OPINION > THINKING ABOUT CHINA

Trump's Tariff on BRICS Will Protect the US Dollar

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Officials attend a plenary session in the outreach/BRICS Plus format at the BRICS summit in Kazan, Russia, on Oct. 24, 2024. Maxim Shemetov/Pool/AFP via Getty Images

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Commentary

China and its closest economic partners, who call themselves the "BRICS nations," want to displace the U.S. dollar as the world's most powerful reserve currency. They would like to accomplish this by establishing a new "BRICS" currency.

The dollar is currently the standard currency for international trade, for example, in oil and gas markets. A BRICS currency, especially if it were under the control of Beijing and in wide use, could be used to sanction the United States and make the BRICS countries more dominant in international trade.

President-elect Donald Trump opposes a BRICS currency and said on the campaign trail that it would cost countries that tried to move away from the U.S. dollar. On Nov. 30, he made that cost explicit: he would impose 100 percent tariffs on any country that attempts to create a BRICS currency or otherwise replace the U.S. dollar with some other currency as the international reserve currency. Trump said he would require commitments from BRICS countries against the displacement of the U.S. dollar. Otherwise, they "should expect to say goodbye to selling into the wonderful U.S. Economy," he wrote on social media platform X.

Trump is imposing an immediate cost on BRICS countries by only threatening them with 100 percent tariffs. And he is, in effect, imposing what is called a "separating equilibrium" in game theory. He is separating the good from the bad from a U.S. perspective. Those who are implacably opposed to the status quo of U.S. dollar leadership in the global economy—for example, Russia, China, and Brazil—will refuse to commit, reveal their anti-U.S. intentions, and receive 100 percent tariffs in response. Those not so tough on the dollar—for example, India and South Africa—may decide to commit against a BRICS currency. This will create distance between these countries and the rest of BRICS.

Trump's goal of maintaining the U.S. dollar as the medium of international trade is good for America, and good for democracy. It will maintain the U.S. ability to sanction countries that violate human rights and the borders of U.S. partners. That is good for democracy because the dollar trade and the necessity for international transfers through U.S. banks make dictators, many of whom belong to BRICS, vulnerable to sanctions if they commit egregious human rights abuses.

BRICS is a term invented by the former chief economist of Goldman Sachs to refer to Brazil, Russia, India, China, and South Africa, once thought to be part of the most important "emerging markets" and, therefore, good bets for growth investors. BRICS countries were lauded at academic conferences around the world, perhaps with donations linked to the BRICS countries. Those days are gone, but the BRICS is still with us, getting stronger with more members, and mostly led by their bankroller in Beijing. In 2023, Iran, the United Arab Emirates (UAE), Egypt, and Ethiopia joined BRICS. Saudi Arabia was invited to join but has not yet done so.

Some experts argue that there is no need for Trump's BRICS tariffs, as the BRICS countries have not made much progress on their proposed currency. But their illiberal intention is apparent. Most are dictatorships or autocracies. They are apparently trying to sanction-proof their economies by exploring a BRICS currency. They are openly planning misdeeds, such as the invasion of Taiwan, and how to protect themselves from sanctions afterward. If they do not see pushback from the United States and our allies, they are likely to continue to persist, find more effective strategies, and one day be successful in their goals: invading neighboring countries, weakening the United States, and degrading our ability to promote democratic values globally.

Another argument against the BRICS tariff will be that it is a tax on the consumer. It is actually more complicated. Sometimes, the consumer does not pay at all. In these cases, importers, manufacturers, or targeted countries take steps to decrease consumer prices to their pre-tariff level to protect their market share or total exports. In the case of countries, this can mean increased subsidies for exporters, or depreciation of their own currencies.

According to JPMorgan Chase & Co., Beijing may depreciate its currency by 10–15 percent to counteract Trump's tariffs, for example. If Trump increased tariffs on China by 15 percent, and the Chinese

Communist Party (CCP) depreciated the yuan by 15 percent relative to the U.S. dollar, the blow to the consumer would soften (though U.S. exports to China would likely decrease). JPMorgan predicts a 5 percent average depreciation among emerging-market countries in the first two quarters of 2025.

What many economists would have a hard time admitting is that former President Barack Obama also levied what amounts to tariffs on foreign countries, but in a different form. For example, his support of the Trans-Pacific Partnership (TPP) free trade agreement with many Asian countries had environmental and labor requirements. These were new costs for supplying consumers, just as tariffs are a cost. Both are a cost levied on foreign producers in exchange for access to U.S. markets. Some of the TPP costs would have been passed onto U.S. consumers in the form of higher prices due to the higher cost of production. Some would not. Many economists celebrated Obama's tariffs, which were giveaways from a U.S. perspective, but denounced Trump's tariffs that went straight to the U.S. Treasury.

Tariffs on BRICS countries—especially those that pursue a BRICS currency to supplant the U.S. dollar—will help decrease the chance that this authoritarian bloc will become dominant in the future. Such dominance would be bad for America, and bad for the world.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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