

# Occasional Paper

360

September 2024



## International Payments, BRICS and Africa: Trends and Issues

LAUREN JOHNSTON

African perspectives  
Global insights

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# Abstract

The 2023 BRICS summit called for ideas to elevate local currency use and reduce member countries' dependence on the US dollar, euro and other major currencies. This push comes in the wake of advances in payment technology and a decade after the international payment architecture SWIFT also became a means of imposing financial sanctions, including against BRICS members Russia and Iran. In Africa, there is a long history of foreign currency shortages, stalled development and financial crises. Three African BRICS members – Egypt, Ethiopia and South Africa – are directly involved in the BRICS local currency agenda. This paper reviews that agenda, its economic merits and the hurdles it faces in the context of intra- and extra-African trade and development-related currency needs and goals. It finds a dynamic array of often foreign technology-intensive, complex and overlapping challenges, international payment mechanisms and developments, but no resounding dollar killer. Africa's own cross-border payment initiative, the Pan-African Payment and Settlement System, is intended as the continent's answer to these challenges. Yet it, too, faces various hurdles in its goal to facilitate intra-African local currency-based trade and settlement of payments. Policy suggestions are offered accordingly.

# Currency and international payments: A brief history

A rare convergence of economic, political and technological changes is leading to calls for global monetary reform. The grouping of large middle-income powers known as the BRICS is a leading proponent of such calls. BRICS is named after its first five members: Brazil, Russia, India, China and South Africa. Since 1 January 2024, the grouping also includes Egypt, Ethiopia, Iran and the United Arab Emirates (UAE).

The communiqué of the 15th BRICS Summit, held in Johannesburg, South Africa in 2023, stressed the importance of local currency use in international trade and financial transactions between BRICS countries and their trading partners. It tasked the related monetary and financial officials of BRICS countries to consider the issue of local currencies, payment instruments and platforms ahead of the Russia summit in October 2024.

Underpinning today's reform agenda is the monetary system that dates back to the mid-20th century. Notably, the Bretton Woods Agreement of 1944 played a pivotal role in establishing an international economic framework, including making the US dollar central to international trade. This led to its widespread acceptance and use under the Gold Standard system. Gold-dollar convertibility was revoked in August 1971 by then US president Richard Nixon, ultimately leading to today's floating exchange rate regimes. A parallel, then-emerging petrodollar system would cement the dollar's role, as major oil-exporting countries agreed to price oil in dollars. Finding ways to access dollars and, to a lesser extent, other major currencies has presented a development hurdle for poor countries ever since.

Fragmentation of and dissonance within the Bretton Woods system has increased over time, especially following the Asian financial crisis of 1997-98 and the global financial crisis of 2008. More recently, the COVID-19 pandemic in 2020 magnified many of the economic challenges faced by developing countries, leading them to become more vocal about the imperfections of the international financial system. There is a growing understanding that limited access to key international currencies, such as the US dollar and euro, inhibits national development, undermines global trade, fosters poverty and costs lives – in rich and poor countries alike.

In parallel, over the past decade the international payment system SWIFT (Society for Worldwide Interbank Financial Telecommunication) has been used as a means of political sanction. SWIFT is a member-owned international payment transfer system cooperative incorporated in Belgium in 1973. It connects over 11 000 banks, financial institutions and corporations in over 200 countries and territories via a secure financial messaging service using bank-identifier SWIFT codes. SWIFT is overseen by a cadre of central banks known as the G-10 – Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden,

Switzerland, the UK and the US – and operationalises some 10 billion transactions a year (a sizeable majority of international transactions).<sup>1</sup>

The first time SWIFT was used to impose financial sanctions was in March 2012. This followed an EU Council decision to impose selective sanctions on Iranian financial institutions. That, in turn, necessitated that Belgium-domiciled SWIFT also discontinue offering payment communication services to the Iranian institutions subject to those sanctions.<sup>2</sup> Nonetheless, SWIFT's compliance with the Belgian legislation was a shock to the international payment status quo.

Then, in 2014, following Russia's annexation of Crimea and the non-implementation of the Minsk Agreements, SWIFT was used to sanction Russia.<sup>3</sup> In 2017, North Korean banks were excluded from SWIFT because they were 'no longer compliant with SWIFT's membership criteria'.<sup>4</sup> Following the February 2022 launch of the war of aggression by Russia against Ukraine, the EU and the US have imposed a comprehensive set of direct sanctions against Russia, and secondary sanctions against third parties transacting with selected Russian entities. These include targeted restrictive measures against sanctioned individuals and specific institutions, economic sanctions and visa measures.<sup>5</sup> Given the centrality of SWIFT to international payments, SWIFT has had to play a leading role in imposing such sanctions. The fact that this recent use of SWIFT for financial sanctions has been applied primarily to two BRICS member countries (Russia and Iran), arguably may be part of the reason why the BRICS grouping is a cheerleader of global monetary reform.

In addition, recently there have been rapid developments in payment-related technologies. For example, blockchain and tokenisation provide new technological means of executing payments and redrawing currency-related norms, including via digital currencies.<sup>6</sup> These technologies also generate real-time aggregated big data that offers new and localised ways of understanding aggregate local currency demand across countries. Recent technological innovations, therefore, support the efforts of countries interested in monetary reform and an alternative payment system.

Among countries outside SWIFT's G-10 administrators, BRICS member China is the most advanced in developing parallel financial transactions and related technological and policy institutional systems. For example, not only is it home to the world's largest mobile

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1 SWIFT, "Swift Instructed to Disconnect Sanctioned Iranian Banks Following EU Council Decision", March 15, 2012.

2 SWIFT, "Swift Instructed to Disconnect".

3 European Council, "EU Sanctions Against Russia Explained", August 30, 2024.

4 James Stannard, "SWIFT Cuts North Korean Banks", *World Finance*, <https://www.worldfinance.com/banking/swift-cuts-north-korean-banks>.

5 Andreas Nölke, "The Weaponization of Global Payment Infrastructures: A Strategic Dilemma" (SAFE White Paper 89, Leibniz Institute for Financial Research SAFE, Frankfurt am Main, 2022).

6 Blockchain is defined as "a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network". See IBM, "What Is Blockchain?", <https://www.ibm.com/topics/blockchain#:~:text=IBM-,What%20is%20blockchain%3F,patents%2C%20copyrights>. Tokenisation is defined as "the process of creating a digital representation of a real thing. Tokenization is a digitization process that can 'be used to protect sensitive data or to efficiently process large amounts of data". See McKinsey and Company, "What Is Tokenization?", July 25, 2024.

payment ecosystem but, almost a decade ago, in July 2015 in Shanghai, China also established the Cross-Border Interbank Payment System (CIPS). CIPS is a SWIFT-parallel corporate entity that operates in renminbi under the supervision and guidance of the People's Bank of China.<sup>7</sup> It provides various other services as well, including data processing and financial services-related information technology services.<sup>8</sup> Today, China is also a leader among large economies in developing and rolling out a digital currency.<sup>9</sup>

In addition, there have recently been developments at the BRICS level, beyond the fact that in January 2024 the grouping nearly doubled in membership size with the entrance of Egypt, Ethiopia, Iran and the UAE.<sup>10</sup> In late January 2024 the UAE and China announced they had used digital currencies to pay for oil as an international cross-border digital payment test.<sup>11</sup> Then, in June 2024, the United Bank of India, a public sector bank headquartered in Mumbai, announced it would reimburse staff expenses via digital payments to digital wallets, causing a protest by staff unions.<sup>12</sup> Russia has claimed it is ready to start BRICS-based digital payments.<sup>13</sup>

Since two of the new BRICS members are African (Egypt and Ethiopia), the continent now has a much richer BRICS presence. In the context of BRICS's currency-related agenda, accessing sufficient foreign currency reserves for development and debt repayments has long been a development hurdle for many African countries.<sup>14</sup> The COVID-19 pandemic highlighted these challenges by inducing a slew of sovereign debt defaults.<sup>15</sup> This overall picture means that the monetary-related decisions the BRICS countries take are both directly and indirectly relevant to African policymakers, and vice versa.

This occasional paper observes rising discontent with the established monetary order. It uses a qualitative analytical approach that draws on policy documents, summit communiqués and case studies of existing payment systems and digital currency initiatives to explore the implications of BRICS-led monetary reform initiatives for Africa. Firstly, it elaborates on the conceptual development hurdle of foreign exchange access for developing countries. Secondly, it details the BRICS-led local and prospective digital currency-based trade agenda and its payment platform initiative, called BRICS Pay. Thirdly, it looks at BRICS member China's efforts to foster local currency-based trade and international financial reform. Finally, it examines Africa's own challenges with the status

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7 Shanghai Municipal People's Government, "Brief Introduction of China International Payment Service Corp", June 18, 2023; Aaron Klein, *China's Digital Payments Revolution*, Global China Report (Washington DC: Brookings, April 2020).

8 Shanghai Municipal People's Government, "Brief Introduction".

9 Lauren A Johnston, "China's Central Bank Digital Currency: A New Force in African Finance?" (Occasional Paper 353, South African Institute of International Affairs, Johannesburg, February 2024).

10 European Parliament, "Expansion of BRICS: A Quest for Greater Global Influence?", March 15, 2024.

11 Ledger Insights, "UAE Makes First Cross-Border CBDC Payment Using Bridge", January 30, 2024.

12 "Union Bank's Shift to Digital Rupee for Employee Benefits Stirs Bankers", *Kanal*, January 9, 2024.

13 Ledger Insights, "Russia to Start Using CBDC for Cross Border Payments in 2025", June 11, 2024.

14 Simon Johnson, Jonathan D Ostry and Arvind Subramanian, "The Prospects for Sustained Growth in Africa: Benchmarking the Constraints" (Working Paper 2007/052, International Monetary Fund, Washington DC, March 1, 2007).

15 Christina Laskaridis, "When Push Came to Shove: COVID-19 and Debt Crises in Low-Income Countries", *Canadian Journal of Development Studies* 42, no. 1-2 (2021): 200-220.

quo and the leading platform for promoting local currency-based trade and payments, the Pan-African Payment and Settlement System (PAPSS). It concludes by offering recommendations for African policymakers.

## Foreign currency inaccessibility as a development hurdle

It has been proposed that developing economies face a development barrier around two economic 'gaps'. These are 1) the gap between domestic savings and investment, where domestic savings are insufficient to support growth, and 2) the gap between export revenues and import costs, or a foreign exchange gap, where import purchasing power is insufficient to support growth.<sup>16</sup> These gaps tend to result in developing countries accumulating foreign debt.

To borrow sustainably in dollars, a country must also eventually accumulate them. For some developing countries, exporting fuel and minerals, or even coffee and cacao, has made the accumulation of dollars or other major currencies possible. For most developing countries, however, the accumulation of foreign currency is prohibitively complex given the structures of their trade profiles and of today's international monetary system.

Moreover, the context of the international borrowing of and pathways for accumulating dollars can also be unpredictable. Countries may fail to generate sufficient domestic economic growth to cover the cost of borrowing for development, while interest rate volatility can add to the cost and unpredictability of borrowing. Where a foreign currency development-related debt fails to realise sufficient growth to cover its loan cost, the need to generate the means of repaying that debt can become a further development hurdle. This is even more so if the level of debt becomes so high that it becomes a disincentive to investment, given the costs of repaying the outstanding national debt.

Several recent shocks have induced such scenarios in some African countries – or, in some cases, have done so once again. For example, the shock of and response to the COVID-19 pandemic brought foreign trade and even domestic economies to a near standstill. Not only was trade in goods far more limited but trade in services such as tourism came to an almost complete halt. Tourists stopped arriving and spending foreign currency, leaving tourism-dependent economies, especially small island economies, without sufficient tourism receipts and dollar reserves.<sup>17</sup>

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16 HB Chenery and AM Strout, "Foreign Assistance and Economic Development", *American Economic Review* 56 (1966): 679-733.

17 Sheereen Fauzel, "The Impact of COVID-19 on the Tourism Industry Stocks Returns in Mauritius: Evidence from Quantile Regression Analysis", *Smart Tourism* 4, no. 2 (February 2, 2024).

Moreover, in recent years, US interest rates have trended upward, thereby increasing variable rates and future fixed-rate borrowing costs. Furthermore, the conflict in Ukraine has added to the costs of critical imported goods such as fertiliser and some grains, meaning more foreign exchange has become necessary just to stand still. Diminished growth and savings also diminish the funds available to invest in growth, in turn undermining living standards.

In Ethiopia, for example, inadequate foreign exchange reserves (measured against those required to sustain new areas of domestic growth, such as automotive assembly) mean that entrepreneurs in the country must compete for these foreign exchange reserves. Would-be US dollar-spending (production input) importers and firms need to make a competitive 'growth' case and use the relative argument of economic contribution to justify the precedence of their claims to scarce foreign reserves over those of other candidates.<sup>18</sup> Some entrepreneurs have resorted to investing in coffee plantations that independently earn dollars internationally in an attempt to access the nation's prized dollar reserves to acquire inputs and goods from abroad that can grow their domestic business and meet local demand. Foreign investors can also find it challenging, if not near impossible, to exchange birr profits for foreign currency in order to take their profits out of Ethiopia. This disincentivises foreign investment, in turn undermining economic growth and development.

In many cases in Africa, trade between an African country and the Global North is typically conducted in the currency of a Global North country, as is trade between two African countries. More recently, such third-country currencies may include China's renminbi, although at the margins. This highlights the foreign currency-based trade development hurdle for extra-African trade and the challenge of mirror and selective use of third currencies in intra-African trade.

Alongside the recent transformation of SWIFT as a parallel instrument of geopolitical sanction, these challenges underlie a new push to identify innovative means of circumventing the use of core international currencies in international trade and finance. This would entail fostering greater use of especially local currencies and, in some cases, parallel payment messaging systems other than SWIFT, where feasible.

The task, however, is not easy, owing to the reserve currency power of the dollar, among other reasons. This power is anchored in the unique stability and reliability of the dollar's global liquidity and safe value for storage. Currently, no currency is as easily transacted, meaning many traders prefer to be paid in dollars. Most other currencies not only carry the risk of greater prospective exchange rate volatility but also have more limited onward transactability.

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<sup>18</sup> Samuel Bogale, "Governor Mamo Set on Quadrupling Forex Reserves by 2026", *The Reporter*, January 27, 2024; Oxford Analytica, "Limited Currency Will Hinder Carmakers in Ethiopia", Expert Briefings, September 6, 2016.

# A BRICS-led movement from the dollar toward local currency use?

The expanded BRICS club of 2024 has a combined population of some 3.5 billion people. Its aggregate gross domestic product (GDP) is around 30% of the global economy, at \$28.5 trillion. The BRICS countries, moreover, account for 42% of crude oil output, which has been transacted in dollars for decades.<sup>19</sup> Months before the expansion of the BRICS club, the grouping's most recent communiqué, from the 15th BRICS summit, emphasised international payments reform.<sup>20</sup>

We stress the importance of encouraging the use of local currencies in international trade and financial transactions between BRICS as well as their trading partners... We task our Finance Ministers and/or Central Bank Governors, as appropriate, to consider the issue of local currencies, payment instruments and platforms and report back to us by the next Summit... We recognise the widespread benefits of fast, inexpensive, transparent, safe, and inclusive payment systems. We look forward to the report by the BRICS Payment Task Force (BPTF) on the mapping of the various elements of the G20 Roadmap on Cross-border Payments in BRICS countries. We welcome the sharing of experience by BRICS members on payment infrastructures, including the interlinking of cross-border payment systems. We believe this will further enhance cooperation amongst the BRICS countries and encourage further dialogue on payment instruments to facilitate trade and investment flows between the BRICS members as well as other developing countries.

Further, in March 2024, the Boao Forum for Asia, held in Hainan Province, China, hosted Dilma Rousseff, the former president of Brazil and the current president of the New Development Bank, a Shanghai-based multilateral development bank attached to the BRICS countries. On a 'Rise of the Global South' panel, Rousseff dismissed the 'possibility of having a single global currency, as the geopolitical synergy no longer exists'.<sup>21</sup> According to her, the solution is 'to establish a new global monetary system with diversities that can cater to different countries'.<sup>22</sup> Her comments align with those of South African President Cyril Ramaphosa, speaking at the BRICS Summit in Johannesburg in August 2023.<sup>23</sup>

We are concerned that global financial and payment systems are increasingly being used as instruments of geopolitical contestation... Global economic recovery relies on predictable global payment systems and the smooth operating of banking, supply chains, trade, tourism as well as financial flows.

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19 Mike Maharrey, "BRICS to Develop Blockchain-Based Payment System to Bypass the Dollar", *FXStreet*, March 7, 2024.

20 Bank of Russia, "First Meeting of BRICS Countries' Central Banks in 2024", February 28, 2024.

21 Boao Forum for Asia, "Dilma Rousseff: New Economic Institution Is Essential for the Growth of the Global South", March 28, 2024.

22 Boao Forum for Asia, "Dilma Rousseff".

23 Ledger Insights, "BRICS Pivots from Digital Currency to Local Currency. Non-BRICS Countries Follow", August 25, 2023.



The joint statement arising from a meeting in June 2024 in Russia of BRICS foreign affairs ministers reiterated this agenda.<sup>24</sup>

The Ministers underscored the importance of the enhanced use of local currencies in trade and financial transactions between the BRICS countries. They recalled the paragraph 45 of the Johannesburg II Declaration tasking the Finance Ministers and Central Bank Governors of the BRICS countries to consider the issue of local currencies, payment instruments and platforms and to report back to the BRICS Leaders.

In early 2024, the agenda took one step forward in practice when BRICS members China and the UAE traded in oil without using the US dollar.<sup>25</sup> All the while, sanctions continue to curtail Russia's ability to access the status quo international payment system.<sup>26</sup>

In this broader context, the BPTF has been tasked with finding practical solutions to enable elevated settlement in national currencies, including via the prospective adoption of central bank digital currencies (CBDCs). It has also been tasked with identifying ways to improve the [BRICS Contingent Reserve Arrangement](#).<sup>27</sup> Beyond the prospect of relatively marginal means of bilaterally circumventing the global payments system and moving beyond dollars (for the reasons elaborated), BRICS is also developing a payment platform, known as BRICS Pay.

## BRICS Pay

In 2018, under BRICS chair South Africa, the BRICS Business Council launched BRICS Pay, a blockchain-based payment system to facilitate cross-border transactions between member countries. Leading BRICS-country-aligned institutions are involved in BRICS Pay, including the Shanghai-based New Development Bank, also known as the BRICS Bank, which serves as the central hub in this system for processing financial transactions. According to BRICS Pay, major commercial institutions from BRICS member countries are also involved, including Sberbank (Russia), VTB (Russia), Bank of China, ICBC (China) and Petrobras (Brazil). Integrating these agencies' processing systems with the BRICS Pay system fosters relatively seamless intra-BRICS cross-border payments. According to the BRICS Pay website, one of the aims of BRICS Pay is to circumvent SWIFT, including by facilitating settlement in local currencies and making it easier, logistically and in terms of currency balances and transactability, to trade in a range of currencies.

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24 Government of India, Ministry of External Affairs, "Joint Statement of the BRICS Ministers of Foreign Affairs/International Relations", June 10, 2024.

25 Hassan Jivraj, "India Settles First Crude Oil Payment to UAE in Local Currency", *Investment Monitor* (blog), August 18, 2023; Ledger Insights, "China Uses Digital RMB to Settle First Cross Border Oil Transaction", October 20, 2023.

26 US Department of State, "Taking Additional Measures to Degrade Russia's Wartime Economy", Fact Sheet, June 12, 2024.

27 Central Bank of Russia, "First Meeting of BRICS Countries' Central Banks in 2024", Press Release, February 28, 2024.

To the extent that it may be designed to aggregate total intra-BRICS trade and payments data, it could allow businesses and individuals to send and receive cross-border payments between BRICS countries. Such payments could both circumvent SWIFT's messaging system and be settled without reverting to or passing through third currencies. BRICS Pay nonetheless can also be designed to be interoperable with SWIFT and CIPS.<sup>28</sup> Were BRICS Pay able to galvanise a global network of financial institutions and monetary authorities, as SWIFT has, this would be especially valuable for Russia and Iran, subject as they are to SWIFT-related sanctions.

Aside from currently lacking a global network of signatory senders and receivers of financial messages (financial institutions) that is, comparably, as comprehensive as SWIFT's, BRICS Pay also faces another issue. Although sanctions against, for example, Russian banks and institutions do not impact intra-BRICS payments, the comprehensiveness of the sanctions imposed on these Russian institutions mean that any third parties engaging them would expose themselves to a secondary level of sanction. It may take a long time, or at least be highly complex, for BRICS Pay to galvanise significant support, even among organisations within BRICS member countries.

Nonetheless, since Russia is the chair of BRICS in 2024, and given contemporary global geo-economic tensions, it is expected that there will be a focus on BRICS-related and -led currency reform agendas this year. If earlier BRICS summits are anything to go by, changes are likely to be relatively incremental. However, with individual BRICS member states leading additional agendas, this may foster a broader movement of BRICS and Global South countries toward selective local currency-based payment mechanisms. China is the leader in such efforts.

## China-led, Global South-focused local currency initiatives

Tectonic geo-economic, technological and monetary shifts over recent years are colliding to add momentum to calls for global multilateralism change, while deepening the complexity of that task. Meanwhile, China, the economic giant among the BRICS countries, is spearheading a few of its own local currency-based trade and policy initiatives.

### The BRI's currency circulation pillar

In September and October 2013, China's President Xi Jinping made two significant speeches in Kazakhstan and Indonesia. In Kazakhstan, Xi announced a plan to forge a 'Silk Road Economic Belt' and, in Indonesia, a plan for a 'Maritime Silk Road of the 21<sup>st</sup> century'.

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<sup>28</sup> Andreas Nölke, "Goeconomic Infrastructures: Building Chinese-Russian Alternatives to SWIFT", in *Capital Claims: Power and Global Finance*, eds. Benjamin Braun and Kai Koddenbrock (London: Routledge, 2022), 147-166.

The Kazakhstan speech signalled five more development policy-related objectives for this Silk Road Economic Belt. In Indonesia, the focus was on diplomatic objectives and principles (see Table 1). The ensuing merger of the ‘Silk Road Economic Belt’ and ‘Maritime Silk Road’ is today known as the Belt and Road Initiative (BRI) and is China’s flagship outbound foreign policy initiative.

TABLE 1    BRI LAUNCH SPEECHES: POLICY ANNOUNCEMENTS (SUMMARY)
<b>Kazakhstan speech</b>
1. Strengthen policy communication
2. Strengthen road connectivity
3. Promote unimpeded trade
4. Strengthen currency circulation
5. Strengthen people-to-people ties
<b>Indonesia speech</b>
6. We must keep the faith and hold amicable relations
7. We need to pursue win-win cooperation
8. We should stick to mutual assistance
9. Adhere to mutual affinity
10. We need to remain open and inclusive

Source: Lauren Johnston, “The Belt and Road Initiative as Ten Policy Commandments: Review of Xi’s Kazakhstan and Indonesia Launch Speeches.” (Working Paper, University of Sydney China Studies, Sydney, September 2021)

Beyond the broad ‘unimpeded’ trade and development agenda (also implying the associated ideal of overcoming currency-related hurdles) promoted in the first launch speech, an important aspect of the BRI relates to promoting currency circulation. Specifically, in his Kazakhstan speech, Xi stated:<sup>29</sup>

China, Russia, and other countries have conducted sound cooperation in local currency settlement, achieved gratifying results and accumulated rich experience. This good practice needs to be extended. If countries realise local currency convertibility and settlement under both the current and capital accounts, they will greatly reduce circulation costs, enhance their ability to withstand financial risks, and enhance the international competitiveness of their economies.

29 Lauren Johnston, “The Belt and Road Initiative as Ten Policy Objectives: Review of Xi’s Launch Speeches and the Washington Consensus” (Working Paper, University of Sydney China Studies, Sydney, May 2022).

In other words, fostering trade and investment using local currencies has thus been an explicit objective of China's flagship outbound economic agenda for more than a decade. SWIFT was first used to impose financial sanctions in 2012 – against Iran, which became a BRICS member on 1 January 2024.

## The 'Hunan Model' for Africa and 'closed loop' local currency trade

In 2018 Xi proposed a China-Africa economic and trade exhibition.<sup>30</sup> The first expo, in Changsha, Hunan in 2019, is formally known as the China-Africa Economic and Trade Exhibition (CAETE). Since then, Hunan has become the hub of a much bigger project to foster deeper China-African economic ties, led by the CAETE and the China-Africa Economic and Trade In-depth Cooperation Pilot Zone.

One of the many initiatives in the cooperation pilot zone is the China-Africa Cross-Border Renminbi (RMB) Centre, which has two broad policy agendas to overcome currency-related hurdles between China and Africa. The first relates to fostering a form of 'barter' trade, where barter compensates for the lack of exchange currency. The second is to promote greater and more commercial use of the renminbi in China-Africa economic relations.<sup>31</sup> The first step is also a means of moving toward achieving the second.<sup>32</sup>

In early 2022 it was announced that China's State Council had called on the Hunan Pilot Free Trade Zone and its Africa-focused cooperation pilot zone to 'explore the development of barter trade between China and Africa'.<sup>33</sup> 'Barter trade' here refers to when, for example,<sup>34</sup>

Hunan's agricultural machinery is exported to a particular African country, and China gets payment in that country's currency. China then uses the payment to buy other products in that country and export them to China, where they are sold in renminbi. Thus, [i]t looks like a barter trade between countries, but it is settled in [the] local currency of each country rather than foreign exchange.

An example in practice is found among Chinese investors operating in Ethiopia, making good profits in Ethiopian birr and using those birr to buy coffee in Ethiopia. These Chinese investors then export that coffee to China and sell it for renminbi, paid in China, effectively having transferred their own birr revenues out of Ethiopia and expanded trade – African exports, in this case – between China and Africa. This happens without there being any direct exchange of the two currencies, let alone of a third currency.

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30 Yu Li, "Basic Facts About the 2nd China-Africa Economic and Trade Expo", *CGTN*, September 26, 2021; Embassy of the People's Republic of China in Namibia, "China to Increase Imports from SADC Countries, Says Vice Premier", June 4, 2011. For an introduction to FOCAC, see Anshan Li et al., "FOCAC Twelve Years Later: Achievements, Challenges and the Way Forward" (Discussion Paper 74, Nordiska Afrikainstitutet, Uppsala, 2012).

31 Lauren Johnston, "The Hunan Model: China's Zone for the China-Africa Future" (Occasional Paper 349, SAIIA, Johannesburg, July 2023).

32 Johnston, "The Hunan Model".

33 Yaling He, "Cooperation and Win-Win 'African Changsha' Is Wonderful, Changsha's Trade with Africa Welcomes 'Blowout'", *Morning Star Online*, November 29, 2022.

34 He, "Cooperation and Win-Win".

The idea has been tested since mid-2021 and involves Hunan officials in the cooperation pilot zone actively facilitating this sort of 'one-to-one' barter trade. So far, examples of products exported from Hunan without the need for a direct exchange of foreign currency include seeds, kitchen utensils, building materials and energy storage equipment. In return, African grapefruit, mica, spodumene (a mineral source of lithium) and wood have been imported.<sup>35</sup>

Since January 2022, the idea has been scaled up via a larger official platform for fostering such 'closed loops', namely the China-Africa Barter Trade Service Platform – the country's first business-to-business service platform for cross-border barter trade. In the first year alone, participants came from South Africa, Ghana, Madagascar, Nigeria, Ethiopia and Tanzania.<sup>36</sup> The closed loop of capital circulation between China and Africa also involves ICBC Hunan (ICBC being China's largest commercial bank) and the China-Africa Cross-Border RMB Centre selecting Changsha Feituo Information Technology Co. (the parent company of East Africa's Killimall e-commerce platform) to carry out the pilot cross-border business facilitation and matching.<sup>37</sup>

## Cross-border digital currency payments

In January 2024 the UAE and China signalled an emerging international payments frontier – cross-border digital currency payments. In this first transaction, roughly \$90 million of digital yuan (also known as digital renminbi [e-CNY]) was used to pay for UAE oil. According to media reports, PetroChina, the oil and gas arm of the state-owned China National Petroleum Corporation, made the exchange in digital yuan, then 'likely settling with the seller's bank accounts in China in digital yuan, where it converted to "normal" yuan'.<sup>38</sup> The benefit of using digital yuan in this case is that the contract could be settled immediately while, traditionally, there is a gap between settling a contract price and the payment being made. This factor may also help encourage sellers to accept currencies other than dollars when a digital dollar equivalent is unavailable.

Whether the e-CNY can ultimately facilitate the internationalisation of the renminbi – and thus a greater diversity of currency usage in world trade – revolves around two key variables. First, digitisation itself does not solve all renminbi internationalisation issues. For example, there are many other macroeconomic variables, including the flexibility of the exchange rate, the openness of the market and the level of trust. However, these restrictions need

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35 People's Daily, "Contribute to the Promotion of High-Quality Development of China-Africa Economic and Trade Cooperation [in] Hunan: Serve the National Strategy and Demonstrate Local Responsibility", FOCAC, October 11, 2022 (in Chinese); Huang Tingting, Zhou Yuegui and Deng Mengfei, "China-Africa Economic and Trade Cooperation: Hunan Takes the Lead in Experimentation", *Hunan Daily*, April 3, 2022.

36 Zhixiong Liu and Ziyi Qin, "Settlement of Barter Trade in Local Currency? Hunan Explores New Solutions for China-Africa Trade", Red Net, July 27, 2022; Ganzhang Chen, "Hunan Launches Cross-Border RMB Centre for China-Africa, Opens Spot Foreign Exchange Settlement in 6 African Countries", *Sohu*, March 12, 2021.

37 Tingting, Yuegui and Mengfei, "China-Africa Economic and Trade".

38 Mirela Ciobanu, "China's Digital Yuan Goes Where Alipay and WeChat Pay Never Could, Straight for the Petrodollar!", *The Paypers*, December 5, 2023.

not apply to the e-CNY, as China may opt to have the renminbi circulating at home and the e-CNY circulating at home and abroad. Such a dual Chinese currency carriageway would allow transacting internationally in the e-CNY so as to take advantage of improved transaction efficiency. The improved efficiency is the result of a CBDC's ability to promote faster, safer and cheaper international transactions without comprehensively exposing China's economy to international market volatility and systemic risks, and the related need for domestic reforms.

Today, only the Bahamas has a nationwide (and unified) digital currency in operation, which circulates in only a small share of economic activity. Still, China is among many countries progressively rolling out its own version of a CBDC nationwide and, more incrementally, internationalising digital payments. In Africa, only Nigeria has a CBDC test in operation. However, several African countries are exploring the possibility of implementing their own sovereign digital currency.<sup>39</sup> The BRICS Pay website states that making the platform suitable for CDBC's remains a work in progress.

To this point, digital payments across borders may in the short to medium term offer an alternative international payment transfer mechanism. Moreover, since digital contracts can be settled immediately, this would offer an alternative to SWIFT and diminish some of the reserve value of the dollar, in terms of its availability and liquidity for such payments, as well as its value stability. For example, when contracts can be settled immediately, currency value uncertainty is diminished. Countries may still, however, be selective and risk-averse in terms of which currencies they agree to accumulate and trade in.

## Africa-led trade and local currency initiatives

### African Continental Free Trade Area

The agreement to establish the African Continental Free Trade Area (AfCFTA) was brokered conclusively by the AU in Rwanda on 21 March 2018. The AfCFTA is a flagship project of the AU that aims to draw together a continental African market and boost intra-Africa trade that currently stands at about 16%, with Africa's share of world trade estimated to be only 3%.<sup>40</sup> The agreement has been signed by all AU member states except Eritrea, a milestone in the continent's goal of greater economic integration and prosperity. Its operational phase came into force on 7 July 2019, as an outcome of the 12<sup>th</sup> Extraordinary Session of the AU Assembly in Niamey, Niger and AfCFTA commenced on 1 January 2021.

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39 Johnston, "China's Central Bank".

40 South Africa Department of Trade, Industry and Competition, "[A Guide to the African Continental Free Trade Agreement](#)", September 2023.

Niger is also where PAPSS was first mentioned publicly, in the context of its potential to support the use of local currencies in intra-African trade and, thus, to foster elevated intra-African trade. Further, on 7 September 2024, Niamey was announced as the home of the Hunan-Niger Economic and Trade In-depth Cooperation Functional Linkage Zone. This is the first functional linkage zone built by China (Hunan) in Africa, owing to its being linked to the China-Africa Economic and Trade Deep Cooperation Zone in Hunan. The linkage zone in Niger is based on the concept of ‘one zone, two parks and multiple points’.<sup>41</sup> Around that structure, the zone has two main goals: import substitution and export earnings. Among the first 10 enterprises agreeing to establish a presence in the zone are those with a focus on steel, power and gypsum plants. The local currency-based trade efforts of this initiative may become a new frontier between China and Africa.

## Pan-African Payment and Settlement System

PAPSS is a low-cost, real-time infrastructure supporting instant payments in wholesale and retail transactions across African borders. Buyers in one country can, up to the relevant respective levels of currency demand, pay in their own currency while sellers in another country can receive payment in their own currency.

PAPSS is made possible by the capacity of cutting-edge technology to connect ‘traders across African countries with financial intermediaries for the consummation of real-time payment transactions’.<sup>42</sup> Table 2 sets out the mechanics of the overall process.

TABLE 2 OVERVIEW OF PAPSS TRANSACTIONAL OPERATIONS	
1	A company issues a payment instrument to its local bank or payment service provider.
2	The payment instruction is sent to PAPSS through the country’s central bank.
3	PAPSS performs all validation checks on payment instructions before it forwards the payment instruction to the beneficiary’s central bank and eventually to the local bank account.
4	PAPSS sends credit or debit settlement instructions to the central bank of the originator and the central bank of the beneficiary. The central banks settle the transaction in hard currency, using Afreximbank as the settlement agent.
5	Once the cross-border net settlement is complete, the beneficiary receives the funds in the local currency.

Source: G Elias and Co., “PAPSS and the Future of African Trade”, January 2022

One way to understand PAPSS is the analogy of flight pathways. At present, it is common for a flight between two African countries, in West and North Africa especially, to require an intermediary flight to a European destination. Up to the related aggregated level

<sup>41</sup> Hunan Provincial Government, “Hunan Constructs the First Functional Linkage Zone in Africa”, September 8, 2024.

<sup>42</sup> G Elias & Co, “PAPSS and the Future of African Trade”, January 2022.

of demand for any given sovereign currency, PAPSS seeks to cut out the intermediary currency ‘flight’ and so eliminate the need for an extra-African financial intermediary. That in turn should decrease the liquidity requirements of commercial banks in Africa and strengthen oversight by African central banks. PAPSS should ease pressure on foreign currency demand and smooth an elevated level of local currency transacting, leading to estimates that it may be able to save Africa \$5 billion annually.<sup>43</sup>

In the absence of a PAPSS-like mechanism, intra-African trade is necessarily ‘riddled with heavy reliance on third currencies (usually the United States Dollar) and non-African correspondent banks (usually a clearing bank on Wall Street, New York)’.<sup>44</sup> Although PAPSS does not solve the foreign currency challenges presented by the global liquidity and relative-value security of holding US dollars or euros, it is expected to bring relief to the foreign currency market in Africa.

### *What are some of the hurdles PAPSS confronts?*

First, a large share of today’s local currency-based trade in Africa occurs informally in cash across borders. This means that the demand for and flow of each African currency are poorly understood and lie outside of aggregable cross-country payment platforms. If these traders can be incentivised to use electronic payment platforms, however, the picture of intra-African trade may become clearer. This would also foster the continent-wide local currency-based trade advantages of PAPSS. Yet, according to an African banker interviewed for this paper, informal traders are hesitant to enter the formal economy and many African financial institutions are relatively hesitant to allow a multilateral African institution to aggregate their financial transaction data.

Second, since some African currencies are more robust than others in certain sub-regions (within which African trade also tends to be clustered), for smaller economies this may lead simply to the replacement of extra-continental currencies with stronger regional ones. An example is the embedded role of the South African rand within the Southern African Customs Union (comprising Botswana, Lesotho, Namibia, South Africa and Eswatini), which may impact the value and use of any prospective shift toward more cross-continental currency pooling and data sharing.

Third, many African banks and financial institutions are not currently signatories of PAPSS. Hence, there is a risk of sub-optimal agglomeration of African payments, and potentially of fragmentation regionally or between PAPSS and SWIFT. One Nigerian report suggested that all African central banks were expected to enrol in PAPSS by 2024, with all commercial banks to follow suit by the end of 2025.<sup>45</sup> A less optimistic view was offered by

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43 Afreximbank, “Pan-African Payment and Settlement System Launched by President Akufo-Addo Foreseeing \$5bn Annual Savings for Africa”, Press Release, March 13, 2021.

44 G Elias and Co., “PAPSS and the Future of African Trade”, January 2022.

45 Abayomi, “Breaking Free from Dollar”.



a South African banker, suggesting a lack of established institutional trust across African financial institutions to underpin a sufficiently comprehensive expansion of PAPSS. So far institutions from Nigeria, Ghana, Liberia, Guinea, Sierra Leone, Gambia, Djibouti, Zimbabwe and Zambia are comparatively represented in PAPSS.

From that lens, it was argued that many African financial institutions are familiar with the mechanics of SWIFT and the reliability and visibility with which it transmits payments across African countries, even if it often means a default third-party intermediary financial institution elsewhere. Moreover, thanks to SWIFT there is a lot of pre-existing data on African banking transfers and not yet a sufficiently trusted and known system within Africa offering an established, reliable and transparent equivalent.

### *PAPSS and the reality of extra-African trade*

At present, many African countries' largest trade partners are outside of the continent. To the extent that countries such as the US, China and members of the EU have goods and services that African countries want, the currencies of these trade partners will probably still be needed by African countries for some years to come.

Further, despite China's being the region's largest bilateral trade partner for more than a decade, the renminbi has played only a small role in cross-border trade. However, '[a]s Africa's largest trade partner for 13 years the role of the RMB in Africa is expected to grow'.<sup>46</sup> China already has currency-swap agreements with the top three economies (in terms of GDP size) on the continent, namely Egypt, Nigeria and South Africa.<sup>47</sup> Kenya, Mauritius and Zimbabwe are some of the other African countries with such a swap agreement. In addition, Chinese media reports that Angola and Zimbabwe have recognised the renminbi as legal tender. One Chinese media article highlighted that the 'currency of the largest trading partner [of Africa] will inevitably drive the development of the Continental Free Trade Area and provide stronger financial support and services for Africa's industrialisation and modernisation'.<sup>48</sup> Further, China has set up renminbi cross-border hubs in Yiwu, Zhejiang Province and Changsha, Hunan. Changsha is also the focus of innovative efforts to foster Chinese cross-border payments in local currencies, including pilot projects for cross-border small currency businesses in Africa.<sup>49</sup>

Beyond China, one online source suggests that PAPSS has already agreed to partner with the equivalent system attached to the Arab Monetary Fund – BUNA.<sup>50</sup> BUNA's remit is to facilitate the seamless exchange of payments in local and major international currencies between financial institutions and central banks in the Arab region and elsewhere. The BUNA-PAPSS collaboration is intended to enable fast, secure and affordable transactions

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46 "The Internationalization of the Renminbi Is Accelerating in Africa", *LJZ Finance*, August 7, 2023 (in Chinese).

47 "The Internationalization".

48 "The Internationalization".

49 People's Republic of China, Ministry of Commerce, "Xi Jinping Held Talks with Serbian President Vučić", June 8, 2023.

50 Abayomi, "Breaking Free from Dollar".

directly between Africa and the Middle East, in local currencies. Similarly, in October 2023, 11 Caribbean central banks agreed to pilot a PAPSS-equivalent integrated payments process called the CARICOM Payments and Settlements System (CAPSS).<sup>51</sup> It is intended that PAPSS and CAPSS will also foster elevated trade between Africa and the Caribbean.<sup>52</sup>

PAPSS is a frontier opportunity to revolutionise payments practice within the continent, and beyond the continent and other regions. The rollout process, overall, at present appears to be a steady evolution more than a revolution. There are many considerations to be made, agreements to be reached and hurdles to overcome. It is also important to ensure that today's dominant external currencies in both intra- and extra-African trade are not merely replaced by new currencies such as the renminbi or the Kenyan shilling. To that point, the potential of PAPSS may still be underappreciated and it needs to be carefully weighed and implemented.

In this context, given the parallel and better-resourced BRICS countries' local currency-based trade agenda, it is important that the African BRICS members – Egypt, Ethiopia and South Africa – ensure Africa's own local currency agenda is not secondarily implemented.

## Policy recommendations for Africa amid broader monetary reform agendas

The 15<sup>th</sup> BRICS summit in 2023, hosted by South Africa, stressed the importance of encouraging the use of local currencies in international trade and financial transactions. It also tasked relevant institutional and thematic experts to consider the issue of local currencies, payment instruments and platforms, and to report back. Having considered these issues, this paper makes the following policy recommendations.

- African trade with economies outside the continent is presently dominated by the use of external currencies. In addition, much of the intra-African local currency-based trade is informal, cash based and cross border. Any movement toward more elevated and formalised local currency-based intra-African trade must realistically factor in economic and information-based hurdles.
- A long-term response to currency-related development hurdles is in both South Africa's and Africa's interests. However, there is a risk that near-term change may be driven and overwhelmed by external geopolitical factors. Moreover, monetary reform may result in both intended and unintended winners and losers. It must be weighed strategically, independently and multilaterally.

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51 PAPSS, "CARICOM Central Banks Adopt PAPSS for Intra-Regional Trade Transactions", Press Release, October 26, 2023; Pan African Chamber of Commerce and Industry, "Afreximbank Opens CARICOM Office in Barbados", August 5, 2023. Pan African Chamber of Commerce and Industry, "Afreximbank Opens CARICOM".

52 Pan African Chamber of Commerce and Industry, "Afreximbank Opens CARICOM".

- Technological change is happening quickly and new possibilities for payment systems are emerging regularly. This affects the feasibility of using local currencies in international trade and finance. Yet, technological change also brings complexity, dependencies and costs that may complicate international economic relations differently. In the race to avoid extra-African currency-related hurdles, African policymakers may introduce new technological cost and access hurdles. Policymakers must comprehensively weigh all associated costs and benefits. This is especially true as many African countries may face greater technological access and cost burdens than BRICS countries such as China, India and Russia.
- Data-sharing, management regulation and digital trade governance institutions must evolve constantly. Cross-border payments and payment platforms, let alone digital currencies, generate significant amounts of commercially valuable and sensitive data. Lack of trust in the use of this data may inhibit the development of the cross-African platforms and systems that would otherwise underpin any desired shift toward using local currencies.
- A better understanding is needed of the opportunities and risks attached to the 'closed loop' trade-based models that China and some of its African trade partners are fostering. Reconciling such trade takes coordination, aggregation and some degree of related economic integration. For policymakers and entrepreneurs, the evolution of these models presents an immediate means of overcoming some foreign currency constraints. Yet, bankers interviewed here suggested these came with their risks and may not be a panacea.
- African monetary policy leaders and experts must track and optimally respond to the rollout of BRICS's currency agenda. At the same time, BRICS members Egypt, Ethiopia and South Africa must carefully balance their African and BRICS commitments. Although BRICS is not promoting a shared currency at present, it is important to ensure that any shift away from today's major international currencies does not merely result in one extra-African currency being replaced by other extra-African currencies – such as the Chinese renminbi or the UAE's dirham – in extra- and intra-African trade. Further, it is essential to ensure the process does not lead to the elevation of some sub-regional currencies over others in ways that create new hurdles for smaller African economies.

# Author

## Associate Professor Lauren A Johnston

is a development economist with expertise in China–Africa relations, demographic change and the economy. She is an Associate Professor at the China Studies Centre, University of Sydney, and previously served as a Senior Research Consultant at the South African Institute of International Affairs. An economist by training, she specialises in China’s economy and its outbound trade and investment, especially with Africa. She was an ODI Fellow in Sierra Leone and holds a PhD in Economics from Peking University, an MSc in Development Economics from SOAS (London) and a BA/BCom (Melbourne).

# Acknowledgement

SAIIA gratefully acknowledges the generous funding from the Government of Sweden for this research

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Jan Smuts House, East Campus, University of the Witwatersrand  
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa  
Tel +27 (0)11 339-2021 · Fax +27 (0)11 339-2154  
[www.saiia.org.za](http://www.saiia.org.za) · [info@saiia.org.za](mailto:info@saiia.org.za)