Charting the Financial Landscape: ECU, SDR, BRICS, and Cryptocurrencies - Addressing Challenges and Paving the Path Forward

Narcisa Roxana Moşteanu
College of Business, American University of Malta, Cospicua, Malta

Abstract:
Currently, the financial landscape is evolving very quickly, new technologies and changes in customer wishes and fulfillment time make currencies take on different forms and functions, each presenting unique challenges and opportunities. This article explores the historical development and contemporary meaning of currencies, ranging from traditional units of account such as the ECU and the SDR to the emerging association of economic power, the BRICS and the disruptive force of cryptocurrencies. The article begins by tracing the historical evolution of these currencies, shedding light on their origins and roles in international finance. It examines the influence of the ECU, SDR and BRICS and their potential in reshaping the global financial order. The rise of cryptocurrencies, their underlying technology (blockchain), and their transformative impact on traditional financial systems are also explored in depth. Common challenges and issues facing these forms of currency are identified, including regulatory complexities, volatility, security concerns, and barriers to adoption. The article examines the integration of traditional coins, simple or composite, into the cryptocurrency ecosystem, offering insights into potential solutions to address these challenges. Regarding the future, in its dynamics, the article offers a forward-looking perspective on the evolving role of these currencies in a globalized economy, highlighting opportunities for adaptation, cooperation, and resettlement of geopolitical and financial grace. The paper concludes with a call to navigate the complexities of the modern financial landscape with flexibility, innovation and attention to socio-economic impact. This article serves as a comprehensive resource for economists, policymakers, investors, companies, and individuals seeking to understand the dynamic interplay of currencies in the ever-changing world of finance.

Keywords: ECU, SRD, BRICS, cryptocurrencies, financial landscape.

Introduction
To better understand the impact felt today by the development and use of these currencies, it is good to be aware of the historical evolution of currencies such as the European Monetary Unit (ECU) and Special Drawing Rights (SDR). Understanding the functioning mechanism of these currencies offers perspectives on the evolution of international monetary systems and their impact on economic stability, from their implementation until now. These composite currencies, of account, represent among the alleles the starting base of BRICS. The BRICS formations (Brazil, Russia, India, China, South Africa) represent a significant part of the world's population and economic output. Exploring the
role of a BRICS account currency in the global economy sheds light on emerging powers and their potential to reshape the international financial order. Which of these account currencies can disrupt the cryptocurrency market remains to be seen. Cryptocurrencies are known to have disrupted traditional financial systems and ignited discussions about the future of money. Analyzing their impact, challenges and opportunities is crucial for investors, policy makers and businesses.

This paper will examine the integration of account currencies into the cryptocurrency ecosystem and highlights the continued convergence of financial systems. The research believes this could have implications for cross-border transactions and financial stability. The article aims to identify the challenges facing these different forms of currency, such as regulatory hurdles, volatility, and international cooperation, and help stakeholders anticipate and address potential issues. The present workpaper also explores the prospects of these currencies in a globalized economy. This information can inform strategic decisions for individuals, businesses, and governments. Certainly, policymakers and financial regulators must adapt to the changing landscape of currencies to ensure economic stability and consumer protection. This topic highlights the need for careful political development.

Materials and Methods

The present work uses a combination of research methods and materials to provide a comprehensive overview of the topic. Among the materials used are research papers and academic journals; reports of public institutions with connections in the field of monetary and financial policy; press statements released by public authorities in the field; books; periodicals; financial data and statistics as appropriate. Regarding the research methods used, the review of the specialized literature was used; interviews and expert opinion from both the business and financial-banking environment; analysis of the political and legislative framework; financial analyzes of indicators related to the performance and stability of currencies and the monetary and financial market, but also trend analysis of modern currencies such as account ones and cryptocurrencies.

Historical perspective: ECU and SDR

In 1979 the European Economic Community decide to enact the European Monetary System. This was considered the most outstanding event in the European Community's history (Works Jr, 1986). Thus, in March 1979 was introduced ECU – European Currency Unit was introduced as a virtual currency (electronic unit of account) within European Economic space (later become European Union). ECU was a composite currency used as unit of account to facilitate exchange rate stability between European countries, to harmonize the monetary policy and encourage the convergence of economic and monetary systems between those countries. The introduction of ECU was considered as a new plan for monetary union in Europe (Giovannini et. al., 1990) which later will become very popular.

ECU was a weighted basket of European currencies from European Community members. The composition was changed over time to reflect the important economic and financial changes on each participant member state. However, ECU’s composition included proportions of German Mark (DEM), Franch Frak (FRF), British Pound (GBP), Italian Lira (ITL), Denmark Krone (DKK), Dutch Guilder (NLG), Belgian Franc (BEF), Luxemburg Frank (LUF), Irland Pound (IEP), Spanish Peseta (ESP), Portuguese Escudo (PTE) and Greek Drachma (GRD).

ECU was used for accounting and financial purposes, such as pricing goods and services in contracts and financial instruments. ECU was used as a payment method between European countries and started to be used in international transactions too (outside Europe).

ECU was the precursor of EURO. Thus the existence of ECU stopped in 1999, when the EURO happening to be used as a physical currency for a certain number of countries from
European Union which adhere to European monetary space - Eurozone (20 members: Austria, Belgium, Cyprus, Croatia, Finland, France, Germany, Greece, Ireland, Italy, Lithuania, Latvia, Luxembourg, Netherlands, Portugal, Spain, Slovenia, Slovakia, Malta).

Figure 1. ECU Composition during Period 1989-1999

The Special Drawing Rights (SDR) currency was initiated in 1969 by the International Monetary Fund (IMF) and is used as an account currency and supplement to the authorized reserves of member countries and is based on a basket of major international currencies.

The original SDR basket included four major currencies: the US dollar (USD), the British pound (GBP), the German mark (DEM), and the French franc (FRF), in 1973, the IMF revised the SDR basket to include five major currencies: the US dollar (USD), British Pound Sterling (GBP), Japanese Yen (JPY), German Mark (DEM) and French franc (FRF). In the year 1981 follows the second revision by which the French franc (FRF) was replaced by the Chinese renminbi (CNY), also known as the yuan, as one of the currencies of the SDR basket. This was a significant change as it included a currency from a non-industrialized country. Annual 1999 brings a major change in the composition of the DST. In 1999, the euro (EUR) was introduced as a new currency and the German mark (DEM) was phased out. The DST basket then included the US dollar (USD), British pound (GBP), Japanese yen (JPY), euro (EUR) and Chinese renminbi (CNY).

Although not that much used, SDR remains a basket of major international currencies that is not regularly used for daily transactions, but usually stored for international financial operations or unit of reserve among central banks and governments.

Figure 1. SDR Composition during Period 2016-2022

BRICS: Emerging powerhouse

BRICS is an abbreviation used for an alliance of five major emerging economies: Brazil, Russia, India, China and South Africa. These nations are identified as BRICS members and collaborate on various economic, political and strategic issues. The BRIC grouping was originally conceived by Jim O’Neill (2001). The concept attracted attention because it highlighted the economic potential of these four countries. The first legitimate BRIC summit was convened in 2009, and South Africa tied the group in 2010. BRICS countries collaborate on a wide range of issues, including economic cooperation, political coordination and addressing global challenges.
Their main goals include promoting economic growth, increasing regional and global stability, reforming international financial institutions, and growing their collective authority on the world podium.

BRICS members have taken steps to strengthen economic ties with each other. They formed the New Development Bank (NDB), also known as the BRICS Bank, to finance infrastructure and sustainable development projects in member countries and other emerging economies. The headquarters of the BRICS Bank is in Shanghai, since 2015. In addition, they explored the possibility of trade agreements and foreign exchange agreements to facilitate trade between them. BRICS started to show its presents very actively since 2022. In August 2023, other 6 countries adhere to BRICS: Argentina, Egypt, Iran, Ethiopia, Saudi Arabia and United Arab Emirates. Good to comprehend that this economic and financial association does not have direct intentions on the important currencies of international circulation, and the BRICS countries have worked to diversify their foreign exchange reserves, away from the strong dependence on USD and EURO, trying to maintain economic stability, social and financial. However, BRICS helps member countries hold more of their reserves in currencies other than the US dollar, including the EUR, and even in their own national currencies. Such diversification may have a minor weakening effect on the USD as it reduces global demand for it. However, contemporaneous literature underlines that there will be a shift of power between the US dollar and the BRICS (Roach, 2023).

The Rise of Cryptocurrencies

Cryptocurrencies are entirely digital and exist only in electronic form. They are represented as digital tokens or entries in a blockchain ledger (Moşteanu & Flocea, 2023). Cryptocurrencies rely on cryptographical methods to safeguard operations and control the formation of new units. This makes it extremely challenging for illegal parties to alter transaction data or forge tokens. Contrasting conventional currencies, which are usually supplied and controlled by governments and central banks, cryptocurrencies operate in a decentralized manner. They are not controlled by a single body or central organization. Instead, transactions are verified and recorded by a network of computers (nodes) in a peer-to-peer fashion. Cryptocurrency transactions are recorded on a public blockchain ledger that can be viewed by anyone. Once recorded, transactions are generally irreversible, providing a high level of transparency and immutability.

Integrating the Currency of Account with Cryptocurrency

Contemporary researchers and economic analysts show keen interest (Albekov et al., 2017; Vovchenko et al., 2017; Efremenko et al., 2018) in the possibility of activating the cryptocurrency market and integrating it with the national or even the composite currency. In recent years, the events that took place on a financial and socio-economic level were influenced by geopolitical changes, but also by globalization.

The integration of account currencies into the cryptocurrency ecosystem is a concept that involves connecting traditional currencies, often used as units of account, with the world of cryptocurrencies. This integration has the potential to bridge the gap between traditional financial systems and the emerging blockchain-based financial ecosystem.

In the present case, we are talking about the integration of virtual account currencies in the cryptocurrency ecosystem. And if we are talking about a composite currency, then the challenge is great. They have become stablecoins, designed to maintain a stable value in relation to the coins that make up the composite currency. But it can certainly lead to a stabilization of the currency market. The integration of stablecoins can enable efficient cross-border transactions without the need for currency conversion, reducing fees and transaction times associated with traditional international transfers.
Businesses can benefit from stablecoins for international trade and supply chain financing, as they provide a stable and efficient means of settling cross-border transactions.

In 2023 Zaharikov emphasized that there was the prospect of introducing a common currency for BRICS when discussing whether it should be a private cryptocurrency such as Bitcoin or government-controlled digital money. In recent years, many countries have started to use Bitcoin as a payment currency (El Salvador, Switzerland). However, Bitcoin has proven not to be a stable currency. Bitcoin’s loss of market value has put strain on state finances in El Salvador and some cantons in Switzerland. Their budgets had to manage the shortfalls. Anticipating it and observing it now, other states like China or Russia have reacted to the challenge of a new digital financial innovation by assuming their own digital currencies that they can manage and regulate. It seems that the BRICS common digital payment unit can certainly convey confidence and safety, especially for BRICS external trading allies who would like to hedge their foreign exchange risks when exporting or importing vital and valuable goods and services.

**Challenges on the Horizon**

As with any new change to the monetary payment system, the integration of account currencies also raises challenges, including regulatory oversight, centralized control (in the case of composite stablecoins), and potential privacy issues.

The introduction of a new currency such as BRCIS as well as its digitization would indeed bring various opportunities for the countries signing or adhering to this project, but also challenges related to regulation, volatility and international cooperation.

In creating a single composite currency, the BRICS countries reached a consensus. However, the founding and acceding countries have different regulatory approaches when it comes to cryptocurrencies and digital currencies. Therefore, a great challenge is the harmonization of their national regulations to the newly formed economic-financial region. The BRICS countries must determine how the new digital currency fits into their existing monetary policies and whether they can effectively control the money supply and inflation.

Another challenge is cyber security, as digital currencies are susceptible to hacking and fraud. Therefore, solid security measures must be implemented and ensured to protect users' funds and personal information before starting real operation with these currencies.

On the other hand, developing a digital currency that can handle a large volume of transactions is crucial, especially in countries with large populations such as India and China. In this way, ensuring that the currency can interact with other blockchain networks and existing financial systems is essential to its success.

Despite the challenges listed above, we believe that it is also the benefits of an internal financial-monetary stability, avoiding expensive and fluctuating currency exchanges.

**Future Prospects**

The future prospects for the introduction of a new digital currency for the BRICS countries, along with its potential as a cryptocurrency, are promising and multifaceted.

Thus, as the financial, monetary, and economic scene maintains to progress, new developments related to digital currencies are likely to emerge, including those proposed by the BRICS countries. Here is how the article can serve as a basis for tracking and analyzing these developments. Even the current research aims to continue with an in-depth investigation of the economic effect of the introduction of a BRICS digital currency, providing insights into its effects on trade, investment and monetary policy in member countries and globally.

Politicians and regulatory authorities can take into account how the ECU and SDR have echoed and the implications they had on the global financial market, they can take into account the previous legal regulations and their
effects when formulating the policies and regulations regarding digital currency for BRICS countries.

It should be noted that the introduction of a BRICS digital currency may have geopolitical consequences. Future research and analysis can deepen how such a currency influences international relations and the global balance of power, as well as changing international trade agreements and alliances.

Last but not least, considering new digital finance technologies, advances in blockchain technology and digital currency infrastructure can enhance the feasibility and scalability of the proposed digital currency. It is desirable that before the implementation of any change, an impact study should be developed on the impact of the use related to the BRICS digital currency, how people and companies incorporate it into their daily financial activities.

Conclusion

In conclusion, the introduction of a new digital currency for the BRICS countries, together with its potential as a cryptocurrency, is a dynamic and multifaceted topic with far-reaching implications. While the challenges are obvious, including regulatory hurdles, volatility and the need for international cooperation, the outlook for such a currency is promising. It has the potential to reshape financial systems, stimulate economic integration between BRICS and acceding nations, and influence global economic dynamics. Certainly, the appearance and use of a new composite currency will attract a change in the composition and value of the financial and capital markets around the world and will reset the banking market as well.

As this concept evolves, ongoing research, analysis and policy considerations will be crucial to navigating the complexities of implementation and addressing the challenges effectively. The article serves as a basic resource for understanding the initial steps and key drivers in this journey, providing a basis for further exploration of the future landscape of digital currencies in the BRICS context.

Conflict of Interests

No conflict of interest.

References


