some detail here).

In this note, we discuss the summit's geopolitical relevance, as well as what we expect to be its two apex themes – BRICS expansion, and the potential deepening of trade and investment in BRICS currencies, particularly the renminbi.

(2) The role of the BRICS in pushing for multipolarity

Since its formation in 2009 (with South Africa added as a member in 2010), there have been meaningful fluctuations in the relevance and potential substance of the BRICS

Since its formation in 2009 (with South Africa added as a member in 2010), there have been meaningful fluctuations in the relevance and potential substance of the BRICS. Political changes within BRICS countries have contributed to these shifts, as have the wider vagaries of the global political economy over the tumultuous period since the BRICS was formed. There are also persistent oddities related to the formation of the BRICS as a political entity as a whole, as well as South Africa's membership of it – many of which have been critiqued, scathingly, by the person who originally coined the BRIC acronym, former Goldman Sachs chief economist Jim O'Neill (see here and here, for instance). Linked to this, there are wide divergences in political and economic structure and influence within the BRICS which the collaborative push for developing world solidarity can only partially smooth over.

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However, in our view, the current geopolitical context imbues the BRICS as a grouping with greater potential relevance – and thus elevates the focus on its upcoming summit. Indeed, in recent reports in this series, we have discussed how US-China tensions, as well as those elicited by Russia's invasion of Ukraine, are hastening the shift away from US-led unipolarity towards a new, still to be crafted, era of more uncertain and fluid multipolar connections. Within this, there is a growing emphasis on the capacity of the Global South, much of which remains non-aligned in the context of US-China and Russia-Ukraine tensions, to elevate its collective voice and play a decisive role in shaping the new world order in a more equitable way. Indeed, as argued in this Atlantic Council article, the BRICS "could evolve to become a counterpart to the Group of Seven (G7) in world affairs, resulting in a profound impact on international relations".

Regarding the upcoming summit:

- On the one hand, Western observers will watch closely to determine whether either China or Russia are able to use the summit to elevate support from prominent developing countries for their respective battles with the US, and/or the West more broadly.
- And, more generally, the BRICS economies, as well as the countries from across the developing world that are invited to participate, will look to use the summit to deepen political and commercial ties, and amplify the demands of the Global South in the context of the necessary rebalancing of international multilateral and financial institutions. This kind of solidarity is an important counterweight to efforts by advanced economies to pursue a 'divide and rule'

approach towards the Global South and, as such, limit its collective capacity to meaningfully shape the new global era.

The BRICS in China's 'New Era'

For China specifically, the summit holds clear meaning. Chinese President Xi Jinping has made the case that China has entered a New Era – the third era in the Peoples Republic of China's (PRC) history

For China specifically, the summit holds clear meaning. Chinese President Xi Jinping has made the case that China has entered a New Era – the third era in the Peoples Republic of China's (PRC) history (we discussed the dynamics of this New Era and its implications for Africa in some detail here). This New Era has manifested in significant shifts in the Party's approach to the economy, politics, and foreign affairs. Furthermore, pre-dating the pandemic at the highest level, the drivers, motivations, and calculations behind China's macroeconomic governance had fundamentally shifted. Described as the "New Normal", the domestic economy is expanding more slowly, is becoming less factor- and investment-driven, shifting towards a pattern of growth driven by services and consumption. Thus, the upshot of the confluence of these structural forces is that the way China connects to the rest of the world, including Africa, is in flux, as is what it expects from its partners in the BRICS, Africa, and elsewhere.

The New Era and the New Normal have coincided with the emergence of a more contested geopolitical space. Perhaps initiated by the US during the Trump Administration, many Western countries have subsequently adjusted their expectations that China will inevitably converge with liberal norms. As such, a shift towards a more competitive posture towards China is apt, fusing economic interests with national security. Naturally, this more confrontational external environment has not gone unnoticed. President Xi's address at the 20th Party Congress of the Chinese Communist Party last year stated it plainly: "external attempts to suppress and contain China may escalate at any time". Therefore, even though the Party Congress did not trigger any major policy shifts, a re-ordering of the relative importance of core priorities occurred, with national security elevated to the top. To this end, Beijing has signaled that the Party "must retool the policymaking process to ensure a tighter grip over what happens in China and strengthen its centralized, unified leadership over major initiatives".

Beyond its borders, amongst the more hostile climate, foreign policy has become more diligent in defending China's sovereignty and promoting the Mainland's interests

Beyond its borders, amongst the more hostile climate, foreign policy has become more diligent in defending China's sovereignty and promoting the Mainland's interests. Chinese leaders' sense that "changes unseen in a century" have paved the way for a shift in world politics. This perception is underpinned by a sense that Western liberal democratic institutions have lost some of their shine, as lingering cracks of doubt, triggered during the Global Financial Crisis (GFC), have now widened. In response, China is actively pushing for a new equilibrium in world affairs – one that is more supple, flexible and diverse – and less centered on abstract notions and values.

To this end, foreign policy is actively working – both multilaterally and bilaterally – towards this emerging new world order. In recent years, China has bolstered its presence in existing global institutions, such as the United Nations or World Bank or World Trade Organization; established various parallel institutions, such as Asian Infrastructure Investment Bank and the Belt and Road Initiative; and become more willing to hold up China's development model as an example for others.

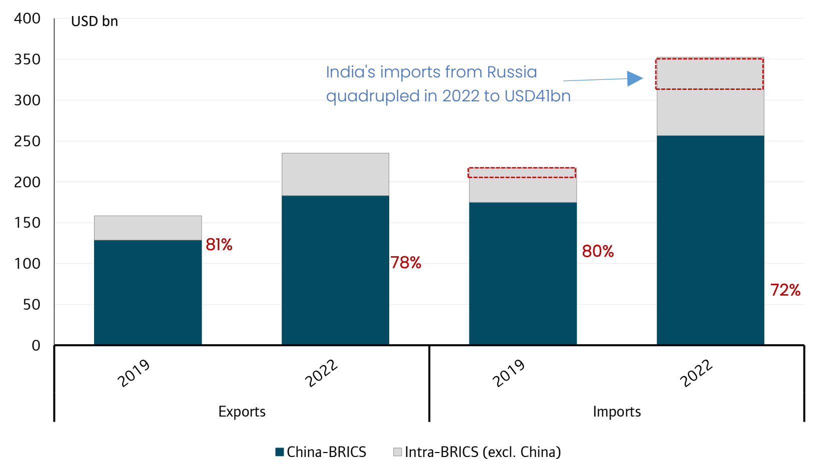
For China, BRICS is a tool geared towards reshaping the global economic structure and its propagating institutions

Importantly, pressing for a more inclusive framework and potentially creating pathways to amplify the voices of developing countries in the global discourse, resonates with the developing world, fortifying China's global leadership position. In response, China kicked off the BRICS Plus dialogue a few years ago (which we will discuss later in this report). Through this lens, BRICS is a tool geared towards reshaping the global economic structure and its propagating institutions. In fact, one of five priorities for this year's summit is to align and channel the BRICS influence to push for diversity in global forums. An auxiliary goal is to carve out greater space for China to pursue its own objectives without constraint and scrutiny. As Foreign Minister Wang Yi stated: "We must always focus on the central tasks and serve the big-picture interests to foster an external environment favorable to China's development and security". Given that this seems to be a consensus view amongst the BRICS and other invited countries for the developing world, the Chinese delegation will arrive at the BRICS Summit well prepared and confident that the gathering will move the agenda forward.

Trade with China accounts for the vast majority (75%) of intra-BRICS trade

That said, China in the New Era can play a hardball too. As Yang Jiechi – a member of the Political Bureau of the Communist Party of China (CPC) Central Committee until last year – stated at an ASEAN summit back in 2010: "China is a big country and other countries are small countries, and that's just a fact". To Mr Yang's point: consider the asymmetry of commercial relevance inside the BRICS group. Except for the surge in India's crude and coal imports from Russia, which pushed India's imports up from USD8.6bn in 2021, to USD41bn in 2022, trade with China accounts for the vast majority (75%) of intra-BRICS trade. China is the largest bilateral trade partner for three BRICS members: SA, Brazil, and Russia.

Figure 1: Intra-BRICS trade dominated by China



Source: Trademap, SBR

(3) BRICS expansion

There is an ongoing push, by China in particular, to expand the BRICS by admitting new members

As mentioned above, there is an ongoing push, by China in particular, to expand the BRICS by admitting new members. This will be a key theme at the upcoming summit.

- South Africa's BRICS Ambassador Anil Sooklal has stated that 22 countries have formally approached BRICS countries to become "full members". And that almost as many countries have informally requested to be considered for BRICS membership (see here).
- Some of the more prominent countries to have applied for BRICS membership include Saudi Arabia, Turkey, the UAE, Mexico, and Argentina (see here).
- Supporting the general concept of expansion, to broaden the collective voice of the BRICS, South Africa's Minister of International Relations and Cooperation Naledi Pandor recently that there is support amongst members to "widen the circle of friends of BRICS and turn it into the most influential platform for South-South cooperation in the world".

However, there are prominent disagreements within the BRICS over the group's potential expansion

- However, there are prominent disagreements within the BRICS over the group's potential expansion. China has been pushing for expansion for some time (the reasons for which we have elaborated on in this note), as has Russia more recently as it seeks to limit its international isolation in the wake of its invasion of Ukraine. Yet, India and Brazil are far more reticent in this regard, fearing not only a dilution of their influence within the BRICS should new and influential members be admitted, but also how such an expansion would most obviously benefit China in its bid to more firmly assert itself on the global geopolitical stage (high-level geopolitical tensions between China and India are relevant in this regard – see here).

There are also concerns related to the geopolitical orientation of the new members that might be admitted

- There are also concerns related to the geopolitical orientation of the new members that might be admitted. BRICS members, such as SA and India, as well as Brazil, would be much more reticent to admit members with openly hostile relations with the US (such as Iran or Venezuela) than China and Russia would be. Referring to this sensitivity recently, Ms Pandor was firm in her recent statements regarding how the BRICS should not be perceived as being "pro-Russian or anti-Western", adding that "South Africa's trading partners are very, very important to South Africa's economic progress… so I certainly would guard against set of criteria for expansion [of the BRICS] that lead us down a path where we would contribute to increasing conflict in the global community – or in any part of the world" (see here).
- Capturing these complexities, international relations expert Oliver Stuenkel writes in this Foreign Policy article that "if the group announces the inclusion of new members during the upcoming summit in Johannesburg, it would be simplistic to interpret it as a sign of strength. Rather, expansion should be read as a sign of China's growing capacity to determine the bloc's overall strategy—and may reflect the emergence not of a multipolar order, but of a bipolar one".

Given these disagreements, it appears unlikely that new members would be officially welcomed at the upcoming summit. Instead, the criteria for BRICS expansion could be agreed – or a process for the establishment of this criteria formally established – with actual expansion potentially taking place at a future summit.

(4) Expanding intra-BRICS local currency settlement

A primary task that is uncontested amongst the BRICS is the need to create mechanisms to expand local currency settlement and promote direct trading amongst the BRICS currencies

A primary task that is uncontested amongst the BRICS is the need to create mechanisms to expand local currency settlement and promote direct trading amongst the BRICS currencies. The then-PBoC governor, Yi Gang, stated in 2022 that "emerging markets should improve their resilience. This is where regional financial cooperation has a key role to play". A key part of this is promoting the use of local currencies. Since, each BRICS leader has at some point mentioned this objective. Most recently, last month, Brazilian President Lula said in Shanghai: "Every night I ask myself why all countries have to base their trade on the dollar".

China is keen to push for change in the international monetary system and expand the geographical reach of the RMB

Without doubt, China is keen to push for change in the international monetary system and expand the geographical reach of the RMB – perhaps triggered by the global financial crisis and the related USD liquidity squeeze. In recent years RMB internationalization has been elevated to the top of list of policy priorities.

- According to official media, RMB internationalisation safeguards international financial stability. Going back to the taper-tantrum in 2015, China has been critical of the US Federal Reserve's monetary policies. Also, even though the US economy is getting a boost from supportive fiscal policy, the bulging federal budget deficit fans fears that it will be stuck with too much debt.
- The more recent emphasis also coincides with a seeming weaponization of tools of global interdependence, such as the global reliance on the USD and its payment systems.
- Official language also reveals that RMB's international acceptance is seen as a proxy for China's international status, reflecting overall national strength and financial development, and international stakeholders' confidence in China's development.

Since the pandemic, the PBOC has committed to strengthen the co-ordination between domestic and foreign currencies, facilitate market entities to use more RMB, and to promote innovation in RMB cross-border investment and financing, and improve the liquidity of RMB-denominated assets. As a result, Beijing has quietly engaged in an overhaul of China's capital markets, expanding the involvement of foreign capital and financial firms, the range of financial products, and improving the quality of financial services companies and regulations. Granted, whilst in isolation the steps are more incremental than revolutionary, each tweak adds credibility to the quest for RMB internationalization.

In July 2023, SAFE released a draft notice for comment aimed at boosting the cross-border use of the RMB. First, SAFE will further liberalize cross-border trade by improving forex management for procurement trade and facilitating netting of forex receipts for companies engaged in processing trade. Second, SAFE will ease capital account financing restrictions by boosting SME ability to access cross-border financing and expand channels for cross-border investment and financing. Third, SAFE will streamline capital account forex management by simplifying procedures around opening accounts for foreign debt.

Again, BRICS will prove to be a powerful tool to aid the process of growing the international use of the RMB. To date, whilst market demand for RMB has been rising, most of the major RMB policy infrastructures were devised initially by the Chinese government, and their adoption in foreign countries has of course required cooperation from those countries' governments too.

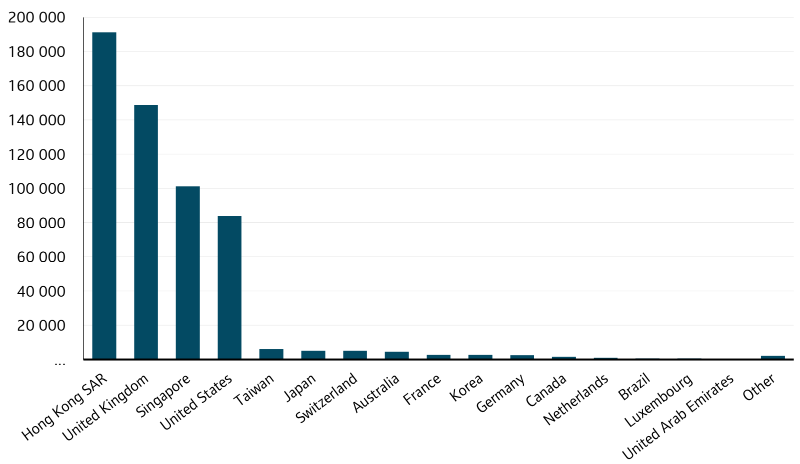
Renminbi is a medium of exchange, and not yet a store of value

The immediate trigger for internationalisation was the financial crisis which caused a freeze in global trade due to lack of USD liquidity

The immediate trigger for internationalisation was the financial crisis which caused a freeze in global trade due to lack of USD liquidity. Beijing immediately signed CNY800bn in swaps with eight central banks, but that was quickly added to as months unfolded. These swaps could be leaned on to ring-fence trade and investment transactions without the need to convert to other currencies.

Quick on the heels of the swap lines, a sequence of initiatives occurred, including: a pilot scheme allowing cross-border trade to be settled in RMB; Hong Kong was permitted to raise RMB-denominated bonds; financial institutions were allowed to open RMB accounts; and interbank markets were opened to central banks. Later still, Beijing launched a scheme for the settlement of outbound investment in RMB. Finally, the then-premier Li Keqiang announced 36 measures for currency liberalization.

Figure 2: RMB daily averages in April 2022 in million, USD



Source: Bank of International Settlements (BIS), SBR

Meanwhile, regulators shifted attention on building offshore centres for RMB centres in a few major financial hubs worldwide. Today, these cities operate as important hubs for RMB-denominated transactions, playing a significant role in promoting the internationalization of the currency. The main locations are Hong Kong, Singapore, London, New York and Taiwan. Each offers degrees of (i) clearing and settlement services; (ii) RMB-denominated financial products, such as bonds, equities, and money market instruments; and (iii) hosts significant pools of RMB liquidity. These policy initiatives aimed to broaden the scope of RMB usage, reaching beyond China's geographical territory, widening the arc of crosses it is traded against, and increasing its use in denominating and settling cross-border trade and financial transactions.

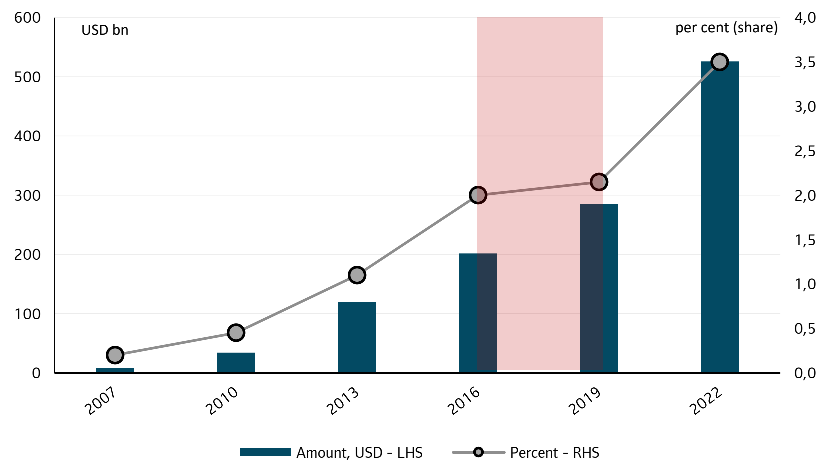
Importantly, the intention is not to usurp the USD as the world's reserve currency

Importantly, the intention is not to usurp the USD as the world's reserve currency. Granted, progress from the Global Financial Crisis (GFC) resulted in IMF including the RMB in its Special Drawing Rights (SDR)[1] basket in early 2016, which some argue recognizes it as a global reserve currency. In addition, a number of central banks have opted to hold RMB and/or RMB-denominated assets in their reserves. However, currency internationalisation is not the same as being a reserve currency. A reserve currency is about the desire to hold the renminbi as a store of value (and invest in deep and liquid CNY-denominated assets). And, unless China allows foreigners to accumulate for more substantial claims, say, via structural current account deficits or open and unrestricted outward capital movements, it is always going to be quite difficult to lay a claim to a global currency. Indeed, for a currency to be the dominant global currency, two critical prerequisites are required: an open capital account, and well-developed financial markets. China still maintains capital controls to manage capital flows in and out of the country. And, while progress had been made in developing RMB-denominated financial products, the depth and liquidity of RMB financial markets outside China are not as significant as those of major reserve currencies.

The relative use and liquidity of the Chinese currency and its associated products are indicative of a relatively immature ecosystem

The relative use and liquidity of the Chinese currency and its associated products are indicative of a relatively immature ecosystem. Granted, half of China's cross-border transactions were settled in RMB last year – that's up for 25% in 2016 and 38% in 2019. However, it is still rare for second and third countries to use RMB for transactions. RMB transactions accounted for less than 4% of global transactions in 2022. Notably after tripling in its share of global spot transactions from January 2012 through 2015, the renminbi stagnated at around 2% until the pandemic. The pause had much to do with the devaluation of the currency in August 2015.

Figure 3: RMB use globally stalled after 2015, but this has picked up since the pandemic

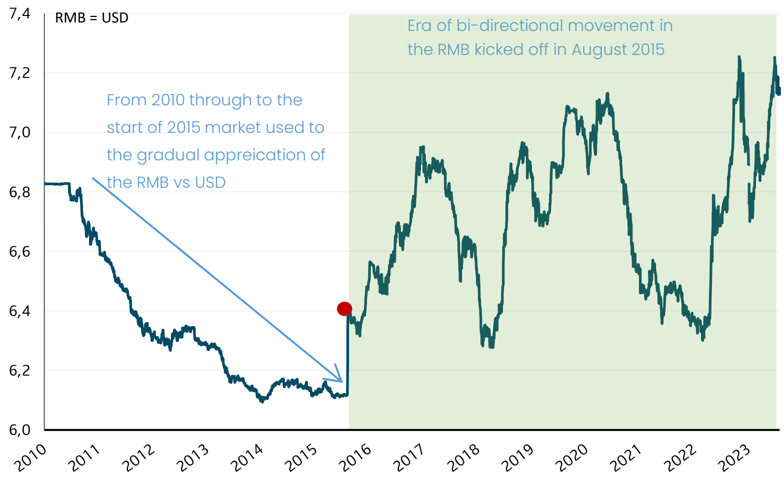


Source: BIS, SBR

[1] SDRs are international reserve assets created by the IMF to supplement the official reserves of member countries. These SDRs are allocated to IMF members in proportion to their relative share in the IMF and can be exchanged for hard currency.

After June 2010, markets had steeled themselves for a period of gradual appreciation of around 3-5% per year. During the period, the PBoC was laying the foundation for bi-directional movements, eventually widening the daily trading band for the currency to 200bps on either side of the daily reference rate in March 2014.

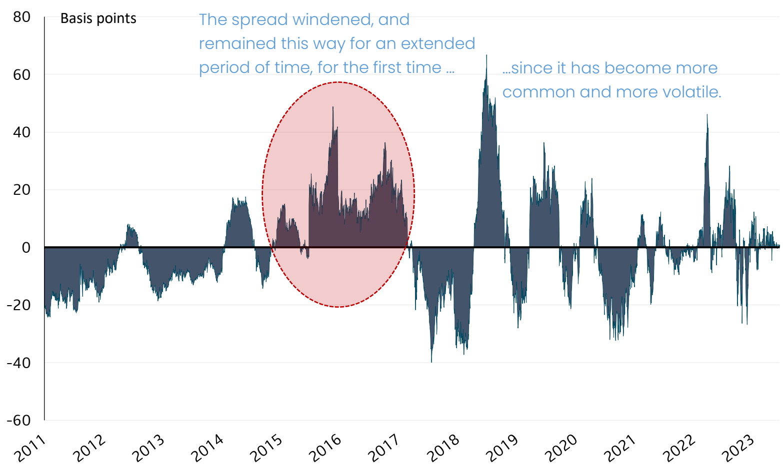
Figure 4: Relative value of RMB vs USD



Source: CEIC, SBR

However, by mid-2015, a steady build-up of bets for the currency to weaken had accumulated. The spread between the offshore and onshore RMB, along with forward rates, confirmed that expectations had changed. Recall that at the time, the Chinese economy was stuttering: nominal GDP had fallen to generational lows, deflationary pressures were entrenched, the stock markets lost 50% over a four-month period. In a surprise twist, the PBoC pivoted, changing its reference pricing mechanism for the currency (linking it more closely to the previous day's close, which was persistently weaker than the daily reference rate), and announced a 1.9% devaluation of the CNY relative to USD.

Figure 5: Spread between CNH and CNY (bps)



Source: CEIC, SBR

The primary take-away was that the central bank would permit the currency to weaken, and the more lasting implication has been the genuine introduction of, and tolerance for, more currency volatility. Of course, a market-based exchange rate is necessary to promote genuine RMB internationalization. Understanding as much, the authorities have encouraged firms to hedge. And, the more firms hedge, the more willing Beijing will be to let market forces guide the yuan's value.

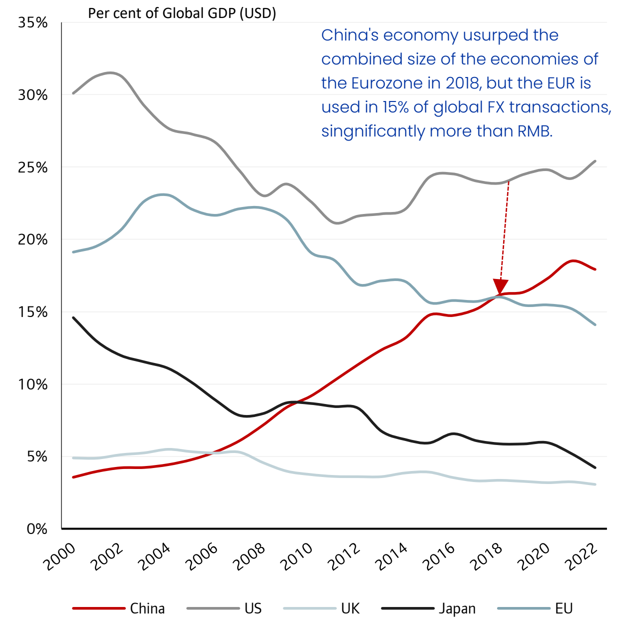
Nevertheless, combined with the period of the relatively strong USD and China's on-going shift to its New Normal – slower economic growth, less investment, more consumption, and services-led growth – is slowing what had been the increasingly organic tick-up of CNY usage. Indeed, SBG experience in Africa and engaging with Chinese clients about advancing the use of RMB in their transactions, having built out the infrastructure to execute RMB transactions, was that interest to do so was relatively lacklustre. Indeed, that had been the status quo leading into the pandemic.

Whilst progress had been made – albeit very gradually during the 2015 – 2019 period, RMB share of global FX transactions remains incompatible with China's economic might

Benchmarking RMB usage

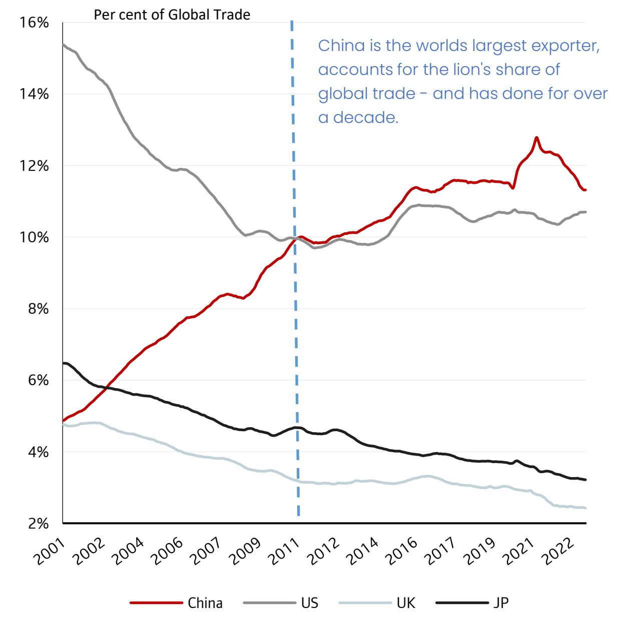
So, whilst progress had been made – albeit very gradually during the 2015 – 2019 period, RMB share of global FX transactions remains incompatible with China's economic might. Consider that China's share of global GDP has increased from just 4% in 2000, to 18% in 2022; and China's share of global trade which has increased in a similar fashion, from 4.5% in 2000, to 11.5% in 2022. Both metrics continued their steady climb during the period from 2015 through to the pandemic. And, at its core, herein lies the problem statement that policymakers are under pressure to resolve.

Figure 6: Steady climb in China's share of global output



Source: IMF, Standard Bank Research

Figure 7: Likewise, its share of global trade



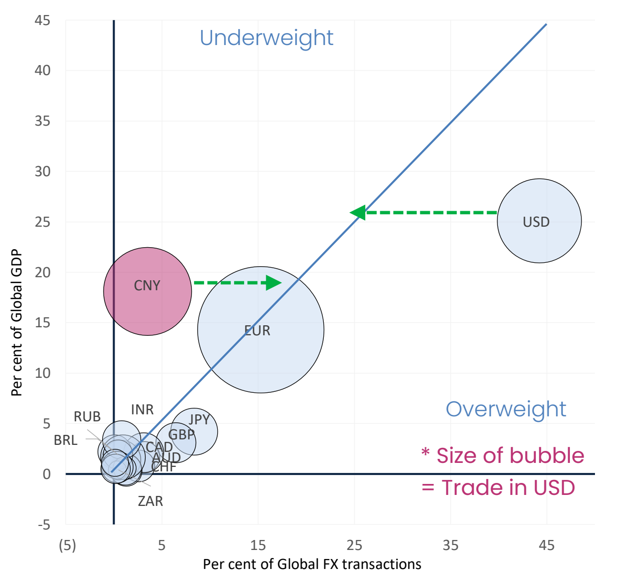
Sources: IMF, UN, Standard Bank Research

Today, the currencies of developed economies play a role far greater than their own economic status would justify

Today, the currencies of developed economies play a role far greater than their own economic status would justify.

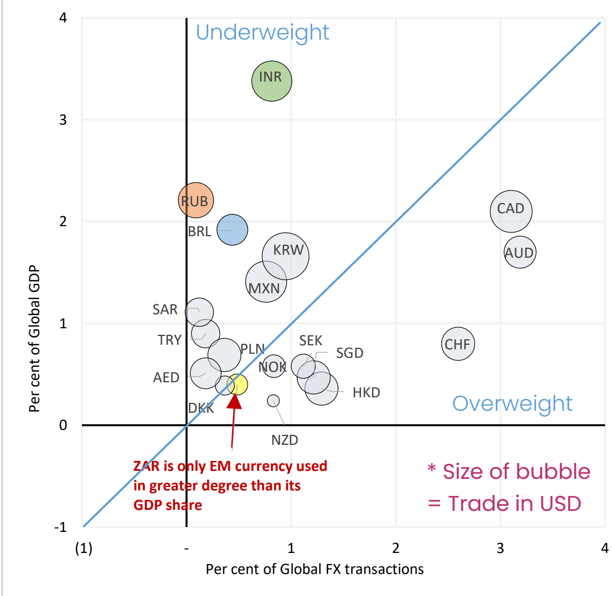
- Indeed, the combined share of the world's four major international reserve currencies – the USD, EUR, GBP and JPY – has only fallen from 80% in 2013, to 75% 10 years later.
- In addition, around eight additional currencies, each overstated relative to their economic might, account for another 15% of global FX – most notably, the AUD, CHF, NZD, HKD and SGD – trading significantly in excess of their share of global output or trade.

Figure 8: Currency usage versus economic clout



Source: IMF, Standard Bank Research

Figure 9: Only ZAR is fairly utilized out of EM currencies



Sources: IMF, UN, Standard Bank Research

In stark contrast, a host of important emerging markets, such as Brazil, India, Mexico, Turkey and Saudi Arabia, are under-represented in global foreign exchange transactions. In fact, only the South African rand's volume of usage is aligned with its relative position in global economics and finance. Worse still, apart from Russia, the least impactful currency, when weighted against its relative prominence in global trade, investment flows and/or production, is China. Despite the progress seen over the past decade, which has taken the RMB from around the tenth most used country, accounting for just 1% of global FX transactions in 2013, to the fifth most used currency, the Chinese RMB made up just 3.5% of FX transactions in 2022 – far less than its economic clout would assume. Indeed, usage would need to rise by 300% for RMB to be consistent with the country's role in trade, GDP, or other macroeconomic metrics.

Progress since 2022

Even though China has been trying to promote the currency's use outside of its borders since the GFC, currency internationalisation fell down the pecking order of national economic priorities

Even though China has been trying to promote the currency's use outside of its borders since the GFC, currency internationalisation fell down the pecking order of national economic priorities. However, since the pandemic, this has once again shifted higher on the agenda and Beijing is now more clearly committed to internationalisation.

Internationalisation is still almost entirely about transactions: buyers and sellers doing business in the RMB. Whereas previously, the intention was to add efficiency and resilience to China's trade and investment flows; diminish the structural accumulation of reserves; create a buffer (Hong Kong) preventing liquidity from flooding the Mainland; and spur additional financial market liberalisation. In its current formulation, currency internationalisation is a key goal for Beijing because it reduces the reliance of commercial cords on the USD and the dollar-payments system. Added benefits include (i) lowering exchange rate risk for Chinese firms; (ii) serving as a catalyst for greater levels of foreign investment in China's capital markets; and (iii) potentially extends greater pricing power for China in the global commodities markets. Of course, being able to pay for commodity imports in RMB also aids economic security.

Beijing has made a wide range of steps over the past two years that have seemingly gone under the radar, as each step taken in isolation seems marginal

To this end, Beijing has made a wide range of steps over the past two years that have seemingly gone under the radar, as each step taken in isolation seems marginal. Nevertheless, China has been gradually opening its financial markets to greater foreign participation, and it continues to open its capital account. And, as long as measures keep coming, Beijing will make headway gradually.

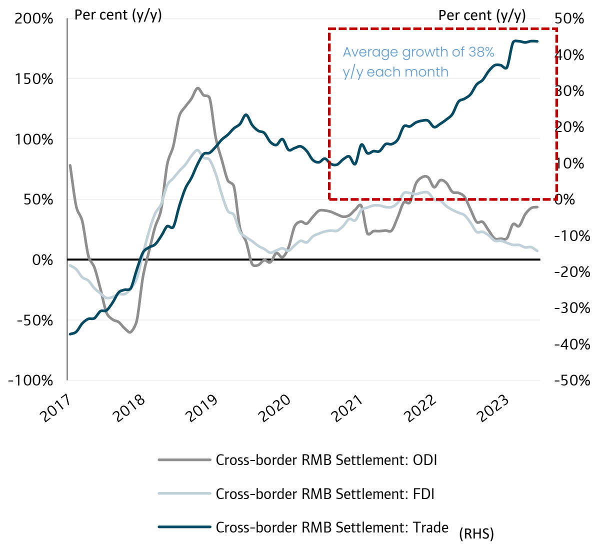
Table 1: Key developments since September 2021

September 2021: PBoC and SAFE issued draft rules on overseas lending by Chinese banks, broadening the scope of businesses accessible to domestic banks' overseas yuan loans.
October 2021: The Guangdong provincial government issued its first-ever RMB-denominated local government bond in Macau. And Shenzhen debuted its the first-ever RMB-denominated local government bond issuance in Hong Kong.
November 2021: CSRC permits foreign investors to invest in commodity futures and options, and stock index options, that had previously been off limits, as part of the Qualified Foreign Institutional Investor (QFII) programme.
November 2021: PBoC increases its bilateral currency swap with the Hong Kong Monetary Authority (HKMA) to RMB800bn.
January 2022: the PBoC started soliciting public input on new rules designed to further support yuan-denominated settlement for new types of foreign trade – a term used primarily as a euphemism for cross-border e-commerce.
June 2022: China extends the trading hours of its foreign exchange market to help promote RMB internationalization.
June 2022: the PBoC and Bank of International Settlements announced the creation of a pool of yuan-denominated reserves aimed to provide liquidity support to participating central banks when financial markets fluctuate.
July 2022: Industry body that co-regulates the interbank bond market (NAFMII) announced a pilot plan to make it easier to issue Panda bonds – RMB-denominated bonds issued in Mainland China by a foreign-domiciled institution.
September 2022: The PBoC agrees to establish RMB clearing arrangements with the central banks of Kazakhstan and Laos.
December 2022: Mauritius became the third clearing centre for the Chinese currency in Africa, after South Africa and Zambia.
March 2023: The PBoC announced that foreign capital would be allowed to invest in Mainland interest rate swaps (IRS) via Hong Kong through a dedicated "Swap Connect" channel.
May 2023: PBoC and SAFE also announced the expansion of a foreign exchange cash-pooling pilot for multinational companies (MNCs). March 2021, PBOC and SAFE pilot FX cash-pooling for MNCs, allowing them more freedom to convert RMB to foreign currency and deposit that in domestic bank accounts. Pilot limited to Beijing and Shenzhen, and included only super-large, predominantly Chinese MNCs.
May 2023: 19 companies applied to be HKD-RMB dual-counters whereby their Hong Kong Stock Exchange shares will be available to trade in both currencies
June 2023: The PBoC and SAFE jointly issued new measures to facilitate issuance of Panda bonds by overseas institutions.
July 2023: Argentina and China expanded their bilateral currency swap agreement, adding a further RMB35bn to the existing RMB130bn for Argentine pesos.

Source: Trivium, SBR

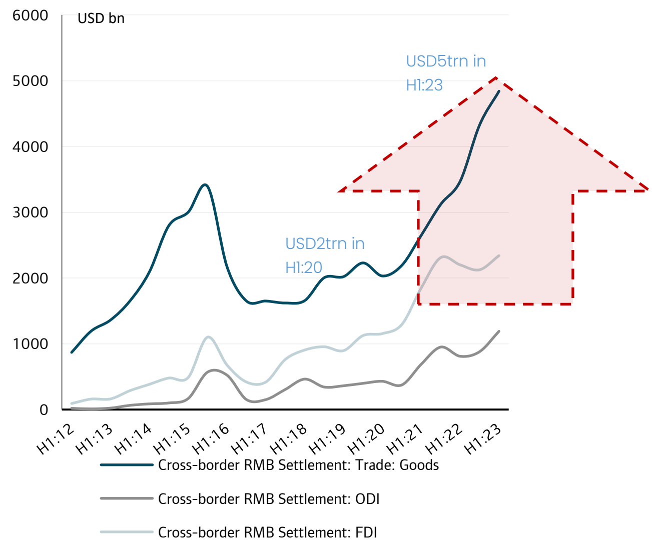
On the back of these advancements, as much as half of China's cross-border transactions last year were settled in RMB, up from 25% in 2016 and 38% in 2019. Since 2020, cross-border trade and outbound investment using CNY have expanded by an average of 38% and 33% respectively each month. As a result, trade settlement is on track to reach CNY10trn in 2023, up from CNY7.7trn in 2022 and CNY 5.7trn in 2021. Reflecting the advance, transactions on China's Cross-Border Interbank Payment System (CIPS), which is the clearing and settlement services system established in 2015 to facilitate RMB internationalization, are expanding rapidly.

Figure 10: RMB transactions surge near 40% YTD



Source: IMF, Standard Bank Research

Figure 11: Trade settlement hit USD7.7trn in 2022



Sources: IMF, UN, Standard Bank Research

China has also some significant milestones on its RMB internationalisation path in the past year

Whilst more of more of China's trade seems to be utilising the RMB, China has also seen some significant milestones on its RMB internationalisation path in the past year:

- UltraTech Cement – India's biggest cement producer – was the first to use RMB to pay for a cargo of coal imported from Russia. Since, over one-third of Russian coal imported by India is being paid for using non-USD currencies, with the RMB accounting for 31% of non-dollar payments.
- Gazprom is accepting RMB for gas exports to China. The Sino-Russian gas trade via the Power of Siberia pipeline is valued at over USD400bn over 30 years.
- Nornickel – Russia's largest miner – announced that it is selling nickel to China in RMB at prices set by the Shanghai Futures Exchange. It is a breakthrough in Beijing's efforts to make China's futures exchanges the global centre of commodities pricing.
- BHP delivered a shipment of iron ore to a Shandong port that was sold in RMB in China's spot market – a first for the Australian miner.
- The Chicago-based CME Group – operator of many of the world's largest derivative exchanges – launched offshore RMB (CNH) futures.
- A shipment of LNG delivered to Guangdong was settled in RMB and settled through the Shanghai Petroleum and Natural Gas Exchange.
- Saudi Arabia and China settled the first RMB-denominated liquefied natural gas contract and the first RMB-denominated loan to Saudi Arabia.

Renminbi in Africa

China started its renminbi internationalisation programme in Africa by targeting partners that are destinations for sizable Chinese exports and have mature financial markets, such as Kenya, Nigeria, Angola and South Africa

China started its renminbi internationalisation programme in Africa by targeting partners that are destinations for sizable Chinese exports and have mature financial markets, such as Kenya, Nigeria, Angola and South Africa. Some African countries have started using the Chinese renminbi (RMB) to settle trade transactions with China. So far, around 10% of Africa's trade with China is now done in RMB. However, this is just the tip of the iceberg: we expect that each year, more and more trade and investment will occur directly between the renminbi and African currencies.

A few reasons stand out:

- First, China's leverage and influence on the continent has risen sharply because successes (small and large) have already been plentiful.
- Second, China and Africa have a head-start on others as high-level political relations and the development of robust bilateral and multilateral institutions which will support the process, like CDB, Ex-Im and most recently the BRICS bank.
- Third, commercial ties are still in their relative infancy. Chinese firms have a long-term agenda and want to grow their businesses in Africa. Again, they will need to open renminbi accounts and use renminbi products; workers will want to send money home.
- Fourth, China buys and sells a lot to Africa, meaning there is fast-growing demand and supply of the renminbi.
- Fifth, and more directly, internationalisation will lower transaction costs, enable better working capital and improve risk management practices, which, along with various incentives, will support trade flows.
- Similarly, investment will find support through cheaper sources of funding (raised in Hong Kong or through loans) and better protected capital (hedging instruments), which will result in more favourable terms for African projects.

This will rise as the infrastructure around the renminbi solidifies. In recent years, some progress has been made in Africa. This is starting to bear fruit. We remain optimistic that Africa is a critical regional market for China to continue to expand the renminbi; we expect at least one-third of China Africa trade to be settled directly in renminbi by 2030.

Conclusion

The upcoming BRICS Summit presents a gilt-edged opportunity for its members, as well as the various non-member countries invited to attend the gathering, to emphasise the collective power and influence of the Global South

The upcoming BRICS Summit presents a gilt-edged opportunity for its members, as well as the various non-member countries invited to attend the gathering, to emphasise the collective power and influence of the Global South. To be sure, the broader geopolitical backdrop – intensified by the war in Ukraine and deepening Sino-US tensions – imbues the summit, and its potential status as a more potent platform for developing world solidarity, with far greater substance.

In two key areas, we expect that this year's summit may offer more tangible outcomes than many of the group's prior gatherings have been able to muster. The first is in the potential establishment of the criteria for the group's expansion, which would broaden its capacity to become a more representative body in demanding changes to the global financial and political system. Secondly, as we discuss in some detail in this report, the summit offers clear opportunities for engagements to deepen on the elevated use of BRICS currencies in bilateral trade and investment. Here, talk of a specific BRICS currency is misleading: in the main, this local currency expansion will principally focus on the RMB, supported by China's assertive internationalisation agenda.

That said, there remain substantial disagreements and divergences (in priorities and scale) between BRICS members. These rifts will also emerge at the summit, particularly in relation to the conversation around the group's expansion. More broadly, the BRICS sits with a central challenge, one that each of its various initiatives will emphasise. This is that the grouping's relevance and clout rely heavily on China's participation in it – and yet, for the group to be a legitimate and collaborative reflection of the interests of the Global South (and of each of its members) it must push against the agenda being singularly established by Beijing. How this tension is navigated will not only be a defining feature of the upcoming summit, but the group's future relevance and capacity for cohesion more broadly.

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