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Strengthening Global South Cooperation for a More Inclusive and Sustainable Governance

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# Special Column on Progress in BRICS Cooperation

## Strengthening Global South Cooperation for a More Inclusive and Sustainable Governance*

1. We, the Leaders of BRICS countries, met in Rio de Janeiro, Brazil, from 6 to 7 July 2025 for the XVII BRICS Summit held under the theme: "Strengthening Global South Cooperation for a More Inclusive and Sustainable Governance".

2. We reaffirm our commitment to the BRICS spirit of mutual respect and understanding, sovereign equality, solidarity, democracy, openness, inclusiveness, collaboration and consensus. As we build upon 17 years of BRICS Summits, we further commit ourselves to strengthening cooperation in the expanded BRICS under the three pillars of political and security, economic and financial, cultural and people-to-people cooperation, and to enhancing our strategic partnership for the benefit of our people through the promotion of peace, a more representative, fairer international order, a reinvigorated and reformed multilateral system, sustainable development and inclusive growth.

3. We welcome the Republic of Indonesia as a BRICS member, as well as the Republic of Belarus, the Plurinational State of Bolivia, the Republic of Kazakhstan, the Republic of Cuba, the Federal Republic of Nigeria, Malaysia, the Kingdom of Thailand, the Socialist Republic of Vietnam, the Republic of Uganda, and the Republic of Uzbekistan as BRICS partner countries.

4. We underline the significance of the adoption of the BRICS Leaders' Framework Declaration on Climate Finance and of the BRICS Leaders' Statement on the Global Governance of Artificial Intelligence, as well as endorse the launch of the BRICS Partnership for the Elimination of Socially Determined Diseases. These initiatives reflect our joint efforts to foster inclusive and sustainable solutions to pressing global issues.

**Strengthening Multilateralism and Reforming Global Governance**

5. We reiterate our commitment to reforming and improving global governance by promoting a more just, equitable, agile, effective, efficient, responsive, representative, legitimate, democratic and accountable international and multilateral system in the spirit of extensive consultation, joint contribution and shared benefits. In this regard, we take note of the adoption of the Pact of the Future at the Summit of the Future, including its two annexes, the Global Digital Compact and the Declaration of Future Generations. Bearing in mind the need to adapt the current architecture of international relations to better reflect the contemporary realities, we reaffirm our commitment to multilateralism and upholding the international law, including the Purposes and Principles enshrined in the Charter of the United Nations (UN), in their entirety and interconnectedness as its indispensable cornerstone, and the central role of the UN in the international system, in which sovereign states cooperate to maintain international peace and security, advance sustainable development, ensure the promotion and protection of democracy, human rights and fundamental freedoms for all as well as cooperation based on solidarity, mutual respect, justice and equality. We also reiterate our commitment to ensuring greater and more meaningful participation and representation of Emerging Markets and Developing Countries (EMDCs), as well as Least Developed Countries (LDCs), especially from Africa and Latin America and the Caribbean, in global decision-making processes and structures and making them better attuned to contemporary realities. We also call for achieving equitable geographical representation in the Secretariat of the United Nations and other international organizations in a timely manner, as well as increasing the role and share of women, especially from EMDCs, at all levels of leadership and responsibilities in these organizations. We stress the

* Puclished on 6 July 2025.

need for the selection and appointment process of UN executive heads and senior positions to be guided by the principles of transparency and inclusiveness, and carried out in accordance with all the provisions of Article 101 of the UN Charter, with due regard for recruiting staff on a geographical basis as wide as possible and the increased participation of women, and adhere to the general rule that there should be no monopoly on senior posts in the UN system by nationals of any State or group of States.

6. Recognizing the 2023 Johannesburg-II Leaders' Declaration, we reiterate our support for a comprehensive reform of the United Nations, including its Security Council, with a view to making it more democratic, representative, effective and efficient, and to increase the representation of developing countries in the Council's memberships so that it can adequately respond to prevailing global challenges and support the legitimate aspirations of emerging and developing countries from Africa, Asia and Latin America, including BRICS countries, to play a greater role in international affairs, in particular in the United Nations, including its Security Council. We recognize the legitimate aspirations of African countries, as reflected in the Ezulwini Consensus and Sirte Declaration. We stress that the United Nations Security Council reform is to lead to the amplified voice of the Global South. Recalling the 2022 Beijing and 2023 Johannesburg-II Leaders' Declarations, China and Russia, as permanent members of the United Nations Security Council, reiterate their support to the aspirations of Brazil and India to play a greater role in the United Nations, including its Security Council.

7. In light of the 80th Anniversary of the United Nations, we recall UNGA Resolutions 75/1, 77/335 and other relevant resolutions, and reiterate our commitment to provide the United Nations with all the required support it needs to discharge its mandate. We emphasize the strong call for reforms of the principal organs of the United Nations with a view to achieving concrete progress. We recommit to instill new life in the discussions on reform of the UN Security Council and continue the work to revitalize the General Assembly and strengthen the Economic and Social Council. We look forward to the successful conclusion of the 2025 Review of the Peacebuilding architecture.

8. We agree that, in the context of the contemporary realities of the multipolar world, it is crucial that developing countries strengthen their efforts to promote dialogue and consultations for more just and equitable global governance and mutually beneficial relations among nations. We acknowledge that multipolarity can expand opportunities for EMDCs to develop their constructive potential and enjoy universally beneficial, inclusive and equitable economic globalization and cooperation. We highlight the importance of the Global South as a driver for positive change, especially in the face of significant international challenges, including deepening geopolitical tensions, rapid economic downturns and technological changes, protectionist measures and migratory challenges. We believe BRICS countries continue to play a pivotal role in voicing the concerns and priorities of the Global South, as well as in promoting a more just, sustainable, inclusive, representative and stable international order based on international law.

9. Recalling that 2025 marks the eightieth anniversary of the end of the Second World War, a war which brought untold sorrow to humankind, particularly in Europe, Asia, Africa, the Pacific and other parts of the world, we render our full support to the UNGA Resolution 79/272 on the Eightieth anniversary of the end of the Second World War, on this historic event, which established the conditions for the creation of the United Nations, designed to save succeeding generations from the scourge of war.

10. On the 80th anniversary, we reiterate the urgent need to reform the Bretton Woods Institutions (BWI) to make them more agile, effective, credible, inclusive, fit for purpose, unbiased, accountable, and representative, enhancing their legitimacy. First and foremost, they must reform their governance structure to reflect the transformation of the global economy since their establishment. The voice and representation of EMDEs in the BWI must reflect their increasing weight in the global economy. Moreover, we call for improved management procedures, including through a merit-based and inclusive selection process that would increase regional diversity and representation of EMDEs in the leadership of the IMF and the WBG, as well as the role and share of women at the managerial level.

11. In the current context of uncertainty and volatility, the International Monetary Fund (IMF) must remain adequately resourced and agile, at the center of the global financial safety net (GFSN), to effectively support its members, particularly the most vulnerable countries. Despite the absence of quota realignment, we have provided consent to the proposed quota increase under the 16th General Review of Quotas (GRQ) and urge IMF members that have not yet done so to provide their consent and give effect to the quota increases under the 16th GRQ with no further delay. We urge the IMF Executive Board to fulfil the mandate set by the Board of Governors to develop approaches to quota share realignment, including

through a new quota formula, under the 17th GRQ at the earliest possible time. We support the efforts of the IMF Executive Board and International Monetary and Financial Committee (IMFC) Deputies in developing general principles to guide future discussions and help foster convergence of views around the pressing quota and governance reforms. We reiterate that further quota realignment in the IMF should not come at the expense of developing countries, reflecting countries' relative positions in the global economy, and increasing the shares of EMDEs. In line with the BRICS Rio de Janeiro Vision for IMF Quota and Governance Reform, we stand ready to engage constructively with other IMF members to guarantee that meaningful quota share realignment and governance reforms are included in the 17th GRQ.

12. We reaffirm that the 2025 World Bank Shareholding Review, co-chaired by Brazil, is a critical tool to strengthen multilateralism and enhance the legitimacy of the World Bank Group, as a better, bigger, and more effective development finance institution. In line with the Lima principles, we continue to advocate for the increased voice and representation of developing countries, underpinned by a shareholding realignment that corrects their historic underrepresentation. We will endeavor to ensure that tackling poverty and inequality, including through job creation, in the challenging context of climate change and digitalization, remains central to the World Bank Group's mission.

13. The multilateral trading system has long been at a crossroads. The proliferation of trade-restrictive actions, whether in the form of indiscriminate rising of tariffs and nontariff measures, or protectionism under the guise of environmental objectives, threatens to further reduce global trade, disrupt global supply chains, and introduce uncertainty into international economic and trade activities, potentially exacerbating existing economic disparities and affecting prospects for global economic development. We voice serious concerns about the rise of unilateral tariff and non-tariff measures which distort trade and are inconsistent with WTO rules. In this context, we reiterate our support for the rulesbased, open, transparent, fair, inclusive, equitable, non-discriminatory, consensus-based multilateral trading system with the World Trade Organization (WTO) at its core, with special and differential treatment (S&DT) for its developing members. We emphasize that the WTO, at its 30th anniversary, remains the only multilateral institution with the necessary mandate, expertise, universal reach and capacity to lead on the multiple dimensions of international trade discussions, including the negotiation of new trade rules. We recall the commitment made at the 12th WTO Ministerial Conference and reaffirmed at the 13th WTO Ministerial Conference to work towards a necessary reform of the Organization to ensure its relevance and restore the credibility of the multilateral trading system. We remain committed to the urgent restoration of an accessible, effective, fully-functioning, two-tier binding WTO dispute settlement system. We strongly support Ethiopia and Iran's bid for accession to the WTO. We welcome the BRICS Declaration on WTO Reform and Strengthening of the Multilateral Trading System adopted by the Ministers of Trade.

14. We condemn the imposition of unilateral coercive measures that are contrary to international law, and reiterate that such measures, inter alia in the form of unilateral economic sanctions and secondary sanctions, have far-reaching negative implications for the human rights, including the rights to development, health and food security, of the general population of targeted states, disproportionally affecting the poor and people in vulnerable situations, deepening the digital divide and exacerbating environmental challenges. We call for the elimination of such unlawful measures, which undermine international law and the principles and purposes of the UN Charter. We reaffirm that BRICS member states do not impose or support non-UN Security Council authorized sanctions that are contrary to international law.

15. Recognizing the interconnected nature of global health challenges and their transboundary implications, we reaffirm our commitment to strengthening global health governance by enhancing international cooperation and solidarity. We underscore the role of the World Health Organization as the directing and coordinating authority on international health work within the UN System, particularly in times of crises and emergencies, and emphasize the necessity of bolstering its mandate, capabilities, and financing mechanisms. A robust and adequately funded WHO is essential to effectively address current and future public health challenges, mitigate inequalities, and ensure equitable access to healthcare services, including medicines, and vaccines for all, particularly in developing countries. We commit to actively supporting efforts to strengthen the global health architecture, fostering equality, inclusivity, transparency, and responsiveness, ensuring no country is left behind in achieving health-related Sustainable Development Goals. We acknowledge the adoption of the WHO Pandemic Agreement by the 78th World Health Assembly. The Agreement will solidify the foundation for a safer and more equitable world against future pandemics. We stand ready to carry this momentum forward to ensure a timely conclusion of

Member States-led and -driven negotiations for the Agreement's Annex on Pathogen Access and Benefit-Sharing.

16. We recognize that Artificial Intelligence (AI) represents a milestone opportunity to boost development towards a more prosperous future. To achieve that goal, we underscore that global governance of AI should mitigate potential risks and address the needs of all countries, including those of the Global South. A collective global effort is needed to establish an AI governance that upholds our shared values, addresses risks, builds trust, and ensures broad and inclusive international collaboration and access, in accordance with sovereign laws, including capacity building for developing countries, with the United Nations at its core. To support a constructive debate towards a more balanced approach, we agreed on the BRICS Leaders' Statement on the Global Governance of Artificial Intelligence, which aims to foster responsible development, deployment, and use of AI technologies for sustainable development and inclusive growth, in compliance with national regulatory frameworks, the UN Charter and respecting the sovereignty of States.

**Promoting Peace, Security and International Stability**

17. We express concern about ongoing conflicts in many parts of the world and the current state of polarization and fragmentation in the international order. We express alarm at the current trend that has seen a critical increase in global military spending, to the detriment of the provision of adequate financing for development to developing countries. We advocate for a multilateral approach that respects diverse national viewpoints and positions on crucial global issues, including sustainable development, the eradication of hunger and poverty and contributing to the global response to climate change, while expressing deep concern over attempts to link security with the climate change agenda.

18. We note the current global context of polarization and distrust and encourage global action to strengthen international peace and security. We call on the international community to respond to these challenges and associated security threats through politico-diplomatic measures to lower conflict potential and stress the need to engage in conflict prevention efforts, including through addressing their root causes. We underscore that security among all countries is indivisible and reiterate our commitment to the peaceful resolution of international disputes through dialogue, consultation and diplomacy. We encourage the active role of regional organizations in conflict prevention and resolution and support all efforts conducive to the peaceful settlement of crises. We highlight the importance of mediation and preventive diplomacy as essential tools to avoid crises and prevent their escalation, in accordance with the Purposes and Principles of the UN Charter. In this regard, we agree to explore avenues for cooperation on the prevention of armed conflicts, UN peacekeeping missions, African Union peace support operations, and mediation and peace processes.

19. We reaffirm our strong commitment to strengthening multilateral cooperation to address humanitarian crises worldwide and express concern at the dwindling of international responses, which were already insufficient, fragmented and often politicized. We strongly condemn all violations of international humanitarian law, including deliberate attacks against civilians and civilian objects, including civilian infrastructure, as well as the denial or obstruction of humanitarian access and the targeting of humanitarian personnel. We underline the need to address accountability for all violations of international humanitarian law. Such breaches of international law not only intensify immediate suffering but also undermine prospects for lasting peace by destroying the material and social foundations necessary for post-conflict reconstruction. We recognize international efforts undertaken by BRICS members to promote respect for, adherence to, and effective implementation of International Humanitarian Law.

20. We reiterate our commitment to the full implementation and advancement of the Women, Peace and Security (WPS) agenda, especially in light of the 25th anniversary of United Nations Security Council Resolution 1325 (2000). We further reiterate the importance of ensuring the full, equal, safe, and meaningful participation of women in decision-making at all levels of peace and security processes, including conflict prevention and resolution, humanitarian relief, mediation, peace operations, peacebuilding, and post-conflict reconstruction and development.

21. We condemn the military strikes against the Islamic Republic of Iran since 13 June 2025, which constitute a violation of international law and the Charter of the United Nations, and express grave concern over the subsequent escalation of the security situation in the Middle East. We further express serious concern over deliberate attacks on civilian infrastructure and peaceful nuclear facilities under full safeguards of the International Atomic Energy Agency (IAEA), in violation of international law and

relevant resolutions of the IAEA. Nuclear safeguards, safety, and security must always be upheld, including in armed conflicts, to protect people and the environment from harm. In this context, we reiterate our support for diplomatic initiatives aimed at addressing regional challenges. We call upon the United Nations Security Council to be seized of this matter.

22. We recall our national positions concerning the conflict in Ukraine as expressed in the appropriate fora, including the UN Security Council and the UN General Assembly. We note with appreciation relevant proposals of mediation and good offices, including the creation of the African Peace Initiative and the Group of Friends for Peace, aimed at peaceful resolution of the conflict through dialogue and diplomacy. We expect that current efforts will lead to a sustainable peace settlement.

23. We are deeply concerned over continued conflicts and instability in the Middle East and North Africa (MENA) region. In this regard, we endorse the Joint Statement by BRICS Deputy Foreign Ministers and Special Envoys at their meeting of 28 March 2025.

24. We reiterate our grave concern about the situation in the Occupied Palestinian Territory, with the resumption of continuous Israeli attacks against Gaza and obstruction of the entry of humanitarian aid into the territory. We call for adherence to international law, in particular to international humanitarian law and international human rights law, and condemn all violations of IHL, including the use of starvation as a method of warfare. We also condemn attempts to politicize or militarize humanitarian assistance. We exhort the parties to engage in good faith in further negotiations to achieve an immediate, permanent and unconditional ceasefire, the full withdrawal of Israeli forces from the Gaza Strip and all other parts of the Occupied Palestinian Territory, the release of all hostages and detainees held in violation of international law, and sustained and unhindered access and delivery of humanitarian aid. We reassert our steadfast support for UNRWA and stress the need to fully respect the mandate, bestowed on it by the UNGA, for the provision of basic services to Palestine refugees in its five fields of operations. We call on all relevant parties to respect their obligations under international law and act with utmost restraint and to avoid escalatory actions and provocative declarations. We note, in this regard, the provisional measures of the International Court of Justice in the legal proceedings instituted by South Africa against Israel, which, inter alia, reaffirmed Israel's legal obligation to ensure the provision of humanitarian aid in Gaza.

25. We recall that the Gaza Strip is an inseparable part of the Occupied Palestinian Territory. We underline, in this regard, the importance of unifying the West Bank and the Gaza Strip under the Palestinian Authority, and reaffirm the right of the Palestinian people to self-determination, including the right to their independent State of Palestine.

26. We call on the international community to support the Palestinian Authority in undergoing reforms to fulfill the Palestinians' legitimate aspirations for independence and statehood, as well as the expeditious reconstruction of the civil infrastructure of the territory, with a central role by the Palestinians, as agreed in the Emergency Arab Summit on Palestine of 4 March 2025, and we note with appreciation the initiative to convene an upcoming pledging conference to be held in Cairo. We underscore that efforts to stabilize and rebuild Gaza must go hand in hand with a just and lasting political resolution of the protracted conflict. We express our firm opposition to the forced displacement, temporary or permanent, under any pretext, of any of the Palestinian population from the Occupied Palestinian Territory, as well as any geographic or demographic changes to the territory of the Gaza Strip. We reiterate that international law and international judicial bodies demand the end of the illegal occupation and the immediate cessation of all practices that undermine legal norms and obstruct a just and lasting peace.

27. We reaffirm that a just and lasting solution to the Israeli-Palestinian conflict can only be achieved by peaceful means and depends on the fulfillment of the legitimate rights of the Palestinian people, including the rights to self-determination and return. We reaffirm our support for the State of Palestine's full membership in the United Nations in the context of the unwavering commitment to the two-state solution, in accordance with international law, including relevant UN Security Council and General Assembly resolutions, and the Arab Peace Initiative, that includes the establishment of a sovereign, independent and viable State of Palestine within the internationally recognized 1967 borders, which includes the Gaza Strip and the West Bank, with East Jerusalem as its capital, in order to achieve the vision of two States living side by side, in peace and security. We affirm the need for adequate representation of Palestine in all relevant international organizations, including multilateral financial institutions, and access to their resources. We welcome the continued efforts by BRICS members towards an urgent ceasefire, to accelerate the delivery of humanitarian aid and to achieve a lasting and sustainable peace in the region.

28. We welcome the ceasefire in Lebanon and call on all parties to strictly adhere to its terms and to fully implement UNSC Resolution 1701. We condemn the continued violations of the ceasefire and of the

sovereignty and territorial integrity of Lebanon. We call on Israel to respect the terms agreed with the Lebanese government and to withdraw its occupying forces from all of the Lebanese territory, including the five sites in Southern Lebanon in which they remain.

29. We reaffirm our commitment to the sovereignty, independence, unity, and territorial integrity of Syria and call for a peaceful and inclusive Syrian-led and Syrian-owned, UNfacilitated political process, based on the principles of Security Council Resolution 2254 (2015), in a manner that ensures the security and well-being of the civilian population, without discrimination. We condemn the violence perpetrated in various Syria's provinces among the country's communities, the continuation of terrorist activities by ISIL (Da'esh) and Al-Qaeda affiliates in Syria, including the recent bombing at Mar Elias Church and Rif Dimashq, and express sincere condolences and sympathy to the families of the victims of these terrorist attacks. We also condemn the threat posed by foreign terrorist fighters' presence in Syrian territory as well as the risk of spreading of terrorists from Syria to regional countries. Syria should firmly oppose all forms of terrorism and extremism and take concrete actions to respond to concerns of the international community about terrorism. We welcome the lifting of unilateral sanctions on Syria and hope that this will support efforts to revive the Syrian economy and launch the reconstruction phase in a way that fosters development and stability. While condemning strongly the occupation of parts of Syria, in blatant violation of international law and the 1974 disengagement, we urge Israel to withdraw its forces from the Syrian territory without delay.

30. We reiterate that the principle "African solutions to African problems" should continue to serve as the basis for conflict resolution on the African continent. We recognize the critical role played by the African Union in conflict prevention, management and resolution and reaffirm our support for African peace efforts on the continent, including those undertaken by the African Union, and African sub-regional organizations. In this sense, we commit to consider new ways to support African Union peace support operations, mediation efforts, peace processes and broader peacebuilding initiatives in the African continent.

31. We commend efforts and achievements by African countries and organizations in their pursuit of lasting peace and sustainable development, while expressing serious concern over the severe humanitarian crises resulting from new and protracted armed conflicts in some regions of Africa, particularly the devastating effects of conflicts in Sudan, the Great Lakes region, and the Horn of Africa. We reaffirm our support for efforts aimed at finding political solutions to these crises, reiterate the call for an end to hostilities, and emphasize the need for the peaceful resolution of conflicts.

32. We are deeply concerned over the situation in Sudan resulted in a humanitarian crisis and the growing risk of proliferation of extremism and terrorism. We reiterate our positions in this regard and call for an immediate, permanent, and unconditional ceasefire and for a peaceful resolution of the conflict. We also stress the need for sustained, urgent and unhindered access to humanitarian assistance for the Sudanese population, and for the scaling up of humanitarian aid to Sudan and neighboring countries.

33. We remain seriously concerned with the ongoing deterioration of the security, humanitarian, and economic situation in Haiti. We reaffirm that security and development go hand in hand. The current crisis requires a Haitian-led solution that encompasses national dialogue and consensus building among local political forces, institutions and the society and we call on the international community to support the Haitian endeavors to dismantle the gangs, enhance the security situation and put in place the foundations for long-lasting social and economic development in the country. We support the role of the United Nations and highlight the need for international cooperation to address Haiti's multifaceted crises effectively.

34. We express strong condemnation of any acts of terrorism as criminal and unjustifiable, regardless of their motivation, whenever, wherever and by whomsoever committed. We condemn in the strongest terms the terrorist attack in Jammu and Kashmir on 22 April 2025, during which 26 people were killed and many more injured. We reaffirm our commitment to combating terrorism in all its forms and manifestations, including the cross-border movement of terrorists, terrorism financing and safe havens. We reiterate that terrorism should not be associated with any religion, nationality, civilization or ethnic group and that all those involved in terrorist activities and their support must be held accountable and brought to justice in accordance with relevant national and international law. We urge to ensure zero tolerance for terrorism and reject double standards in countering terrorism. We emphasize the primary responsibility of States in combating terrorism and that global efforts to prevent and counter terrorist threats must fully comply with their obligations under international law, including the Charter of the United Nations, in particular the purposes and principles thereof, and relevant international conventions and protocols, in particular

international human rights law, international refugee law and international humanitarian law, as applicable. We welcome the activities of the BRICS Counter-Terrorism Working Group (CTWG) and its five Subgroups based upon the BRICS Counter-Terrorism Strategy, the BRICS Counter-Terrorism Action Plan and the CTWG position paper. We look forward to further deepening counter-terrorism cooperation. We call for an expeditious finalization and adoption of the Comprehensive Convention on International Terrorism in the UN framework. We call for concerted actions against all UN designated terrorists and terrorist entities.

35. We condemn in the strongest terms the attacks against bridges and railways infrastructure deliberately targeting civilians in Bryansk, Kursk and Voronezh regions of the Russian Federation on 31 May, 1 and 5 June 2025, resulting in multiple civilian casualties, including children.

36. We reiterate our commitment to preventing and combating illicit financial flows, including money laundering and the financing of terrorism, extremism and proliferation, as well as other forms of transnational organized crime, such as drug trafficking, cybercrimes, crimes that affect the environment, illicit trafficking of firearms, trafficking in persons, corruption and the use of new technologies, including cryptocurrencies, for illegal, in particular terrorist, purposes. In this regard, we underscore the importance of enhancing capacity-building and technical assistance, particularly for developing countries, to support the implementation of relevant international obligations. We reaffirm our commitment to the principles of technical and non-politicized nature of international anti-criminal cooperation, including for the purpose of prevention and of financial investigations. We note the need to further strengthen such cooperation, including through relevant existing BRICS working groups, meetings of the BRICS countries competent authorities and other forms of cooperation based on the documents adopted in BRICS, as well as the relevant international legal instruments to which BRICS countries are parties. We emphasize the importance of creating conditions for the safe development of the younger generation, reducing the risk of their involvement in illegal activities, and welcomed the development of relevant international projects with the participation of young people.

37. We are resolute to promote BRICS cooperation in the prevention of and fight against corruption, in line with relevant international agreements in this regard, in particular the United Nations Convention against Corruption, and strengthen our coordination on major issues on the international anti-corruption agenda. We attach importance to meeting the BRICS anti-corruption commitments and to enhancing anti-corruption cooperation and recovery and return of assets and proceeds of corruption. We welcome the work of the BRICS Anti-Corruption Working Group to foster collaboration on anti-corruption matters, in particular for sharing anti-corruption knowledge and expertise among practitioners, including the formulation of the BRICS Common Vision and Joint Action on Enhanced Anti-Corruption Cooperation and Recovery and Return of Assets and Proceeds of Corruption, promotion of denial of safe haven and strengthening capacitybuilding among the member countries.

38. We express concern about the growing risks of nuclear danger and conflict. We reiterate the need for invigorating the system of disarmament, arms control and nonproliferation and for preserving its integrity and effectiveness to achieve global stability and international peace and security. We stress the significant contribution of nuclearweapon-free zones to the strengthening of the nuclear non-proliferation regime, reaffirm our support for and respect towards all existing nuclear-weapons free-zones and their associated assurances against the use or threat of use of nuclear weapons, and acknowledge the paramount importance of the efforts aiming at accelerating the implementation of the resolutions on the Establishment of a Zone Free of Nuclear Weapons and other Weapons of Mass Destruction in the Middle East, including the Conference convened pursuant to UN General Assembly Decision 73/546. We call on all invited parties to participate in this conference in good faith and engage with this effort constructively. We welcome the adoption of the UNGA Resolution 79/241 “Comprehensive study of the question of nuclear-weapon-free zones in all its aspects”.

39. We recognize the need to ensure the use of space systems, as well as the achievements of space science and technologies, for peaceful purposes. We also reassert our support for ensuring the long-term sustainability of outer space activities and prevention of an arms race in outer space (PAROS) and of its weaponization, as well as the threats or use of force against outer space objects, including through negotiations to adopt a relevant legal multilateral instrument to ensure global security. We recognize the submission of the updated Draft Treaty on the Prevention of the Placement of Weapons in Outer Space, the Threat or Use of Force against Outer Space Objects (PPWT) to the Conference on Disarmament in 2014 as an important step towards this goal. We stress that practical and non-binding commitments such as Transparency and Confidence-Building Measures (TCBMs), and universally agreed norms, rules, and

principles may also contribute to PAROS. We note the initiative of some BRICS Members at the General Assembly to create a single Open-Ended Working Group to enable coherent, inclusive and effective discussions that serves such purpose and undertake to engage constructively in the process, on the basis of existing achievements, including on substantial elements on a legally binding instrument on PAROS.

40. While emphasizing the potential of Information and Communication Technologies (ICTs) to bridge the growing digital divides within and between countries, we acknowledge challenges and threats stemming from and within the digital realm. We reaffirm our commitment to the promotion of an open, secure, stable, accessible, peaceful, and interoperable ICT environment. We underscore the leading role of the United Nations in fostering constructive dialogue to forge common understandings on security in the use of ICTs and discussions on developing a universal legal framework in this realm and the further development and implementation of universally agreed norms, rules and principles for responsible behavior of States in the use of ICTs. We call for a comprehensive, balanced, objective approach to the development and security of ICT products and systems as well as for the development and implementation of globally interoperable common rules and standards for supply chain security. We commend the ongoing work of the UN Open-ended Working Group on the Security of and in the Use of ICTs 2021-2025 as the sole global and inclusive mechanism on this matter, and we underline our common purpose to a successful finalization of its work this July. We reaffirm our commitment to the establishment, by consensus, of a single-track, state-led, permanent mechanism on this issue under the auspices of the United Nations, reporting to the First Committee of the UNGA, recognizing the importance of the principle of consensus regarding both the establishment of the future mechanism itself as well as the decision-making processes of the mechanism. We also acknowledge the progress made through the BRICS Working Group on Security in the Use of ICTs in areas such as policy exchanges, cooperation between Computer Emergency Response Teams (CERTs), law enforcement cooperation and joint research and development. In this regard, we welcome the negotiation of the BRICS memoranda of understanding on law enforcement cooperation and on multilateral cooperation among CERTs. We underscore the importance of strengthening academic cooperation and sharing information on opportunities for exchange programs, in line with the Roadmap of Practical Cooperation on Ensuring Security in the Use of ICTs and its progress report.

41. We commend the adoption by the General Assembly of the United Nations Convention against Cybercrime, a landmark multilateral achievement which will constitute an effective tool and the necessary legal framework for international cooperation in preventing and combating cybercrime and in ensuring the timely and lawful collection and sharing of evidence in electronic form of any serious crimes that may be committed through the use of ICT systems. We highlight the important contribution of BRICS countries to its adoption since it was first proposed. We call upon all States to sign it at the earliest opportunity, in Hanoi in 2025, and ratify it, in accordance with domestic laws, processes and procedures, as soon as possible in order to ensure its rapid entry into force, as well as to continue their engagement in the ad Hoc Committee, in accordance with General Assembly resolutions 74/247 and 75/282, with a view to negotiating a draft protocol supplementary to the Convention, addressing, inter alia, additional criminal offences as appropriate.

**Deepening International Economic, Trade and Financial Cooperation**

42. We welcome the results of the “Strategy for BRICS Economic Partnership 2025”. The Strategy provided guidance and set the framework for the BRICS cooperation and collaboration on sectoral developments, strategies, programs and roadmaps by members. We look forward to the conclusion and implementation of the Strategy for BRICS Economic Partnership 2030, which will aim at consolidating mandates and guiding principles for the cooperation of the BRICS on issues relating to Multilateral Trading System, Digital Economy, International Trade, Financial Cooperation and Trade and Sustainable Development.

43. As we commend the adoption of the BRICS Trade and Sustainable Development Framework, we reaffirm our commitment to strengthen cooperation in trade with a view to promoting inclusive growth and sustainable development. We reiterate the importance of ensuring that trade and sustainable development policies are mutually supportive, and aligned with WTO rules.

44. We welcome the discussions of the BRICS Task Force on PPPs and Infrastructure regarding the mitigation of exchange rate risk and the preparation of projects for climateresilient infrastructure, aiming to improve project readiness and increase private investment. Additionally, we welcome ongoing discussions

on an information hub for infrastructure projects that can foster collaboration and enhance information sharing, and we encourage the Task Force to further explore this initiative.

45. As the New Development Bank is set to embark on its second golden decade of highquality development, we recognize and support its growing role as a robust and strategic agent of development and modernization in the Global South. We welcome the Bank's steady expansion of its capacity to mobilize resources, foster innovation, expand local currency financing, diversify funding sources, and support impactful projects that advance sustainable development, reduce inequality, and promote infrastructure investments and economic integration. We also acknowledge and encourage the ongoing expansion of its membership and the strengthening of its governance framework, which enhance the Bank's institutional resilience and operational effectiveness, to continue executing its purpose and functions in a fair and non-discriminatory manner. We strongly support the further expansion of NDB membership and expedited consideration of applications of interested BRICS countries, in line with the NDB General Strategy and related policies. We fully support the leadership of President Dilma Rousseff, whose reappointment received strong backing from all members, and we welcome the Bank's firm progress toward its consolidation as a global institution for development and stability. This trajectory reflects our shared commitment to strengthening financial mechanisms that promote inclusive and sustainable development in the Global South.

46. We welcome the valuable contribution of the BRICS Think Tank Network for Finance (BTTNF) to foster collaboration among academia, policymakers, and leading researchers and welcome the work program and the priorities defined within the group.

47. We welcome the constructive discussions held in the first semester of 2025 on the concept of the New Investment Platform (NIP) and acknowledge the progress achieved under the Brazilian Chairship. We look forward to the continuation of technical-level efforts throughout the second semester of 2025, involving Finance Ministries and Central Banks, to further discuss and build consensus on the Platform, with the aim that these ongoing deliberations will pave the way for more consistent and meaningful progress.

48. We have commenced the discussions to establish a BRICS Multilateral Guarantees (BMG) initiative, in response to our emphasis on strengthening financial resilience and mobilizing private investment for infrastructure and sustainable development. The BMG aims to offer tailored guarantee instruments to de-risk strategic investment and improve creditworthiness in the BRICS and the Global South. Building on the lessons of international experiences, we agreed on the guidelines to incubate the BMG within the NDB as a pilot initiative, starting with its members, without additional capital contributions. We look forward to developing this pilot initiative throughout 2025 with a view to reporting on progress at the 2026 BRICS Summit.

49. We welcome the BRICS Interbank Cooperation Mechanism (ICM) focus on facilitating and expanding innovative financial practices and approaches for projects and programmes, including finding acceptable mechanisms of financing in local currencies. We welcome a continued dialogue between the ICM and the NDB.

50. We task our ministers of finance and central bank governors, as appropriate, to continue the discussion on the BRICS Cross-Border Payments Initiative, and acknowledge the progress made by the BRICS Payment Task Force (BPTF) in identifying possible pathways to support the continuation of discussions on the potential for greater interoperability of BRICS payment systems. In this regard, we welcome the "Technical Report: BRICS Cross-border Payments System", which reflects members' revealed preferences, and should play a pivotal role in our efforts to facilitate fast, low-cost, more accessible, efficient, transparent, and safe cross-border payments among BRICS countries and other nations and which can support greater trade and investment flows.

51. We welcome discussions to enhance BRICS members' (re)insurance capacity, with the voluntary participation of relevant stakeholders, comprising regulators, reinsurance companies from BRICS countries and the BRICS Business Council through the task force endorsed by our Finance Ministers. We also encourage discussions to explore appropriate formats for further technical dialogue on settlement and depositary infrastructure among relevant stakeholders.

52. We acknowledge the continued collaboration under the BRICS Rapid Information Security Channel (BRISC) on common priorities in information security and financial technology. We also recognize the BRICS Fintech Innovation Hub's role in advancing cooperation on financial innovation and the responsible use of emerging technologies.

53. We welcome the progress on the Contingent Reserve Arrangement (CRA), including the consensus reached by the Technical Team on the proposal for the revised Treaty and regulations. We support efforts to enhance the CRA's flexibility and effectiveness, notably through the inclusion of eligible payment currencies and improved risk management. We also value the participation of new BRICS members who have expressed interest in joining the CRA and we are committed to onboarding them on a voluntary basis and according to country-specific circumstances.

54. We commit to ensuring supply chain resilience, with particular attention to the needs of developing countries, guided by the principles of efficiency, transparency, modernization, inclusivity, and sustainability, in line with our respective national sustainable development strategies. We recall the relevance of further promoting the active engagement of the private sector, supporting the development and promotion of micro, small and medium enterprises (MSMEs) and fostering a more resilient and dynamic global trade ecosystem. We intend to further exchange best practices of supporting MSMEs, including through digital services and platforms aimed at simplifying business operations.

55. We welcome the initiative of the Brazilian Chairship to launch the BRICS Seminar on Sustainable Government Procurement as a platform for knowledge exchange and South-South cooperation. We acknowledge the strategic role of government procurement in facilitating economic and trade cooperation, promoting sustainable development, supporting industrial policy, and promoting inclusive growth. We note with appreciation the engagement of BRICS and partner countries in sharing national experiences, policy innovations, and challenges related to the use of procurement as a development tool. We encourage the continuity of this regular dialogue under future Chairships.

56. We reaffirm our support of the Kimberley Process (KP) as the sole global intergovernmental certification scheme, regulating trade in rough diamonds, and emphasize our commitment to preventing conflict diamonds from entering the markets. We welcome the UAE's efforts as custodian chair of the Kimberley Process in 2025 and commend ongoing efforts to promote sustainable development of the global diamond industry. We will continue to examine viable mechanisms to promote trade in diamond and precious metals within BRICS and in the global market.

57. We acknowledge that the Partnership on the New Industrial Revolution (PartNIR) serves as a guiding platform to identify interests, challenges, and opportunities in the rapidly evolving industrial landscape and capacity building in the field of industry while supporting the continuity of BRICS industrial cooperation through a structured framework for sustained collaboration. In this regard, we commend the approval of the Terms of Reference for the Intelligent Manufacturing and Robotics Working Group, the Digital Transformation of Industry Working Group and the Small and Medium Enterprises Working Group. We also commend the approval of the first BRICS SME Working Group Plan of Action (2025 – 2030), which represents a significant milestone in advancing structured cooperation in the SME sector among BRICS countries. We welcome the launch of the BRICS Center for Industrial Competences (BCIC) in cooperation with United Nations Industrial Development Organization (UNIDO) to jointly support the development of Industry 4.0 skills among the BRICS countries and to promote partnerships and increased productivity in the New Industrial Revolution. We encourage members to join the BCIC to participate in the BCIC's activities, including the registration of companies on its electronic platform for further BRICS partnerships. We also welcome the establishment of the China Centre for BRICS Industrial Competences (CCBIC). We appreciate the efforts of the BRICS PartNIR Innovation Center (BPIC) in organizing events including BRICS Forum on PartNIR, BRICS Industrial Innovation Contest, BRICS Exhibition on New Industrial Revolution, and the BPIC Training Programmes over the past 5 years, and welcome the establishment of the scholarship of BPIC Training Programmes. We acknowledge that under the Brazilian Chairship, the BRICS Artificial Intelligence High-Level Forum, co-hosted by China and organized by China-BRICS Artificial Intelligence Development and Cooperation Center, has been held in Brasilia during the 9th BRICS Industry Ministers Meeting. We recognize the progress achieved in the implementation of the BRICS Action Plan for Innovation 2021-2024, which included the launching of the BRICS Startup Forum in January 2025, under the leadership of India, and appreciate the launch of its BRICS Startup Knowledge Hub, to foster collaboration and deeper engagement among the startup ecosystems of the BRICS countries.

58. Recognising the importance of creating an enabling, inclusive, and secure digital economy and that digital connectivity is an essential prerequisite for digital transformation as well as social and economic growth, we emphasize the need to strengthen cooperation among BRICS countries. We acknowledge that

resilient, safe, inclusive and interoperable digital public infrastructure has the potential to deliver services at scale and increase social and economic opportunities for all.

59. We encourage BRICS members to explore the possibility for joint action in the field of digital infrastructure to ensure the integrity, stability of the functioning and security of national segments of Internet while avoiding Internet fragmentation and respecting national legislative frameworks regarding any aspects of Internet use, including security ones.

60. We appreciate the efforts by the Brazilian Chairship in organizing the Webinar on Digital Transformation and Meaningful Connectivity, and encourage continued knowledge sharing and policy exchange to facilitate the adoption of ICTs to ensure inclusive, accessible and scalable digital services, across different sectors such as agriculture, manufacturing, transportation, health, education and financing, tailored to different needs of each country. We appreciate the efforts made by India for organizing the Capacity Building Sessions on Digital Transformation in BRICS as a side-event and encourage BRICS members to continue promoting side events.

61. We acknowledge the holding of the BRICS Forum on Future Networks Innovation in 2025, hosted by China and Brazil. We welcome the adoption of the Terms of Reference of the Study Groups on AI, Next Generation Communications, Internet Application in Industry 4.0 and EMF Exposure by the Council of the BRICS Institute of Future Networks as well as the nomination of their chairs and vice-chairs. We look forward to the concrete outcomes by these BIFN Study Groups. We also acknowledge the progress made on the issue of Child Online Protection, including the development of new mechanisms to enhance cooperation in this field through the exchange of knowledge and best practice among member states. We appreciate the efforts by the Brazilian Chairship in organizing the panel discussion on digital public goods and digital public infrastructure, during the Digital BRICS Forum, and encourage continued knowledge sharing and policy exchange. We also note the holding of meeting of the Focus Group on Digital Public Infrastructure, and welcome the adoption of its Terms of Reference.

62. We reaffirm our commitment to make joint efforts to achieve the rational, efficient, equitable, fair, effective and economical use of spectrum and associated satellite orbits, we encourage further cooperation among BRICS members to facilitate cooperation on space sustainability. We note with satisfaction that the Brazilian chairship will produce a report with proposals on future BRICS work on Sustainable Space Connectivity Resources for consideration and future actions. We affirm that the technical reach of space telecommunications systems should not bypass state sovereignty in any case, and the provision of satellite services within the territory of a state should be carried out only if authorized by that state. We welcome the development of the BRICS White Paper on Sustainable Space Connectivity Resources.

63. We recognize the importance of international cooperation for the peaceful exploration and uses of outer space and reiterate our commitment to reducing existing asymmetries in space capabilities among BRICS countries. We recognize that strengthening the exchange of data, expertise and best practices in space activities constitutes an important element in advancing ongoing cooperation between our space agencies and fostering sustainable progress. We welcome the proposal for a collaborative newsletter as a mechanism to facilitate information exchange and promote capacity building initiatives. We agree, in principle, to establish the BRICS Space Council and to continue working on its Terms of Reference to facilitate further cooperation in the field of space activities within the group. We note that agencies have agreed to advance discussions on a joint observation exercise to support UNFCCC COP30.

64. We underscore the key role of the G20 as the premier global forum for international economic cooperation that provides a platform for dialogue of both developed and emerging economies on an equal and mutually beneficial footing for jointly seeking shared solutions to global challenges and fostering multipolar world. We recognize the importance of the continued and productive functioning of the G20, based on consensus and with a focus on result-oriented outcomes. We reiterate our strong support to the South African presidency and look forward to the successful hosting of the G20 Leaders’ Summit in Johannesburg in November 2025 under the South African Presidency and reaffirm our willingness to coordinate positions in order to enhance inclusiveness and amplify the voice of the Global South in the global economic governance system so it adequately reflects EMDEs’ rising weight in the global economy and further integrate their priorities in the G20 agenda through the consecutive G20 presidencies of BRICS member states – Indonesia, India, Brazil and South Africa – during 2022-2025 and beyond. We salute strengthening of the EMDEs’ voice in the G20 through the accession of the African Union during India’s presidency of G20 in 2023 and the invitation of the NDB during Brazilian and South African presidencies including by their closer interaction and alignment.

65. We note that high debt levels in some countries reduce the fiscal space needed to address ongoing development challenges aggravated by spillover effects from external shocks, particularly from fluctuations in financial and monetary policies in some advanced economies as well as the inherent problems with the international financial architecture. High interest rates and tighter financing conditions worsen debt vulnerabilities in many countries. We believe it is necessary to address the international debt properly and in a holistic manner to support economic recovery and sustainable development, taking into account each nation's laws and internal procedures, accompanied by sustainable external debt and fiscal prudence. We recognise the need to address in an effective, comprehensive and systematic manner the debt vulnerabilities of both low and middle income countries. One of the instruments, amongst others, to collectively address debt vulnerabilities is through predictable, orderly, timely and coordinated implementation of the G20 Common Framework for Debt Treatment with the participation of official bilateral creditors, private creditors and Multilateral Development Banks (MDBs) in line with the principle of joint action and fair burdensharing. We remain engaged in enhancing coordination between debtors and official bilateral, multilateral and private creditors to help Emerging Markets and Developing Economies (EMDEs) address debt issues in a fair and constructive way from a development perspective.

66. Recognizing the central role of data to modern life as a catalyst for innovation-driven development and the formulation of informed and inclusive public policies, we reaffirm the need for a common and principle-based interoperable framework on data governance, including respect for national data sovereignty, efficient, convenient, safe and mutually agreed cross-border data flows and ethical use of data, to address the principles of collection, recording, storage, organization, processing and transfer of data; protect personal information rights and interests, including individual privacy; promote the interoperability of national data policy regulations; and distribute the monetary and nonmonetary benefits of data among developing countries and their citizens. In this regard, we welcome the conclusion of the "BRICS Data Economy Governance Understanding" as a roadmap to leverage the data economy across BRICS in order to promote safe access to technology, safeguard individual and national interests, promote the digitalization of industry and services, expansion of intra-BRICS trade.

67. We emphasize that e-commerce has become an important driver of global economic growth, fostering international trade in goods and services, ensuring foreign investment flows and facilitating innovation. We are resolved to further increase trust in e-commerce and ensure full-fledged protection of the rights of e-commerce parties, by intensifying cooperation in the realms of utilizing digital technologies for consumer rights protection, exploring online dispute resolution tools and creating enabling environment for businesses to enter global markets, exchanging views on the issue of small value product trade through the cross-border e-commerce.

68. We continue to recognise the effectiveness of Special Economic Zones (SEZs) of the BRICS countries as a well-established mechanism for trade and industrial cooperation and the facilitation of manufacturing, including those but not limited to high-tech sectors of the economy, IT and IT enabled services, tourism, port and transport infrastructure, development and commercialization of technologies as well as for the production of new types of value-added products. We also acknowledge that Special Economic Zones provide immense opportunities for encouraging additional investment in priority areas of economic development and recognize the potential of SEZs as a tool to stimulate economic growth and create new job opportunities, specially, but not limited to, in high tech and infrastructure sectors.

69. We recognize that BRICS countries are key players in world food production and, as such, have a critical role in enhancing agricultural productivity and sustainability, and ensuring global food security and nutrition. We also recognize that family farmers, including smallholders, pastoralists, artisanal and small-scale fishers and aquaculture producers, indigenous peoples and local communities, women and youth, are essential stakeholders of agriculture and food systems. We welcome ongoing efforts to promote sustainability, inclusivity, and equitable market access in the global sustainable vegetable oils sector. We call for continued collaboration among BRICS countries and partners to support smallholder farmers, ensure fair pricing, and foster resilient and sustainable agricultural value chains. We recognize that mechanization and technological innovation in small-scale agriculture, including information and digital innovations, are strategic opportunities for reducing the drudgery of work, increasing productivity and income, enhancing resilience, and accelerating the sustainable transition.

70. We emphasize the importance of ensuring food security and nutrition and mitigating the impacts of acute food price volatility, as well as abrupt supply crises, including fertilizers shortage. In this regard, we acknowledge the importance of continued elaboration of the initiative to establish a grain trading platform

within BRICS (the BRICS Grain Exchange) and its subsequent development, and expanding into other agricultural products and commodities. We support further discussions on national policies and on international coordination that enhance food availability, accessibility, utilization, stability and affordability, as well as relevant agricultural and food production inputs in BRICS and other developing countries including those that strengthen national capacities to respond to supply disruptions, such as national food reserve systems. Under exceptional circumstances of supply shortages or acute food price spikes affecting a BRICS member, we recognize that cooperation initiatives can facilitate emergency responses and natural disaster management, guided by national priorities and consistent with the World Trade Organization rules. None of these measures should lead to unfair trade practices or violations of international trade norms, as their sole purpose is to support food security and nutrition, including through international solidarity. We recognize the importance of reducing food loss and waste, and ensuring animal and plant health through joint prevention and control of dangerous diseases and pests, including by increasing transparency in the movement of food and feed, with an unified electronic certification system for animal and plant products as an important tool.

71. We call for further cooperation in agriculture, fisheries and aquaculture in order to end hunger and eliminate all forms of malnutrition and eradicate poverty, promote sustainable agriculture and rural development, through implement technologies and innovation, and ensure food security, incentivize investments in the local production of machinery and equipment that is tailored to the specific needs and affordable for smallscale and family farmers as well as fisheries and aquaculture workers. Building on the Deccan High-Level Principles on Food Security and Nutrition, we also recognize the Global Alliance Against Hunger and Poverty as an important initiative to promote international cooperation. We also look forward to advance discussions on facilitating intra-BRICS trade of agricultural products, agricultural and food production inputs, and improve value chains and sustainable agricultural practices. We reaffirm the need to develop a fair agricultural trading system and implement resilient and sustainable agriculture. We commit to minimize disruptions and promote rules-based trade in agriculture and fertilizers with the view to ensure a continuous flow of food and essential inputs for agricultural production which should be exempted from undue restrictive economic measures, inconsistent with WTO rules, including those affecting producers and exporters of agricultural products as well as business services with regard to international shipments. We welcome the launch of the BRICS Partnership for Land Restoration, in line with the framework of the UNCCD, and the first BRICS AWG Report on the Contributions to Implementing the Global Alliance against Hunger and Poverty.

72. We reaffirm our commitment to further advance and develop cooperation in the field of competition law and policy among BRICS countries with a view to contribute to sustainable development of markets, effective combatting anticompetitive crossborder practices, promoting healthy market environment. We acknowledge the role of the BRICS International Competition Law and Policy Center activities in knowledge creation and knowledge sharing amongst BRICS competition authorities and the importance to ensure the most favorable conditions for the competition law development of BRICS economies and work towards the elimination of monopoly barriers in socially important markets. We welcome holding of the IX BRICS International Competition Conference in 2025 in South Africa.

73. We welcome the adoption of the Brasilia Declaration of the Meeting of Heads of BRICS National standardization bodies, which acknowledges the significant benefits of cooperation in this field, including the facilitation of economic relations and trade, the advancement of consumer safety, and the promotion of sustainable development. We encourage the timely conclusion of the negotiations of the Memorandum of Understanding on Cooperation in the Field of Standardization, as the next milestone towards fostering standardization and metrology as effective tools to help eliminate barriers to trade and facilitate the cross-border movement of goods and services.

74. We commend the continuous exchange of best practices between the Supreme Audit Institutions of the BRICS countries. Taking into account the role of SAIs in promoting good governance and effectiveness of public policies, we recognize the importance of SAIs’ taking full advantage of the opportunities offered by the digital technologies, including the AI, in their work, while minimizing the risks created by these technologies.

75. Recognizing the importance of official statistics for effective decision-making, we express our support to enhance the statistical cooperation within BRICS, including the annual release of the BRICS Joint Statistical Publication and the BRICS Joint Statistical Publication Snapshot, as well as exchange of best practices in the areas of official statistics in the BRICS countries.

76. We will continue to cooperate to promote a fair, more inclusive, stable, and efficient international tax system fit for the 21st century. We restate our commitment to tax transparency and to fostering global dialogue on effective and fair taxation, enhancing progressivity and contributing to the efforts to reduce inequality. We aim to deepen global coordination between tax authorities, improve domestic revenue mobilization, provide fair allocation of taxing rights and combat tax evasion and tax-related illicit financial flows. In this regard, we welcome the BRICS Joint Statement in support of the United Nations Framework Convention on International Tax Cooperation and will continue to engage constructively in the negotiations of the UN Convention and its protocols. We welcome the progress in customs cooperation, notably the initiatives for implementing the Joint Action Plan towards Mutual Recognition of the Authorized Economic Operator programs, subject to such exceptions, modifications or adaptations as agreed on bilaterally. A key development in customs cooperation is the establishment of BRICS Customs Centers of Excellence and the development of Smart Customs, which we will continue to encourage.

77. We highlight the fruitful cooperation carried out under IP BRICS by Intellectual Property (IP) Offices. We support achieving more practical outcomes under 8 cooperation streams such as promotion of IP awareness and examiners' training guided by the Operational Guideline Framework, seeking a strong contribution for IP to economic and social development. We welcome the adoption of the WIPO Treaty on Intellectual Property, Genetic Resources and Associated Traditional Knowledge and the Riyadh Design Law Treaty on which BRICS countries have considerable interest and commit to enhanced collaboration among BRICS countries. We recognize the importance of collaborating on promoting respect for the intellectual property rights used in the digital environment, including for artificial intelligence training purposes, as well as fair remuneration to right holders, while respecting the needs and priorities of developing countries. With the rise of application of AI, we recognize risks relating to misappropriation and misrepresentation of knowledge, heritage, and cultural values that are insufficiently represented in data sets and AI models.

78. We celebrate the ten-year milestone of cooperation in Science, Technology and Innovation (STI) within BRICS, acknowledging the significant achievements made since the signing of the Memorandum of Understanding on Cooperation in STI, in 2015, by the STI Ministers of Brazil, Russia, India, China and South Africa. We welcome the ongoing process of incorporation of new members to the Memorandum through its Accession Protocol. We reaffirm that the ultimate purpose of BRICS cooperation in STI is to forge new productive forces for development of BRICS countries and advance sustainable development in its three dimensions, through a partnership rooted in collaboration, contributing to the strengthening of friendship, mutual understanding, and peaceful relations among BRICS nations.

79. We commend the work of the BRICS STI Working Groups. We appreciate the Brazilian proposal to consider artificial intelligence, quantum technologies and innovation in industry as priorities in 2025, in a novel context of rapid advancement of emerging technologies and national reindustrialization processes. We welcome the BRICS Action Plan for Innovation 2025 – 2030, as well as the launching of the seventh Joint Call for Research Projects and the first Joint Call for Innovation Projects. We welcome the Brazilian proposal to discuss the undertaking, in 2025, of a "Technical and Economic Feasibility Study" for establishing a high-speed communication network though submarine cables between BRICS countries. We encourage all BRICS members to promote the participation of young scientists and startups through initiatives such as the Young Scientists Forum, which comes to its 10th edition this year, and the Young Innovators Prize. We welcome advancing the cooperative agenda of deep-sea joint research, including the elaboration of the terms of reference that will complete the establishment of the BRICS Deep-Sea Resource International Research Center. We reaffirm commitment to develop cooperation in the field of humanities and welcome the holding of the Forum on social sciences and humanities research in Russia in 2025.

80. Acknowledging that the BRICS countries have immense potential in the tourism sector and offer promising possibilities for the growth and development of sustainable and resilient tourism, including ecotourism – further enhanced by membership expansion in 2024, which provided new opportunities for collaboration and for boosting intraBRICS travel –, we welcome the results of the Tourism Working Group, notably: the promotion of Regional Tourism strategies to strengthen synergies and complementarities among member states; the advancement of Sustainable, Resilient and Regenerative Tourism as a means to tackle shared challenges; and the formulation of strategic guidelines to harness the potential of Digital Nomads as agents of local development and cultural exchange. We reaffirm our

commitment to expanding BRICS cooperation, fostering innovation, and ensuring that tourism contributes meaningfully to the achievement of the Sustainable Development Goals.

**Combating Climate Change and Promoting Sustainable, Fair and Inclusive Development**

81. We stress our commitment to uphold multilateralism as necessary to address challenges threatening our shared planet and future such as climate change. We resolve to remain united in the pursuit of the purpose and goals of the Paris Agreement and the objectives of the UNFCCC and call on all countries to uphold their existing commitment as Parties to the UNFCCC and its Paris Agreement and to maintain and scale up their effort to combat climate change. We further reaffirm our steadfast commitment, in pursuit of the objective of UNFCCC, to tackle climate change by strengthening the full and effective implementation of the Paris Agreement, including its provisions related to mitigation, adaptation and the provision of means of implementation to developing countries, reflecting equity and the principle of common but differentiated responsibilities and respective capabilities, in light of different national circumstances. In this regard, we express our full support to the Presidency of the United Nations Framework Convention on Climate Change (UNFCCC) COP-30, which will take place in the city of Belem, in Brazil, highlighting the importance of action and cooperation on all pillars of the UNFCCC as applicable considering each country's membership and commitments thereunder. We also underscore our full commitment to a successful COP30 that will catalize progress in implementing the UNFCCC and its Paris Agreement. We welcome India's Candidacy to host COP 33 in 2028.

82. We call for a strengthened global response to climate change, in the context of sustainable development and poverty eradication. Understanding the urgency of climate change, we endorse the BRICS Climate Leadership Agenda as a statement of our resolve to exercise collective leadership through mutual empowerment, by advancing solutions that support BRICS development needs and priorities, while accelerating action and enhancing cooperation towards the full implementation of the UNFCCC and its Paris Agreement. We underscore that this outcome demonstrates that multilateralism and Global South cooperation can shape a more inclusive and sustainable governance for a better future.

83. We emphasize that ensuring accessible, timely and affordable climate finance for developing countries is critical for enabling just transitions pathways that combine climate action with sustainable development. We underscore that the provision and mobilization of resources under the UNFCCC and its Paris Agreement is a responsibility of developed countries towards developing countries. Committed to multilateralism and international cooperation and determined to lead a global mobilization for a fairer and more sustainable International Monetary and Financial System, we have adopted the Leaders' Framework Declaration on Climate Finance, leveraging our economic strength and innovation capacity to demonstrate that ambitious climate action can advance prosperity and a better future for everyone. We further reiterate that the objectives, principles and provisions of the UNFCCC, its Kyoto Protocol and Paris Agreement, including its principles of equity and common but differentiated responsibilities and respective capabilities in the light of different national circumstances, must be honoured.

84. We encourage, as appropriate, the use of mutually recognized methodologies and standards for assessing greenhouse gas emissions. We appreciate the adoption of the BRICS Principles for Fair, Inclusive and Transparent Carbon Accounting in Product and Facility Footprints Principles as an important BRICS contribution towards a more balanced international approach to guide the design of carbon accounting-based systems, standards and methodologies and underscored the value of identifying knowledge gaps that could be addressed through further work, such as the contextualization of these principles within specific sectors and for all greenhouse gases and their potential for supporting policy frameworks involving carbon accounting. We note the adoption of the BRICS Report on Intellectual Property Options to Enhance Climate Change Related Technology Cooperation as a promising mapping of climate change related cooperative arrangements with potential for future consideration by BRICS member countries, with the aim of supporting and accelerating the development and transfer of technology as a critical enabler of climate action.

85. We strongly call for broad cooperation to promote a supportive and open international economic system that would lead to sustainable economic growth and development in all countries, particularly developing countries, thus enabling them better to address the problems of climate change, and stress that measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Recognizing the opportunities and challenges presented by measures of a hybrid legal nature combining trade and environmental dimensions, they expressed strong concern and opposed the increasing use of unilateral

trade measures introduced in the context of environmental objectives and welcomed the establishment of the BRICS Laboratory for Trade, Climate Change and Sustainable Development as a platform for facilitating collaboration on mutually supportive approaches to trade and environmental policy, ensuring that BRICS members can better harness the benefits of trade, jointly respond to unilateral measures and contribute to global efforts against climate change.

86. We welcome the adoption of the Terms of Reference for the BRICS Climate Research Platform and recognize it as a meaningful contribution to enhance the scientific and expert exchange of views, knowledge and best practices among BRICS member countries.

87. We acknowledge Article 6 of the Paris Agreement, as an important instrument for fostering higher ambition in mitigation actions and to promote sustainable development and environmental integrity, by offering pathways to steer private and public investment towards climate efforts. By strengthening these mechanisms, we can catalyze private sector engagement, encourage technology transfer, and complement public finance flows. We note the provisions of the Memorandum of Understanding on the BRICS Carbon Markets Partnership and its value for promoting cooperation in the field of carbon markets, with a specific focus on capacity building and exchange of experiences. We look forward to its implementation as a cooperative approach to support members in their climate strategies, including in complementing mitigation efforts and mobilizing needed resources.

88. We reject unilateral, punitive and discriminatory protectionist measures, that are not in line with international law, under the pretext of environmental concerns, such as unilateral and discriminatory carbon border adjustment mechanisms (CBAMs), deforestation regulation, due diligence requirements, taxes and other measures and reconfirm our full support for the call in COP28 related to avoidance of unilateral trade measures based on climate or environment. We also oppose unilateral protectionist measures, which deliberately disrupt the global supply and production chains and distort competition.

89. Acknowledging our shared responsibility as both major producers and consumers of energy, we reaffirm our commitment to ensure just and inclusive energy transitions, in line with national circumstances, and universal access to affordable, reliable, sustainable, and modern energy for all, as outlined in Sustainable Development Goal 7 (SDG7). In this regard, we call for strengthened cooperation among BRICS countries to accelerate progress towards that goal. With this in mind, we welcome the fruitful work of the BRICS Committee of Senior Energy Officials and the BRICS Energy Research Cooperation Platform, and take note of the updated Roadmap for BRICS Energy Cooperation 2025 – 2030 and of the ongoing elaboration of the Reports on Access to Energy Services and New and Sustainable Fuels. We also take note of the 7th BRICS Youth Energy Summit, held on the 9 and 10 June in Brasília.

90. We recognize that energy security is a crucial foundation for social and economic development, national security and the welfare of all nations. We highlight the need to enhance energy security by ensuring energy market stability and maintaining undisrupted flows of energy from diverse sources, strengthening value chains, ensuring resilience and protection of critical energy infrastructure, including cross-border infrastructure. We acknowledge fossil fuels will still play an important role in the world's energy mix, particularly for emerging markets and developing economies, and we recognize the need to promote just, orderly, equitable and inclusive energy transitions and reduce GHG emissions in line with our climate goals and observing SDG7, and the principles of technological neutrality and common but differentiated responsibilities and respective capabilities taking into account national circumstances, needs and priorities. Recognizing the interconnection between addressing climate change and promoting energy transitions, we reiterate our shared commitment to fostering economic development in a sustainable way in line with the UNFCCC, its Paris Agreement, and national circumstances.

91. We underscore the need to catalyse the cooperation in access to finance and scale up investment for bridging the funding gap for energy transitions and call for allocating adequate, predictable and accessible low-cost and concessional finance from developed to developing countries for just and inclusive energy transitions in line with the Paris Agreement and its principles, while considering the concept of transitional financing. We stress that non-discriminatory access to markets, technologies and low-interest finance is essential for sustainable development.

92. We recognize the key role of critical minerals for the development of zero- and lowemission energy technologies, energy security, and resilience of energy supply chains. We affirm the need to promote reliable, responsible, diversified, resilient, fair, sustainable, and just supply chains of such minerals to guarantee benefit sharing, value addition and economic diversification in resource-rich countries, while

fully preserving sovereign rights over their mineral resources, as well as their right to adopt, maintain and enforce measures necessary to pursue legitimate public policy objectives.

93. We affirm that cooperation within and through BRICS is fundamental to contributing to the global effort towards a sustainable future and equitable and just transitions for all. We underscore the importance of the conservation and sustainable use of biodiversity, of the fair, equitable sharing of benefits arising from the utilization of genetic resources and of the effective implementation of the Convention on Biological Diversity, its Protocols, and its Kunming-Montreal Global Biodiversity Framework. We appreciated the establishment of the Kunming Biodiversity Fund and the contribution made by the Government of China and recognized its significant role in supporting developing countries for their biodiversity conservation and the great contribution to the implementation of the Kunming-Montreal Global Biodiversity Framework. We recognize the active role of BRICS countries in the COP16 negotiations, particularly in advancing resource mobilization. We urge developed countries to ensure the provision of adequate, effective, predictable, timely and accessible financial resources to developing countries, as well as to improve capacity building, development and transfer of technology to developing countries for the conservation, sustainable use and fair and equitable sharing of benefits arising from the use of biodiversity. We underscore the critical role of all types of forests, including tropical forests, for conserving biodiversity, preserving water basins and soils and providing timber and non-timber forest products of high value for economic sectors, regulating hydrological cycles, as well as combatting desertification and serving as vital carbon sinks. We also take note of the “United for Our Forests” initiative, which promotes the conservation, sustainable management, and restoration of these essential tropical ecosystems. While appreciating the efforts of our countries to preserve rare species and noting the high vulnerability of big cats, we take note of the Republic of India’s initiative to create an international Big Cats Alliance and encourage BRICS countries to work together to the conservation of big cats.

94. We welcome the plans to launch the Tropical Forest Forever Facility in Belém, at COP30, and recognize it as an innovative mechanism designed to mobilize long-term, results-based financing for tropical forest conservation. We encouraged potential donor countries to announce ambitious contributions, in order to ensure the Facility’s capitalization and timely operationalization.

95. We reaffirm that BRICS countries have considerable expertise in sustainable forest management and governance, making use of scientific research and advanced technology, as well as good experience in successfully addressing forest-related challenges and goals, and encourage enhancing BRICS cooperation in sharing experience and conducting research related to forestry and other forest-related issues.

96. We highlight the importance of advancing environmental cooperation under the Memorandum of Understanding on Environmental Cooperation and other cooperation mechanisms developed on the BRICS environmental track, including the BRICS Environmentally Sound Technology Platform (BEST) "BRICS Clean Rivers" and "BRICS Partnership for Urban Environmental Sustainability". As we realize the importance of involving various segments of society in solving environmental problems, we intend to further explore the possibility of creating a "BRICS Youth Environmental Network".

97. We recognize that desertification, land degradation, and drought, as well as sand and dust storms, are posing serious threats to the well-being and livelihoods of peoples, in particular people in vulnerable situations, including indigenous peoples and local communities. We urge developed countries to increase financial resources to adequately implement the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa (UNCCD), and to bolster support for developing countries in the pursuit of Land Degradation Neutrality (LDN), a key target 15.3, under Sustainable Development Goal 15.

98. We recognize BRICS countries can play a key role in fostering environmental resilience by addressing plastic pollution. We will continue engaging, in the spirit of collaboration and consensus-building, and with a sense of urgency and solidarity, in the ongoing negotiation for a fair, effective, and balanced international legally binding instrument on plastic pollution, including in the marine environment, taking into consideration the needs and priorities of the developing countries, as per the United Nations Environment Assembly resolution 5/14, without losing sight of the need for adequate means of implementation. The international instrument takes into account each country's national circumstances, capacities, and commitments, while aligning with the focus on sound plastic waste management through capacity building and the transfer of knowledge and technology and ensuring that it does not negatively impact national economies, particularly those of developing countries.

99. We reiterate our commitment to strengthening collaboration in environmental protection and sustainable development within the framework of BRICS, upholding multilateralism and strengthening

global environmental governance. All measures taken to tackle climate change, biodiversity loss and pollution, including unilateral ones, must be designed, adopted and implemented in conformity with the principles and provisions of relevant multilateral environmental and trade-related agreements and must not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.

100. We note the urgent need to reform the governance of the Global Environment Facility (GEF) to ensure a more balanced and equitable representation for developing countries and in line with the value of natural capital these countries uphold. We also support the simplification of procedures and the facilitation of access to resources, and the participation of those directly involved in the conservation and sustainable use of ecosystems, such as indigenous peoples and local communities, including through improved voice and vote mechanisms and equitable access to decision-making by developing countries.

101. We welcome the outcomes of the Second BRICS Transport Ministers' Meeting in Brasilia on 14 May 2025 and look forward to further promoting transport dialogue to meet demands of all stakeholders and to enhance the BRICS countries transport potential while also respecting the sovereignty and territorial integrity of all member states while carrying out transport cooperation. We reaffirm our commitment to develop sustainable and resilient transport infrastructure, recognizing its critical role in economic growth, connectivity, and environmental sustainability. We emphasize the importance of further development of urban public transport systems and the promotion of active mobility to create a more equitable, livable, healthy, conducive, and less congested urban environment. We also recognize the need to encourage the use of zero and low emission vehicles in urban mobility. We emphasize the importance of cooperation among BRICS members in the context of reducing carbon emissions in aviation and maritime transport. We recognize the importance of Sustainable Aviation Fuels (SAF), Lower Carbon Aviation Fuels (LCAF), and other Aviation Cleaner Energies as a pathway for reducing carbon emissions from international aviation. We encourage technological cooperation among BRICS countries, considering their national realities, in the development and deployment of cleaner aviation energies and associated technologies. We also emphasize cooperation to enhance air and maritime connectivity and promote decarbonization of maritime transport, as well as to strengthen initiatives in logistics integration and innovation.

**Partnerships for the Promotion of Human, Social and Cultural Development**

102. We remain committed to strengthening BRICS cooperation on population matters, because the dynamics of population age structure change, and pose challenges as well as opportunities to socio-economic development, particularly with regard to the rights and benefits of women and persons with disabilities, youth development, employment and the future of work, urbanization, migration and ageing.

103. We reaffirm the need for all countries to cooperate in promoting and protecting human rights and fundamental freedoms under the principles of equality and mutual respect and to fight all forms of discrimination. We agree to continue to treat all human rights including the right to development in a fair and equal manner, on the same footing and with the same emphasis. In this context, we agree to strengthen cooperation on issues of common interests, both within BRICS and in multilateral fora, taking into account the necessity to promote, protect and fulfil human rights in a non-selective, non-politicized and constructive manner and without double standards, constructive dialogue and cooperation. We call for the respect of democracy and human rights. In this regard, we underline that they should be implemented on the level of global governance as well as at national level. We reaffirm our commitment to ensuring the promotion and protection of democracy, human rights and fundamental freedoms for all with the aim to build a brighter shared future for the international community based on mutually beneficial cooperation.

104. We reiterate the need to intensify the fight against racism, racial discrimination, xenophobia and related intolerance as well as discrimination based on religion, faith or belief, and all their contemporary forms around the world, including the alarming trends of rising hate speech, disinformation and misinformation. We welcome the proclamation of a Second International Decade for People of African Descent (2025 – 2034), by the UN General Assembly. We welcome of the decision of the African Union to designate 2025 as the year for "Justice for Africans and People of African Descent Through Reparations" and recognize the efforts of the African Union to tackle the destructive legacy of colonialism and the slave trade.

105. In the context of the 30th anniversary of the Beijing Declaration and Platform for Action, we reaffirm our commitment to advancing women's rights and leadership across all sectors. We underline the

importance of women's empowerment and of ensuring their full, equal and meaningful participation in all spheres of society, including access to education and trading, and their active participation in decision-making processes, which are fundamental for the achievement of equality, development and peace. We emphasize the role of women and girls in sustainable development, climate action and entrepreneurship, especially in the Global South. We acknowledge discussions promoted under the Brazilian Chairship related to the impacts over women of online misogyny and disinformation and we underscore the need to ensure women's safety, voice and active participation in bridging the digital divide, including the gender digital gap. We commit to advancing women's full and equal participation in the economy through policy measures such as expanding access to affordable childcare, promoting women's leadership in STEM sectors, and strengthening legal protections for women against discrimination and all forms of violence in the workplace.

106. We take note with appreciation of the progress achieved during the XV BRICS Health Ministers' Meeting, held in Brasília on June 17, 2025, and the commitments made to strengthen health cooperation. We welcome fostering closer ties among BRICS health institutions and support the initiatives of the BRICS R&D Vaccine Center, including the Electronic R&D Stock, the operations of the BRICS TB Research Network, as well as initiatives to ensure the ethical and effective use of artificial intelligence and robust data governance in health systems. We reiterate the importance of these actions in promoting resilient, equitable, and inclusive health systems, aiming to achieve universal health coverage and ensuring fair and timely access to essential health goods and health care services, including medicines, vaccines, and diagnostics. We acknowledge that BRICS cooperation on countering TB and AMR as well as strengthening capacities in preventing communicable and noncommunicable diseases and other health issues experience sharing including on traditional medicine systems, digital health greatly contributes to relevant international efforts. We recognize the BRICS Network of Reseach in Public Health Systems is a vital forum for collaboration among high-level public health organizations of the BRICS countries. We acknowledge the need for cooperation in the area of nuclear medicine and radio pharmacy, within the BRICS Nuclear Medicine Working Group. We also stress the importance of advancing voluntary regulatory convergence through the BRICS Medical Products Regulatory Authorities initiative.

107. We commend the efforts undertaken towards the development of the Partnership for the Elimination of Socially Determined Diseases. We launch this initiative recognizing it as a milestone that reflects our shared commitment to advancing health equity and strengthening the global health architecture. By prioritizing integrated, multisectoral responses, we aim to tackle the root causes of health disparities, such as poverty and social exclusion, enhancing cooperation, mobilizing resources, and fostering innovation to ensure a healthier future for all.

108. We recognize the fundamental role of primary health care as a key foundation for Universal Health Coverage and health system resilience, as well as on prevention and response to public health emergencies. We look forward to the successful holding of the 4th High-Level of the UN General Assembly on the Prevention and Control of NonCommunicable Diseases and the Promotion of Mental Health Wellbeing, which should discuss important aspects of the prevention, detection and treatment of these diseases.

109. We welcome the adoption of the BRICS Technical and Vocational Education and Training (TVET) Cooperation Alliance Charter at the Meeting of BRICS Ministers of Education. The Charter reaffirms our collective commitment to enhancing technical and vocational education and training, which remains a strategic priority in advancing sustainable development and promoting social inclusion across our nations. We further acknowledge with satisfaction the significant institutional strengthening of the BRICS Network University (BRICS-NU), which celebrates its 10th anniversary with improvements over the number of participating institutions per country, the involvement of new member states, and the diversification of thematic areas for cooperation. We recognize the important contributions of the BRICS-NU in fostering direct dialogue between our academic institutions and look forward to further strengthening these exchanges in the years ahead. We reaffirm our commitment to further explore comprehensive quality evaluation system for BRICS universities and ensure quality education for its recognition within BRICS.

110. We welcome the establishment of a BRICS platform on cultural and creative industries and creative economy within the BRICS Working Group on Culture; and encourage members, their respective cultural entities and financial institutions, to formulate programs to support and foster the cultural and creative economies of BRICS member countries, recognizing the growing economic weight and contribution of the cultural and creative sectors to the overall economy.

111. We stress the importance of the return of cultural property and heritage to their countries of origin and its potential for rebuilding international relations in a nonhierarchical, cooperative basis, and we

recognise the need for a more robust international framework on the matter; as a path for promoting social cohesion, cultural and historical justice, reconciliation, and collective memory.

112. We stress our commitment to enhancing international cooperation in education, science, culture, communication and information in view of the complexity of contemporary challenges and transformations and in this regard note the relevance of the principles set forth in the UNESCO Constitution and its mandate to foster cooperation and peace through international collaboration that should be based on equality, dialogue, mandated programmatic activities and the spirit of consensus. We underscore the importance for the BRICS cooperation in the fields of preserving cultural heritage and culture. Recalling the UNESCO World Conference on Cultural Policies and Sustainable Development, and both the G20 New Delhi and Rio de Janeiro Leaders' Declarations, we recognize culture's power as a catalyst for sustainable development including creativity, innovation and inclusive economic growth, as well as its intrinsic value in nurturing solidarity, dialogue, collaboration and cooperation, in all dimensions and from all perspectives.

113. We emphasize that all BRICS countries have rich traditional sport culture and agree to support each other in the promotion of traditional, local and indigenous sports among BRICS countries and around the world. We also emphasize the importance of enhancing cooperation in various areas of sports, including the development of national, traditional and non-Olympic Sports, the encouragement of athletes to participate in international sporting events held on the territory of BRICS countries, and the exchange of views on issues of common concern in the field of physical culture and sports. We welcome the adoption of the Memorandum of Understanding on cooperation in the field of physical culture and sport during the BRICS Sports Ministers Meeting and acknowledge the requirement of a BRICS States Sport Cooperation Framework for supporting its implementation.

114. We commend the progress made by BRICS countries in promoting high-quality, full and productive employment through sustainable development and inclusive, humancentered labor markets. We recognize that Artificial Intelligence is transforming labor relations, creating new employment opportunities but also posing challenges such as job displacement and inequality. As women, youth, older workers, people with disabilities and other people in vulnerable situations are especially at risk from the adverse impacts of digital transitions, we commit to inclusive policies that harness technology responsibly to ensure AI for good and for all, taking into account national policies, regulations, and applicable international agreements, and to improve life-long learning to build digital skills, while strengthening social protection, protecting workers' rights and preserving the centrality of the human being. We recognize the critical importance of actively engaging key partners to promote social dialogue and create decent work in the context of addressing the impacts of climate change and achieving a just transition in all sectors, including the informal economy.

115. We reaffirm the importance of BRICS people-to-people exchanges in enhancing mutual understanding, friendship and cooperation. We acknowledge that people-topeople exchanges play an essential role in enriching our societies and developing our economies and appreciate the progress made under Brazil's Chairship in 2025, including the Parliamentary Forum, the Business Council, the Women's Business Alliance, the Youth Council, the Trade Union Forum, the Think Tank Council, the Academic Forum, the Deans Forum, the Civil Council, the Small and Medium Enterprises Forum, the Association of Cities and Municipalities, the Supreme Audit Institutions, the Legal Forum, the BRICS Supreme Court Presidents Meeting and the Meeting of Heads of BRICS Prosecution Services.

116. We call for more efforts to respect diversity of cultures, highly value inheritance, innovation and creativity, jointly advocate robust international people-to-people exchanges and cooperation and recognize the adoption of the UNGA resolution A/res/78/286 entitled "International Day for Dialogue among Civilizations".

117. We commend the successful holding of the XI BRICS Parliamentary Forum, including the Meeting of Women Parliamentarians and the Meeting of International Affairs Committee Chairpersons, in Brasilia from 3 to 5 June 2025. Parliamentary diplomacy and inter-parliamentary cooperation are key pillars of our collective efforts, serving as a unique channel to foster mutual understanding, build trust among nations, and support the peaceful resolution of conflicts, in order to promote inclusiveness, solidarity, and sustainable development.

118. We reaffirm the need to strengthen youth public policies in our countries, supported by structured funding at national and international levels, reliable data, and the exchange of best practices. We recognize the added value of youth-led fora, dialogues and programs in comprehensive areas of cooperation, and we

will promote inclusive youth employment policies that support school-to-work transitions and expand access to vocational training. We call on BRICS to jointly engage youth in the BRICS agenda, produce knowledge about their youth and ensure that BRICS initiatives reflect young people's interests. In this context, we welcome the 11th BRICS Youth Summit, held in June 2025 in Brasília, which adopted a new Memorandum of Understanding on Youth Cooperation.

119. We appreciate the progress made by BRICS countries in affordable housing and advancing in mitigation and adaptation policies on the way to promote a just and resilient urban transition including all urban services, with a focus on reducing inequality and commend the work of the BRICS Urbanization Forum to further strengthen collaboration between government and societies at all levels, in all BRICS countries in implementing the 2030 Agenda for Sustainable Development and promoting the localization of the SDGs.

120. We commend the BRICS Business Council (BBC) for its contributions to the BRICS 2025 agenda through policy recommendations, especially to boost intra-BRICS trade via digitalization and regulatory cooperation, expand innovative financing instruments, enhance logistics connectivity and increase air traffic routes among BRICS, support the energy transition, foster smart agricultural technologies to advance food security and improved nutrition, and develop skills for fair participation in the sustainable and digital economy. We equally appreciate the BBC action-driven initiatives that leverage government action in these areas, as well as the successful conduction of the BRICS Business Forum and the BRICS Solutions Awards.

121. We recognize the vital role of women's economic participation in driving sustainable growth and commend the Women Business Alliance (WBA)'s policy recommendations to tackle structural, barriers— especially in access to credit, education and healthcare. We acknowledge women's contribution in advancing climate-smart agriculture, and the need to assure fair opportunities to thrive in the sustainable and digital economy. We commend WBA initiatives to support women-led businesses, including continued efforts such as business promotion meetings, the Startup Contest and the BRICS Women's Development Report. We also commit to promoting and enhancing support and budgeting for women, expanding digital and financial literacy for women in the informal economy, including through formalization and social protection measures.

122. We reaffirm our commitment to increasing financing and to strengthening governance, solidarity and building resilience in disaster risk reduction. We celebrate the advancements of cooperation reached since 2015 through key declarations and the creation of the Joint Task Force. We acknowledge the growing complexity of disaster risks, including those related to climate change, especially for the Global South. Infrastructure systems worldwide have more often been severely affected by extreme weather events and disasters, leading to economic disruptions and negative impacts on people's lives. Therefore, we will cooperate to improve national disaster risk reduction systems and capacities to reduce disaster-related damage and protect infrastructure, human lives and livelihoods as well as to mobilize sufficient funding and increase private investment for comprehensive infrastructure development. We endorse the 2025 – 2028 Working Plan, focused on addressing inequalities to reduce vulnerabilities, robust early warning systems, anticipatory response capability, resilient infrastructure, and integrating diverse knowledge systems, reaffirming our commitment to equity and resilience. We support the enhanced dialogue on the development of systems for risk monitoring, forecasting disasters, and their possible consequences.

123. We welcome the presentation of the reports from the BRICS Business Council, the Women's Business Alliance, and, for the first time, from the BRICS Civil Council at the Rio Summit. We stress the importance of expanded dialogue between BRICS governments and civil society, welcoming the Brazilian Chairship's initiative to strengthen the direct engagement between BRICS Sherpas and representatives of BRICS people-to-people mechanisms.

124. Given the BRICS expansion process according to the BRICS Membership Expansion Guiding Principles, Standards, Criteria and Procedures, adopted at the BRICS Summit at Johannesburg, South Africa, we reaffirm our commitment to consolidate and strengthen BRICS in line with the group's spirit of mutual respect and understanding, sovereign equality, solidarity, democracy, openness, inclusiveness, collaboration, continuity, full consultation and consensus. We emphasize the importance of partner countries contributing to BRICS cooperation in accordance with the Modalities of BRICS Partner Country Category, adopted at the BRICS Summit at Kazan, Russia, and welcome their participation in various ministerial and technical-level meetings under Brazilian Chairship. We acknowledge that BRICS growing membership and thematic agenda require adjustments of the group's working methods. In this regard, we acknowledge the ongoing efforts to update the BRICS Terms of Reference and encourage that this process

is carried forward. We support the refinement of existing practices to ensure that BRICS remains effective, efficient, responsive, inclusive and consensus-based. We reaffirm that institutional development is a continuous and dynamic process that should reflect the group's needs and priorities. We underscore our strong belief that extending the BRICS dialogue and partnership with EMDCs will further contribute to strengthening the spirit of solidarity and true international cooperation for the benefit of all. We recognize the need to establish a common BRICS database to facilitate access to relevant documents and background information.

125. We commend Brazil's BRICS Chairship in 2025 and express our gratitude to the government and people of Brazil for holding the XVII BRICS Summit in the city of Rio de Janeiro.

126. We extend full support to India for its BRICS Chairship in 2026 and the holding of the XVIII BRICS Summit in India.

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# Remarks by Chinese Premier Li Qiang at the Session on Peace and Security and Global Governance Reform of the XVII BRICS Summit☆

*By* LI QIANG*

RRIO DE JANEIRO, July 6 (Xinhua) -- Chinese Premier Li Qiang delivered a speech on Sunday at the plenary session of "Peace and Security and Reform of Global Governance" of the 17th BRICS Summit.

The following is the full text of the speech:

At the Session on Peace and Security and Global Governance Reform Of the XVII BRICS Summit

Your Excellency President Luiz Inacio Lula da Silva,

Colleagues,

First of all, congratulations on the successful opening of this summit. I thank President Lula and the government of Brazil for the work they have done in hosting this summit, and I welcome Indonesia as a full BRICS member.

Today, transformations unseen in a century are accelerating in the world. Geopolitical conflicts and economic and trade frictions keep emerging, flames of war continue to rage in some regions, international rules and order face serious challenges, and the authority and efficacy of multilateral mechanisms are weakening. All parties have come to see the growing necessity and urgency to reform the global governance system. And all are participating in and promoting the reform of global governance through various means, either on their own initiative or otherwise. China believes that in this process, one must firmly safeguard the shared interests of the international community and always stand on the right side of history. This is the only way to avoid taking a wrong turn or backpedaling, and to march forward in big strides toward peace, security, prosperity and sustainable development.

In 2015, President Xi Jinping put forward the global governance vision of extensive consultation and joint contribution for shared benefit, offering China's solution to the global governance challenge. Ten years on, this important vision has gained growing global influence. Given the interwoven changes and turbulence in the current international landscape, this global governance vision of extensive consultation and joint contribution for shared benefit holds even greater value and relevance, here and now. In the face of heightened differences and disagreements, we need the spirit of equality and respect to enable more extensive consultation. The conflicts and disputes happening across the globe have their roots in the lack of trust and communication. Power politics and bullying are never the right way to solve problems. The security and development of all countries should be respected. There should be less arrogance and prejudice, and more sincerity and understanding. We need to look for the best answer that serves the interests of all through friendly consultation conducted on the basis of equality. In the face of deeply intertwined and shared interests, we need united and collaborative actions to enhance our joint contribution. Humanity lives in the same global village, and countries have increasingly become one community with a shared future. Whether it is tackling global challenges or promoting long-term development, no country can do it alone. Only by standing together in solidarity and working in close collaboration can we build a better home for us all. In the face of development opportunities where cooperation brings win-win results, we need wholehearted embrace of other's success as our own to expand shared benefits. Development should not be a zero-sum game where one profits at the expense of the other, but a win-win story where all can benefit through mutual assistance. Countries' development ought to be opportunities, not threats, to each other. When everyone is willing to share opportunities with others, there will be more opportunities and benefits to share.

Over the years, Global South countries have grown stronger and become champions of and contributors to the reform and improvement of the global governance system. Standing at the forefront of the Global South, we BRICS countries should uphold independence, act with a sense of responsibility, take bigger steps to build consensus and synergy, and strive to be the pioneering force in advancing global governance reform.

☆ Source: Xinhua. Editor: huaxia | 2025-07-07.

* Premier of the State Council of the People's Republic of China.

First, we should uphold justice and safeguard world peace and tranquility. Achieving fairness and justice is a persistent pursuit of BRICS countries and an important theme of BRICS cooperation. When international rules are being undermined and bullying practices are on the rise, we need to stand up for what is right and speak up for justice. We need to act as a positive and stable force for good in the world, promote dispute settlement by peaceful means, and seek solutions that address the root causes based on the true merits of issues.

Second, we should focus on development and bolster the driving forces of economic growth. China's journey of reform and opening up shows that in solving all problems, development is the foundation and key. It is true to big developing countries like China. It is also true to other countries of the Global South and beyond. With notable advantages in market, resources, industries and other factors, BRICS countries should play an active part in spearheading development cooperation, unlock the growth potential in emerging areas, and continue to explore new space for mutually beneficial cooperation. This year, China will establish the China-BRICS New Quality Productive Forces Research Center and the BRICS New Industry Golden Egret Excellence Scholarships, which will help BRICS countries train talents in areas such as industry and telecommunication, and pursue innovation-driven development.

Third, we should uphold inclusiveness and promote exchange and mutual learning among civilizations. Dialogue between civilizations can build bridges for peace and friendship and inspire wisdom for common development. With rich histories and cultures, BRICS countries should be advocates of harmonious coexistence of civilizations. We need to call for respect for cultural diversity in the world, and work to ensure that different civilizations inspire each other and prosper together.

China is ready to work with fellow BRICS members to make global governance more just, equitable, efficient and well-ordered, and build a better world together.

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# Brics' Daringly Autonomous Model for Financial Sovereignty⋆

*By* UDAIBIR DAS*

**Three communiqués, two approaches, one global economy**

In the rarefied world of economic policy-making, where the public and markets are distanced from complex decision-making, communiqués serve as windows into the ambitions, hesitations and geopolitical leanings of powerful economic blocs. Released in October 2024, three influential documents from Brics, the International Monetary Fund's International Monetary and Financial Committee and the World Bank's Development Committee each offered a distinct view of the global economic landscape.

While the IMF and World Bank communiqués aim to reinforce established frameworks and shape policy discourse, Brics presents an alternative vision. With an expanded bloc representing over 32% of global gross domestic product and projected by the IMF to control one-third of global output by 2028, Brics is asserting its place in global growth dynamics.

This enlarged group now includes the founding five - Brazil, China, India, Russia and South Africa - alongside the newly admitted Egypt, Ethiopia, Iran, Saudi Arabia (as an invited country) and the United Arab Emirates. Through a dense 134-point communiqué, the Brics bloc articulates its stance on economic and financial sovereignty with increasing clarity and determination.

This latest vision from Brics could be read as an intent to gradually dismantle or, at the very least, challenge the long-standing post-second world war frameworks governing international monetary and financial systems. Or perhaps, more moderately, it signals a loud call for fundamental reform - seeking an 'inclusive and just' international financial architecture that better serves emerging and developing economies. Underlying this demand is a palpable distrust in the current system and how global policies are decided.

Are the paths outlined in the IMF and World Bank communiqués and the Brics declaration truly so divergent? Do they not all, in some sense, seek continuity within change or is the world moving towards an institutionalised, bifurcated economic order?

**Multipolar sovereignty**

The Brics declaration envisions a multipolar financial system that stands free from the dominance of traditional international monetary structures. Central to their vision is prioritising regional autonomy and financial sovereignty, which directly challenges established global payment systems, such as Swift.

At the heart of this strategy lies the Brics cross-border payments system designed to facilitate transactions in local currencies, reducing reliance on dominant international currencies (once sterling and now the dollar) and the extensive dollar-centric financial infrastructure. This move aims to shield participating nations from the potential 'weaponisation' of reserve currencies and geopolitical pressures.

In contrast, the IMFC communiqué underscores the value of the existing monetary and payments system, reinforcing its role as a stabilising force amid global economic uncertainties. Acknowledging challenges like inflation, rising debt and geopolitical tensions, the IMF's message remains one of cautious continuity, emphasising stability over transformation.

**Double alignment**

With its rapidly growing economic influence and expanded membership, Brics is increasingly positioning itself as an alternative voice and a formidable player with the potential to reshape the international financial order.

However, the dual memberships of many Brics countries in other global economic bodies, including the IMF, World Bank, Financial Stability Board and G20, create a strategic positioning dilemma. Rather than pursuing an exclusive alignment, Brics members may engage in 'double alignment,' where they balance the benefits of dollar stability while exploring pathways to financial independence. This delicate balancing

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act raises the question of whether Brics, as it expands, can maintain cohesion amid diverse national interests and priorities.

For instance, Brazil and India's nuanced positions - supporting regional co-operation within Brics while remaining committed to Western trade ties - highlight the bloc's internal diversity. While Russia and China advocate for rapid de-dollarisation and the creation of parallel financial systems, India favours a more measured approach that preserves its integration with global markets. These internal divergences underscore the complexities of Brics' mission and raise questions about its ability to drive systemic change in the international financial order.

The three communiqués reveal fundamental policy divergences across four critical areas: macroeconomic stability, debt sustainability, climate finance and financial infrastructure.

**Macroeconomic stability and debt**

Both Brics and the IMFC/Development Committee acknowledge the growing pressures on emerging economies, aggravated by escalating debt servicing burdens. The IMF's response has been to expand concessional lending through the Poverty Reduction and Growth Trust - a vital mechanism to support vulnerable economies within the existing dollar-centred monetary framework. The IMF's coordination with the World Bank's International Development Association fund replenishment also seeks to provide structured financial support with attached policy conditions, reinforcing a framework prioritising policy continuity and fiscal discipline.

In contrast, Brics aims to expand the reach of its New Development Bank, which provides loans with fewer policy conditions. The appeal of the NDB lies in its flexibility, enabling countries to retain control over their development agendas without the rigorous reforms often mandated by IMF and multilateral lending. By including new members like Egypt, Ethiopia and the UAE, Brics signals a commitment to building an alternative financing model that champions policy sovereignty and gives developing nations more agency in their development pathways.

**Climate finance**

Ideological differences also surface on the issue of climate finance. While both Brics and the IMF/World Bank emphasise the importance of climate action, their approaches diverge markedly. The IMF's communiqué promotes a standardised, multilateral approach, channelling resources through frameworks that align with global climate targets and metrics. For instance, the World Bank's pledge to double agri-finance commitments by 2030 aims to enhance climate resilience in agriculture through globally standardised frameworks and metrics.

In contrast, Brics supports a decentralised model via the NDB, allowing member nations to fund climate projects tailored to their national needs. Countries like India and Brazil argue that standardised frameworks can overlook emerging economies' unique priorities and capacities. Brics' flexible approach to climate finance empowers countries to align investments with their specific developmental paths, avoiding a one-size-fits-all model often favoured by multilateral institutions.

**Financial infrastructure**

One of the most ambitious initiatives in the Brics communiqué is a cross-border payment system designed to operate independently of Swift. This effort emphasises the bloc's frustration with advanced markets' control over global financial infrastructure, which Brics countries view as susceptible to geopolitical pressures. The bloc seeks to foster financial autonomy by promoting regional trade in local currencies and reducing exposure to the dollar-dominated system through initiatives like the Brics Interbank Cooperation Mechanism and a proposed Brics Reinsurance Company.

Meanwhile, the G20 is advancing its own vision for cross-border payments reform. In collaboration with the IMF, World Bank and Financial Stability Board, the G20 has outlined a roadmap focused on enhancing the existing payment system. Unlike Brics, the G20 initiative aims to incrementally improve the current system through technical upgrades, prioritising faster and more transparent cross-border transactions while continuing to use Swift (at least for now). This divergence represents two competing visions: Brics' push for a multipolar financial infrastructure versus the G20's aim to strengthen and modernise the current dollar-centred system.

**Navigating a bifurcated financial landscape**

The 2024 communiqués from Brics, the IMF and the World Bank represent two diverging visions for global finance. While Brics promotes a multipolar model grounded in financial autonomy, the IMF and World Bank remain committed to continuity within the existing frameworks. As the stakes increase, the influence of these statements - often fraught with contradictions and ambiguous messages - creates uncertainty for investors and policy-makers alike. This unpredictability is unsuitable for global markets or investment flows, particularly when international coherence is needed to address fragile economic growth and mounting social challenges.

For those who monitor the fine print of these communiqués, the messages conveyed can be at odds: a Brics advocating for regional sovereignty, a G20 emphasising cohesion and an IMFC endorsing stability. Yet, without a governance structure that holds these bodies accountable for consistency - especially given the significant overlap in member countries - this fragmented communication risks exacerbating global financial instability. Such inconsistencies sow confusion when both democracy and capitalism are under critical scrutiny, making it essential to communicate a unified approach to pressing global challenges.

As we anticipate further statements from the 11th G20 and COP29 in November 2024, the global financial community will be watching to see whether common ground emerges in areas like sustainable development, trade, climate finance, financial stability, cross-border payments and digital finance. These discussions could pave the way for a more harmonious global economic order or underscore an increasingly divided landscape. While Brics' calls for a multipolar world may appeal to many developing countries, the entrenched dollar-based system remains a stabilising force that cannot be overlooked. How these bodies address and articulate their differences could determine whether the world heads towards co-operation or confrontation in the coming years.

IMI International Monetary Review

# Brics Rio Declaration Offers No News on Finance

*By* HERBERT POENISCH[*]

During our lifetime we were spoilt by the old financial governance. The dollar provided the global unit of account, means of payment and store of value. It thus fulfilled all requirements of money. In addition, the benign attitude of the US authorities towards the rest of the world using their currency as sole international money has made this possible. This system had its advantages but also many well know drawbacks. The main ones are the control by one government and the need to convert twice, into the vehicle currency and out again, causing costs and risks.

Recently, emerging economies have become assertive, while the USA apparently has reneged on its role as provider of such global currency. The outcome is the discussion under the heading of de-dollarisation. This discussion is driven by academics as well as politicians. The financial markets are sitting on the fence waiting for a viable alternative to the dollar.

This article will shed light on the present state of de-dollarisation and the outlook for what lies ahead after the Rio summit.

Presently, the global currency is used for denomination, enacting cross border transaction, for current account as well as financial account. Finally, the currency is used as a store of value for diverse investors such as the granny in a remote village as well as rich individuals looking for safe heaven. The denomination function is used for convenience of comparability. This can easily be replaced by AI which will convert national currencies into a weighted unit, such as a Brics basket.

The second function, settlement of cross border payments in multiple currencies is already happening. The Brics efforts to use national currencies is well on the way, as evidenced in the recent Brics summit in Rio. The aim is to use national currencies to settle current account payments. The renminbi is reportedly already used in 50% of intra Brics trade, whereas it made up only 2% in global payments in May 2025 according to SWIFT. The Brics Cross border Payments System is still under discussion.

The major issue is the settlement of imbalances as no mechanism has been devised and no vehicle currency has been mandated. The previous Brics Pay turned out to be a hoax and the present suggestion of XRP is a cryptocurrency, abhorred by countries like China. China on its own is neither willing nor ready to play the role of a Brics vehicle currency. A clearing institution like the European Payments Union after WW2 is called for.

However, this mechanism would alleviate the need for only a small share of cross border transactions, the trade in goods and services, which totalled some USD 33 trillion in 2024, about one third of global GDP. The lion share of cross border financial transactions are still conducted in major currencies, such a the dollar. Only the global forex market is USD 7.5trillion a day, with 5 days of trade to match a year's trade in goods and services. This is made up of spot, futures and swaps, where the dollar was still counterpart in 88 per 200 of all transactions in 2022. In comparison, the renminbi made up 7 per 200, well below its share in the SDR of close to 12% The next BIS triennial survey was conducted in April of this year, with results to be published later in the year.

Other global financial markets, such as interbank and money market, stock and bond market plus derivatives markets make up a multiple of the global GDP.

The major players trading in these markets are also the ones looking for store of value, in the short term hedging positions as well as long term to hedge long term liabilities. These are the global banks, corporations as well investors. There has been little evidence of them abandoning major currencies in favour of Brics national currencies which are at the whims of political leaders.

As the US administration is neglecting its responsibility for providing a global currency, the search is on for alternatives. Brics currencies have been mentioned, but a common Brics currency backed by gold is off the Rio agenda which leaves the national currencies ranging from renminbi to the Ethiopian Birr. As argued brilliantly in previous contributions by Smith and Das a new Brics financial governance is highly

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unlikely. In the absence of such a political agreement a trustworthy vehicle currency might emerge for settlement of Brics trades which is a far cry from replacing the dollar.

IMI International Monetary Review

# Shared Brics Money: A Basket Currency or A Basket Case?

*By* GARY SMITH[*]

Eight questions for proponents of a Brics common currency

Many nations would like to reduce their dependence on the increasingly weaponised dollar, especially for dollar-denominated trade that does not pass through the US. The idea of a shared currency issued by the Brics nations (Brazil, Russia, India, China, South Africa) made headlines in late 2024 ahead of their conference in Kazan, Russia.

Wanting to move away from the dollar is understandable, but making progress will be challenging. Here are eight questions for the proponents of a Brics currency.

1. Is this just a Russian dream to dodge US sanctions?

Not quite. Brazilian President Luiz Inácio Lula da Silva has also expressed enthusiasm for the idea of a new currency for settling trade between the Brics nations. However, politicians from South Africa, India and particularly China have been conspicuously quiet on the topic.

rics nations are not a homogenous group of countries with common aims and objectives. They are a diverse group and, in the case of India and China, have significant rivalries. This is not an obvious starting point for a shared currency project.

2. Would it replace domestic currencies?

It is not clear if the plan is to replace domestic currencies or to create something to operate in parallel. The lack of clarity on this seminal point is an indication that discussions are at an early stage.

These things take time. The euro was created in 1999, 29 years after the 1970 Werner report, which proposed a single currency, and 21 years after the launch of the European Monetary System. It was built on shared political institutions and 50 years of economic integration among neighbouring countries.

A big-bang move to a shared currency for the Brics nations is not practicable. A fixed but adjustable exchange rate regime might be a more viable route to a new currency.

3. How would a fixed but adjustable exchange rate system work?

The experience of the European Exchange Rate Mechanism, a precursor to the euro, is instructive. The system had a bumpy history but eventually succeeded in establishing guide rails for the launch of the single currency.

Fixed but adjustable exchange rates require occasional realignments to account for differing inflation rates over time. Under the ERM, the burden of adjustment usually fell onto the nation of the weaker currency. Realignments were often fraught events, with political repercussions. If a Brics currency ran parallel to domestic currencies, who would manage exchange rates versus domestic currencies?

Lula's suggestion for inter-Brics trade currency redenomination out of the dollar would require similar adjustments. The weights of each currency will need to constantly be adjusted to reflect global currency movements (often versus the dollar) and prevent arbitrage.

4. Would expanding the list of qualifying Brics nations enhance the appeal of a shared currency?

The issues involved in establishing any kind of Brics currency would be enormous. The initiative to expand the group and invite an eclectic list that includes the United Arab Emirates, Iran, Indonesia, Ethiopia and Egypt adds to this complexity and reduces the probability of a new currency arrangement.

If the Brics group is intended to provide a counterweight to the US-led Bretton Woods institutional framework, it should be highlighted that Ethiopia and Egypt are currently reliant on International Monetary Fund financing programmes. Will the Brics group be offering a more credible financing mechanism as an alternative?

5. Would a gold-linked currency be more viable?

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A gold-backed currency might appeal to major gold producers like China, Russia and South Africa.

If a gold-backed currency replaced domestic currencies, then the Brics nations would find themselves on a version of a gold standard. Gold-backed currency regimes in the 20th century collapsed because of the need for governments to print currency to pay for war (the first world war for European nations and the Vietnam war for the US). Does Russia understand that it might have to rein in military spending to maintain a peg?

How would responsibility for maintaining convertibility into gold work between a disparate list of nations with differing holdings of gold and access to new production?

If 'gold-backed' meant convertible into gold at the prevailing market price, then the unit would change in value every day. When one of the underlying currencies fell in value who would intervene and defend? Would a gold contribution be required by the nation of the weak currency at a time of vulnerability? Such a system would lead to destabilising speculative movements of gold between participant countries – the opposite of the desired stable and predictable framework.

6. Why not just use local-to-local currency settlement for intra-Brics trade?

Settlement in local currencies is increasing from an extremely low level. The scope is constrained by nations having a limited appetite for accumulating the currency of the other. Since sanctions were imposed on Russia in 2022, oil exports have been redirected to India. However, Russia does not want to accept rupees because of a limited demand for Indian exports. Local-to-local trade in home currencies will be easiest between nations where trade is in balance. That is rare.

A solution to the rupee conundrum was found by using the UAE dirham, a currency that is fixed to the value of the dollar and internationally accepted in multilateral trade.

The Brics nation currency that has made most progress in term of increased usage in international transactions is the Chinese renminbi. As China is the largest trading partner for 120 other nations it is best placed to become the de facto Brics currency.

7. What exactly came out of the Kazan summit?

The Russian report to the Brics summit recommended a common platform for cross-border payments using central bank digital currencies. This would avoid having to use the dollar, the US banking system and Swift, the interbank payment service. However, the roll-out of CBDCs is best described as a 'work in progress'.

The Bank for International Settlements has helped to develop a platform, known as Project mBridge with the participation of five central banks, including the People's Bank of China.

It's a solution for the long term, but it could eventually provide for own-currency settlement using CBDCs. Although it would not address the problem of trade imbalances leading to piles of unwanted local currency, it could lead to much lower transaction costs, which might tip the scales for some players.

8. Why is US President Donald Trump warning against a Brics currency?

Trump is reacting to a problem that does not exist and cannot become a problem during the four years of his presidency. Barry Eichengreen, historian and economist of University of California Berkeley, dismissed the Brics currency idea as a charade. That sounds like a vote for basket case rather than currency basket.

Although the desire to move away from the weaponised dollar is real and growing, the switch will be tough even for trade flows that occur within the Brics group. The power of incumbency is strong. At the margin there will be a bigger role for the renminbi and for gold. The asset management industry is unlikely to need to provide Brics currency-linked products for several decades, if at all.

# New World Order

## Defining Transformation*

*By* XU XIUJUN*

Rise of the Global South set to advance the formation of a new model of the international order.

The collective rise of the Global South stands as the defining hallmark of contemporary global transformation. This ascent constitutes the essential substance of worldwide restructuring, fundamentally reconfiguring its nature. Simultaneously, the Global South acts as the primary engine of this transformation, shaping its trajectory through four critical manifestations.

First, the Global South advances global developmental rebalancing. Its emergence has narrowed the development gap with advanced economies. Profound shifts in the North-South power dynamic are reflected in the International Monetary Fund 2024 data: Global South economies now account for 60.1 percent of global GDP (purchasing power parity-adjusted) — 1.5 times the share of developed economies. World Bank statistics further reveal obvious income convergence: low-income nations declined from 30 percent (1987) to 12 percent (2023) of all countries, while high-income economies rose from 25 percent to 40 percent.

Global South nations have forged development models fundamentally distinct from historical Western paradigms. On the one hand, they seek self-determined development. Unlike Western nations whose primitive capital accumulation relied on violent plunder and colonial exploitation of other nations, Global South economies leverage their resources endowments, labor forces and market scale, achieving growth without imposing development costs on others.

On the other hand, they are pioneering an eco-synergistic development pathway that advances intergenerational equity. Western nations historically pursued a carbon-intensive industrialization trajectory during their formative development phase. Conversely, contemporary Global South states pioneer integrated development-environmental governance frameworks, preventing exploitative depletion of natural ecosystems.

Second, the Global South champions the democratization of international relations. For a long time, Western countries have leveraged their advantages to dominate other nations within this sphere. The rise and expansion of the Global South, however, has strengthened efforts to advance this democratization. In international relations, Global South nations champion three cardinal principles: the sovereign equality of all states regardless of size, strength or wealth; collective deliberation on global affairs through multilateral frameworks; and shared stewardship of humanity's future.

These principles are enshrined in landmark declarations. The Ministerial Declaration of the G77's 60th anniversary in September 2024 reaffirmed the adherence to the purposes and principles of the United Nations Charter, international law, national sovereignty, territorial integrity, political independence and non-interference in internal affairs. The Kazan Declaration of the 16th BRICS Summit in October 2024 reaffirmed "support for a comprehensive reform of the UN, including its Security Council, with a view to making it more democratic, representative, effective and efficient".

Simultaneously, the Global South remains committed to advancing a new model of international relations centered on win-win cooperation. During his March 2013 visit to Russia, Chinese President Xi Jinping proposed that "all countries should work together to foster a new type of international relations focused on win-win cooperation, with people of all nations joining hands to uphold world peace and promote common development". As a key member of the Global South, China has consistently championed this vision.

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In practice, the launch of the Belt and Road Initiative exemplifies this commitment. The initiative steadfastly adheres to the principle of "extensive consultation, joint contribution and shared benefits", embodying the Silk Road Spirit of peaceful cooperation, openness, inclusiveness, mutual learning and mutual benefit. This provides a vital platform for building a new framework for international relations. Furthermore, the BRICS cooperation mechanism — collectively established by China and fellow Global South nations — consistently upholds the BRICS spirit of openness, inclusiveness and win-win cooperation, serving as an exemplary model for advancing this new paradigm of international relations.

Third, the Global South is promoting greater equilibrium in global governance. Its rise has, to some extent, redressed imbalances in global governance rights, fostering more balanced development of decision-making power. This shift is clearly manifested in the enhanced voting shares and representation secured by Global South nations within key international organizations.

For instance, after the World Bank's capital increase in 2018, China's voting share rose by 1.26 percentage points, increasing its total stake to 5.71 percent and cementing its position as the institution's third-largest shareholder after the United States and Japan. At the IMF, China's share of Special Drawing Rights has also continued to grow. Following the renminbi's formal inclusion in the IMF's SDR basket on Oct 1, 2016, with an initial weighting of 10.92 percent, the currency's share increased to 12.28 percent after the latest SDR valuation review in May 2022. On UN reform, the Global South's call for expanded representation has likewise gained tangible traction.

Concurrently, the ascent of the Global South has promoted a more equitable distribution of responsibilities in global governance. Climate governance exemplifies this dynamic: historical data reveal disproportionately higher cumulative greenhouse gas emissions from Western nations relative to Global South countries. For a long time, these Western nations evaded historical accountability by focusing exclusively on current emissions growth while disregarding legacy emissions of greenhouse gases. The expanding influence of the Global South, however, has compelled these countries to progressively assume proportionate international responsibilities commensurate with their entitlements.

Despite constraints in financing and technology that render parity with developed countries' emissions reduction targets unfeasible, the Global South actively undertakes responsibilities aligned with its capacities. This principle of differentiated responsibilities was codified in December 2015 through the Paris Agreement adopted at COP21 to the UN Framework Convention on Climate Change. The landmark accord establishes: Developed countries must take the lead in emissions reduction and may implement gradual reduction targets according to national circumstances, and the Least Developed Countries and Small Island Developing States may formulate context-specific strategies based on their distinctive vulnerabilities.

Fourth, the Global South is enhancing civilizational diversity. Encompassing nations across Asia, Africa and Latin America, it integrates diverse linguistic, religious, ethnic and cultural spheres — manifesting profound civilizational diversity. This inherent heterogeneity has emerged as a defining feature of Global South cooperative frameworks.

The G77 — established in 1964 as the Global South's primary intergovernmental body for development coordination — has expanded from 77 founding members to 134 members, with representation spanning Africa, Asia-Pacific, Latin America and the Caribbean. Concurrently, the BRICS mechanism stands as a testament to this civilizational polyphony.

Simultaneously, the Global South's rise has further advanced the diversification of global civilizations. Since the Age of Exploration began in the 15th and 16th centuries, Western nations successively embarked on colonial expansion. This process led to the marginalization and intrusion of Western civilization upon others, ultimately establishing its dominance worldwide. However, following World War II, as numerous countries across Africa, Asia and Latin America gained independence, this Western-dominated order gradually eroded. Countries of the Global South effectively resisted the impact of Western civilization.

The rise of the Global South has also unlocked new avenues and opportunities for mutual learning among diverse civilizations. On the one hand, leveraging South-South cooperation mechanisms, these nations continually deepen cultural exchanges among themselves, fostering genuine civilizational dialogue and mutual enrichment. On the other hand, the diverse cultures and civilizations of the Global South also offer valuable insights — and serve as a source of learning — for Western nations.

IMI International Monetary Review

# The Arc of Ascent of China's Financial System⋆

*By* UDAIBIR DAS*

Reform, global reach and financial stability statecraft

Amid developing tensions, the International Monetary Fund's 2025 Financial Sector Stability Assessment for China arrives at a pivotal juncture. More than a domestic stocktake, it reflects the structural transformation of China's financial system, marked by increased complexity, persistent contradictions and a steadily expanding global footprint – much of which is mediated by Chinese financial institutions.

This year's assessment invites further scrutiny of the system's evolving resilience and policy trade-offs. Having contributed to China's inaugural Financial Sector Assessment Program in 2010, which played a key role in helping China embark on financial reforms in the following years, I recall one main thing. That is a large but underdeveloped financial system – bank-dominated, policy-directed and functionally insulated from global market signals.

Also among the vulnerabilities were undercapitalised banks, misallocated credit, structural dependence on real estate, opaque risk pricing and the absence of formal resolution protocols. Not only was regulation fragmented, but supervisory authorities also lacked independence and governance frameworks were nascent.

Domestic gains, lingering risks

Fifteen years on, institutional progress is evident as brought out by the 2025 assessment. Risk-based regulation is more embedded. The macroprudential toolkit has matured, with the People's Bank of China deploying instruments under the Macroprudential Assessment regime. Regulatory oversight now extends to systemically important fintech and nonbank financial conglomerates. Capital markets have deepened, the investor base has broadened and digital finance increasingly intermediates through regulated channels.

The shift from financial repression in 2010 towards selective marketisation has helped to broaden credit allocation and improve price discovery, particularly in corporate and local government financing.

China's macroprudential regime, however, continues to operate under institutional constraints. Due to administrative overrides and conflicting policy mandates, countercyclical capital buffers, systemic risk surcharges and borrower-based tools work less effectively. Unlike other G20 jurisdictions, China lacks legal independence and transparent, rule-based triggers in macroprudential governance, undermining credibility and market expectations.

Moreover, the financial sector's growth has created new vulnerabilities. Smaller banks face continuing exposure to deteriorating assets, weak controls and concentration risks from local government vehicles and property developers. Many also struggle with thin margins and mismatched balance sheets.

While the 2025 assessment identifies these problems, it does not quantify the potential chain reactions and stress breaking points that demand attention from China and global finance.

Crisis management and political limits

Resolution frameworks have improved modestly. Deposit insurance – introduced in 2015 – has gained operational traction. Resolution planning and recovery mechanisms are now in place.

Yet critical institutional and legal gaps remain unresolved. The absence of binding bail-in protocols, creditor hierarchy legislation and explicit fiscal backstops continues to undermine the credibility of resolution in the event of a large-scale or cross-sectoral failure. The capacity to resolve distressed but non-systemic entities in a predictable, market-neutral way – without cascading contagion – remains untested.

The 2010 and 2025 assessments call for improved financial transparency, governance and data quality. These are no longer technocratic refinements for China but preconditions for confidence in the financial system and effective macroprudential calibration.

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⋆ Puclished on 14 May 2025.

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A persistent gap remains in the quality and timeliness of financial disclosures. While credit registry coverage and regulatory consolidation have improved, the 2025 assessment implies systemic opacity is impeding risk pricing, especially for external actors.

Global leverage and surveillance

One aspect where the 2025 assessment could have provided clearer insights into systemic risk arising from China's expanding global financial footprint.

Since 2010, China has transformed from a net capital importer to a strategic creditor. Through its policy banks, state-owned commercial lenders and bilateral swap arrangements, China finances infrastructure, helps trade settlement and provides development lending across Asia, Africa and Latin America. Renminbi-denominated trade in Asia has grown sharply, while its share in global payments has tripled since 2010. China is also a creditor in the global bond markets, actively funding cross-border public debt.

Yet, the 2025 assessment only cursorily addresses this selective and state-mediated financial globalisation, which operates under capital account controls and geopolitical uncertainty.

As the IMF has already attempted for other internationally active economies, such as Singapore and Switzerland, the 2025 FSSA would have benefitted by going a step ahead and having a dedicated module on cross-border stress transmission, renminbi clearing hubs, the PBOC's role and sanctions-related financial connectivity risks. That China's established role as a global liquidity provider and payment system actor is not treated with the same analytical depth represents a missed opportunity.

China's financial system operates with a distinct duality: functioning as a macroeconomic stabiliser and a policy-driven geoeconomic lever. This creates tensions between market signals and administrative control, liberalisation goals and geopolitical buffers.

While the 2025 FSSA acknowledges this contradiction, it leaves unexplored implications for regulatory coherence and crisis preparedness. The analysis should have moved beyond international standards to recommend approaches better suited to China's structural uniqueness and its significance in global finance.

Looking forward

What next? China faces three strategic questions. First, can China enforce market discipline in resolving smaller institutions without resorting to implicit guarantees or policy forbearance? Second, is the renminbi's internationalisation and the financial system's role driven by genuine competitiveness or administrative design? Third, can monetary, fiscal and financial policy coordination stabilise an aging, debt-heavy and geopolitically vulnerable environment?

China must build on its institutional progress and the policy suggestions noted in the 2025 FSSA while adapting to a more fragmented global financial landscape. The shift from insulation, as pointed out by the IMF in 2010, as well as the shift to sensible integration, as outlined by the IMF in 2025, stays unfinished.

Whether China moves towards transparency and rules-based finance, mindful of its implications for global financial stability, or greater opacity and intervention will profoundly shape its path and role in the international monetary system.

# Southeast Asia's Economies Can Gain Most by Packaging Ambitious Reforms*

*By* ANNE-CHARLOTTE PARET ONORATO*

Combining overhauls in areas including business and external regulation, governance, and human development can boost output levels by 3 percent over four years.

Southeast Asia's major economies have made major strides over the last couple of decades. The largest have seen income per capita grow at least three-fold over the past 20 years amid global integration and prudent policymaking. Vietnam now enjoys an income level that's 11 times higher than in 2000. Building on such gains to close the region's gap with high-income countries—an ambition for many seeking to break from the so-called middle-income trap—while challenging, is in reach.

Combining deliberate, ambitious structural overhauls can help the region's largest economies achieve higher potential economic growth and sustainably attain high income levels. Wide-ranging reforms can build resilience to shocks in the face of uncertainties and help the private sector drive growth.

Packaging together broad, economy-wide reforms, spanning areas from regulation and governance to education, is the best way to achieve that goal, our research shows. Our study of output gains derived from structural reforms in advanced economies and emerging markets suggests that countries such as Indonesia, Malaysia, Philippines, Thailand, and Vietnam—the five largest emerging markets out of 10 economies in the Association of Southeast Asian Nations, or ASEAN—could increase long-term real economic output, on average, by 1.5 percent to 2 percent after two years and up to 3 percent after four years following comprehensive and simultaneous economy-wide reform packages.

Packaging ambitious reforms, however, often entails substantial political economy challenges; efforts on consensus building across key stakeholders is needed to facilitate such an approach and help deliver sustainable gains.

Six countries, four factors

Our analysis aims to help the five of the major ASEAN emerging market economies achieve their goal to join the sixth, Singapore, among the high-income countries in the next two to three decades.

We focus our assessment on four factors: trade and economic openness, economic sophistication, investment and governance conditions, and human development. These are the main broad structural areas to address, though the recommended areas of focus would vary by country.

While the six main ASEAN economies are generally more open than the average emerging market in the Group of Twenty, these countries still have more barriers to trade—and are relatively harder to trade with—than the median country in the Organisation for Economic Co-operation and Development, when measured by the Trade Facilitation Performance index. Improving logistics and trade facilitation to make cross-border transactions faster, cheaper, and less uncertain would help the five largest ASEAN emerging market countries boost economic growth. Moreover, as discussed in our Asia-Pacific Regional Economic Outlook in October 2024, addressing the lagging services trade can help maximize pro-competitive gains and technological spillovers, while creating high quality jobs. In fact, the transition to a more services-based economy by emerging markets does not mean that the scope for catching-up with advanced economies' income levels would be diminished—however, making the most of it requires facilitating the transition to highly productive services.

The major ASEAN economies are generally well diversified, though with varying degrees of economic complexity, led by Singapore. Countries on the lower end of this spectrum typically have

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relatively lower levels for education and labor productivity. Spending more and better on high-quality education, improving the quality of learning, and better matching skills with jobs would help these countries improve productivity and move up the sophistication ladder for the economy at large (rather than just in specific sectors).

In terms of investment attractiveness, the largest ASEAN emerging markets tend to lag the median for OECD countries on governance measures such as government effectiveness and regulatory quality. They are, however, ahead of the average emerging market economy in the G20 in this area. ASEAN countries often show weaker logistics performance and higher business regulation—Singapore being, again, an exception. Finally, while domestic credit is relatively ample in the major ASEAN emerging market economies, financial inclusion remains insufficient to support broad-based growth, as reflected in the low share of people with a bank account in some countries. Strengthening governance and anti-corruption efforts, as well as the quality of the infrastructure would also support accountability and business certainty and likely improve investment.

On human development, it is striking that all major ASEAN emerging market countries enjoy a demographic advantage relative to benchmarks. In other words, they generally have relatively more people working than dependants (such as children and elderly individuals). Therefore, there is an opportunity to implement reforms now before aging populations increase fiscal burdens such as pensions and healthcare. Another issue is that these countries generally display greater inequality than the OECD average and lower life expectancy, population health and living standards. There is also a greater prevalence of informal work. Closing these gaps would better support inclusive and resilient growth.

Reforms to prioritize

What structural areas should ASEAN countries focus on to boost growth in a sustained and inclusive way?

Building on analysis in our 2024 selected issues papers on Indonesia and Philippines, we find that packaging reforms yields better output outcomes than a sequenced, gradual approach. A major simultaneous reform package improving business and external regulation, governance, and human development could raise output levels by up to 3 percent after four years. The benefits from enacting a single major economic reform would be more modest.

This result highlights that deliberate, ambitious packages of structural reforms can help the major ASEAN emerging market economies achieve higher potential growth and realize their vision of reaching high-income levels in a sustainable way. Amid a shock-prone global environment, ambitious economy-wide structural reforms can also help build resilience by fostering diversified, broad-based, inclusive growth at the domestic level, and ensuring a credible and robust institutional framework to further unleash private sector-driven growth.

IMI International Monetary Review

# Toward a New Era in East-West Connectivity*

*By* DJOOMART OTORBAEV*

The Middle Corridor between China and Europe has the potential to reshape the economic and geopolitical landscape of the Eurasia.

European Council President António Costa and European Commission President Ursula von der Leyen will visit Uzbekistan on April 3 and 4 to attend the inaugural Central Asia-European Union Summit. The presidents of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan will also participate in the summit.

The summit provides a crucial opportunity for the EU to demonstrate its geopolitical interest in enhancing bilateral engagement and expanding regional cooperation with Central Asian countries. In the evolving geopolitical landscape of Eurasia, the relationship between Central Asia and the EU is becoming increasingly strategic.

It was announced last year that the G7 countries were ready to invest up to $200 billion in infrastructure projects in Central Asia.

Regional transport cooperation is poised to significantly impact the economy of Europe, Central Asian countries and China, as the trade land bridge between China and Europe, Central Asia, is becoming increasingly vital.

Rail freight volumes between China and Europe, via Central Asia, continue to grow rapidly. In 2024, trains made 19,000 trips, representing a 10 percent increase from the previous year. They transported over 2 million TEUs (twenty-foot equivalent units) of cargo, representing a 9 percent increase from the previous year. First launched in 2011 as part of China's Belt and Road Initiative, the service has linked 227 cities across 25 European countries and more than 100 cities in 11 Asian countries. By Dec 3, 2024, more than 11 million TEUs of goods have been transported, with total value exceeding $420 billion.

Beijing is prioritizing this area, with Premier Li Qiang specifically noting in his report to China's top legislature last month that China will "ensure the stable and smooth operation of China-Europe freight trains".

European countries seeking to reduce their dependence on rail transport to China through Russian territory have led the development of a shorter alternative route through Central Asia, known as the Trans-Caspian International Transport Route. More commonly known as the Middle Corridor, this is a network of transport routes that follows the ancient Silk Road, extending from China to Europe via Central Asia, the Caspian Sea and the South Caucasus, ultimately reaching Turkiye and the Black Sea. Operational since 2017, the Middle Corridor is a multimodal transport system that relies significantly on existing core rail and port infrastructure.

The volume of freight traffic along the Middle Corridor increased by 63 percent in the first 11 months of 2024, reaching 4.1 million metric tons. Meanwhile, container traffic rose 2.7 times, with shipments from China increasing 25-fold. The World Bank predicts that with the modernization of transport infrastructure, annual rail transport volumes along the Middle Corridor could reach 11 million tons by 2030.

To achieve this, the EU committed 10 billion euros ($10.8 billion) to infrastructure through its Global Gateway initiative and is contemplating increasing its involvement.

Although the EU aims to develop the Middle Corridor, specifically to bypass Russia, it may ultimately end up indirectly enhancing Russia's international connectivity, as it could connect the Middle Corridor to the forthcoming International North-South Transport Corridor, a 7,200-kilometer multimodal transport corridor that combines road, rail and maritime routes via Azerbaijan and Iran.

The Middle Corridor will also facilitate active trade between the countries of Central Asia and the South Caucasus. To maximize the development of the Middle Corridor, the EU could leverage the Middle Corridor on two fronts. The first front is internal, concerning the Central Asian and South Caucasian countries. The second front is external and involves China and Turkiye.

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The Middle Corridor would enable China to strengthen its economic ties along the entire route to the West. This will enhance China's economic influence in Central Asia and the Caucasus, promoting regional stability. The corridor not only gives China access to Europe but also to the Middle East. Its development has the potential to reshape the economic and geopolitical landscape of Eurasia, with significant implications for global trade flows and regional power dynamics.

As the natural entry point of the Middle Corridor into Europe, Turkiye stands to benefit from its development. Europe could seize this opportunity to reassure Ankara that Turkiye will continue to play a primary role in the EU's external relations. By doing so, it would secure Turkiye as an ally in the EU's ambitions for the Middle Corridor and foster a partnership with the Central Asian countries.

In addition to the EU's existing commitment to infrastructure, its involvement is anticipated to extend beyond mere connectivity. The Middle Corridor would genuinely flourish if it became a fully integrated economic corridor, incorporating energy and industrial activities along the route, which would add significant value to the regional economy.

The East-West railway lines are set to converge in Central Asia with the North-South railways currently under construction. These railways will connect Russia and Central Asia through Afghanistan, Pakistan, Azerbaijan and Iran to the deep-water ports of the Indian Ocean. Consequently, the intersection of the East-West and North-South railway routes in Central Asia will transform the region into a major transportation hub for the entire Eurasian continent.

The China-Europe railway bridge across Central Asia serves as a vital lifeline for all countries along the Great Silk Road. It symbolizes not only the revival of ancient trade routes but also fosters cultural and humanitarian exchanges between the East and the West. This new route will connect people and communities, strengthen cooperation, and open doors to countless opportunities for development and prosperity in the region. Further development of these railways will enable all countries along the legendary Silk Road to trade and collaborate, thereby enhancing the competitiveness of all parties involved.

IMI International Monetary Review

# The Global Economy Enters a New Era*

*By* PIERRE-OLIVIER GOURINCHAS*

Amid trade tensions and high policy uncertainty, the path forward will be determined by how challenges are confronted and opportunities embraced

The global economic system under which most countries have operated for the last 80 years is being reset, ushering the world into a new era. Existing rules are challenged while new ones are yet to emerge. Since late January, a flurry of tariff announcements by the United States, which started with Canada, China, Mexico and critical sectors, culminated with near universal levies on April 2. The US effective tariff rate surged past levels reached during the Great Depression while counter-responses from major trading partners significantly pushed up the global rate.

The resulting epistemic uncertainty and policy unpredictability is a major driver of the economic outlook. If sustained, this abrupt increase in tariffs and attendant uncertainty will significantly slow global growth. Reflecting the complexity and fluidity of the moment, our report presents a range of forecasts for the global economy.

Our World Economic Outlook's reference forecast includes tariff announcements between February 1 and April 4 by the US and countermeasures by other countries. This reduces our global growth forecast to 2.8 percent and 3 percent this year and next, a cumulative downgrade of about 0.8 percentage point relative to our January 2025 WEO update. We also present a global forecast excluding the April tariffs (pre-April 2 forecast). Under this alternative path, global growth would have seen only a modest cumulative downgrade of 0.2 percentage point, to 3.2 percent for 2025 and 2026.

Finally, we include a model-based forecast incorporating announcements made after April 4. Over that period, the United States temporarily halted most tariffs while raising those on China to prohibitive levels. This pause, even if extended indefinitely, does not materially change the global outlook compared to the reference forecast. This is because the overall effective tariff rate of the United States and China remains elevated even if some initially highly tariffed countries will now benefit, while policy-induced uncertainty has not declined.

Despite the slowdown, global growth remains well above recession levels. Global inflation is revised up by about 0.1 percentage point for each year, yet the disinflation momentum continues. Global trade was quite resilient until now, partly because businesses were able to re-route trade flows when needed. This may become more difficult this time around. We project that global trade growth will dip more than output, to 1.7 percent in 2025—a significant downward revision since our January 2025 WEO Update.

However, the global estimate masks substantial variation across countries. Tariffs constitute a negative supply shock for the implementing jurisdiction, as resources are reallocated towards the production of less-competitive items with a resulting loss of aggregate productivity and higher production prices. In the medium term, we can expect tariffs to decrease competition and innovation and increase rent-seeking, further weighing on the outlook.

In the United States, demand was already softening before the recent policy announcements, reflecting greater policy uncertainty. Under our April 2 reference forecast, we have lowered our US growth estimate for this year to 1.8 percent. That's 0.9 percentage point lower than January, and tariffs account for 0.4 percentage point of that reduction. We also raised our US inflation forecast by about 1 percentage point, up from 2 percent.

For trading partners, tariffs are mostly a negative demand shock, driving foreign customers away from their products, even if some countries can benefit from the trade diversion. Consistent with this deflationary impulse, we have lowered our China growth forecast for this year to 4 percent, a 0.6 percentage point reduction, and inflation is revised down by about 0.8 percentage point.

Growth in the euro area, which is subject to relatively lower effective tariffs, is revised down by 0.2 percentage point, to 0.8 percent. Both in the euro area and China, stronger fiscal stimulus will provide some support this year and next. Many emerging market economies could face significant slowdowns

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depending on where tariffs settle. We have lowered our growth forecast for the group by 0.5 percentage point, to 3.7 percent.

Dense global supply chains can magnify the effects of tariffs and uncertainty. Most traded goods are intermediate inputs that cross borders multiple times before being turned into final products. Disruptions can propagate up and down the global input-output network with potentially large multiplier effects, as we saw during the pandemic. Companies facing uncertain market access will likely pause in the near term, reduce investment and cut spending. Likewise, financial institutions will reassess borrowers' exposure. The increased uncertainty and tightening of financial conditions could well dominate the short term, weighing on economic activity, as reflected in the sharp decline in oil prices.

The effect of tariffs on exchange rates is complex. The United States, as the tariffing country, may see its currency appreciate as in previous episodes. However, greater policy uncertainty, dimmer US growth prospects, and an adjustment in the global demand for dollar assets—that has so far been orderly—can weigh down on the dollar, as we saw since the tariff announcements. In the medium term, the dollar may depreciate in real terms if the tariffs translate into lower productivity in the US tradable goods sector, relative to its trading partners.

Risks to the global economy have increased, and worsening trade tensions could further depress growth. Financial conditions could tighten further as markets react negatively to the diminished growth prospects and increased uncertainty. While banks remain well capitalized overall, financial markets may face more severe tests.

Growth prospects could, however, immediately improve if countries ease their current trade policy stance and forge new trade agreements. Addressing domestic imbalances can, over a period of years, offset economic risks and raise global output while contributing significantly to closing external imbalances. For Europe, this means spending more on infrastructure to accelerate productivity growth. It also means boosting support for domestic demand in China, and stepping up fiscal consolidation in the United States.

Our policy recommendations call for prudence and improved collaboration. The first priority should be to restore trade policy stability and forge mutually beneficial arrangements. The global economy needs a clear and predictable trading system addressing longstanding gaps in international trading rules, including the pervasive use of non-tariff barriers or other trade-distorting measures. This will require improved cooperation.

Monetary policy will also need to remain agile. Some countries may confront steeper trade-offs between inflation and output. In others, inflation expectations may become less-well anchored, with a new inflation shock following closely after the prior one. Countries that encounter resurgent price pressures will require forceful monetary tightening. For others, the negative demand shock will warrant lower policy rates. Monetary policy credibility will be important in all cases, and central bank independence remains a cornerstone.

The increased external volatility from tariff adjustments and a possibly prolonged risk-off environment, may be difficult to navigate for emerging markets. Our Integrated Policy Framework emphasizes that it is important to let currencies adjust when driven by fundamental forces, as is the case now, and spells out the specific conditions where it is advisable for countries to intervene.

Fiscal authorities face starker trade-offs with high debt, low growth and rising financial costs. Most countries still have too little fiscal space and need to implement gradual and credible consolidation plans, while some of the poorest countries, also hit with reduced official aid, could experience debt distress.

New spending needs are further weighing on fiscal fragilities. Calls for support will increase for those at risk of severe dislocation from the shocks. Such support should remain narrowly targeted and incorporate automatic sunset clauses. The experience of the last four years suggests that it is easier to open the tap of fiscal support than to close it.

Some countries, especially in Europe, face new and permanent increases in defense-related spending. How should these be financed? For countries with sufficient fiscal space, only the temporary part of the additional spending—that is, temporary support to help adapt to the new environment or the initial bulge in spending to rebuild defense capabilities—should be financed by debt. For all other countries, new spending needs should be offset by spending cuts elsewhere or new revenues.

We should not lose sight of the need for stronger growth. Governments should continue to engage in fiscal and structural reforms that help mobilize private resources and reduce resource misallocation. They should also invest in the digital infrastructure and training necessary to benefit from new technologies such as artificial intelligence.

Finally, we should ask ourselves why our global system warrants remapping—and recognize that decades of deepening trade ties fostered rapid but uneven economic growth. In many advanced economies, there is an acute perception that globalization unfairly displaced many domestic manufacturing jobs. There is some merit to these grievances, even if the share of manufacturing employment in advanced economies has been in a secular decline in countries running trade surpluses, like Germany, or deficits, like the United States.

The deeper force behind this decline is technological progress and automation, not globalization: in both countries the output share of manufacturing has remained stable. Both forces are ultimately beneficial but can be very disruptive to individuals and communities. It is a collective responsibility to ensure the right balance between the pace of progress or globalization and addressing the associated dislocations.

This requires that policymakers think well beyond the reductive lens of compensating transfers between "winners" and "losers," be it of technological revolutions or globalization. In this, unfortunately not enough has been done, pushing many to embrace a zero-sum worldview whereby the gains of some only come at the expense of others. Instead, it is important to better understand these root causes so that we can build an improved trading system that delivers more opportunities. This objective is enshrined in our Articles of Agreement, which ask us "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income."

Global integration is not an objective in and of itself. It is a means to an end, important insofar as it supports improved living standards for all.

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# Colombia Joins Belt and Road for a More Equitable Global Economy*

*By* ZHANG XI

Colombia's participation in the China-proposed Belt and Road Initiative on Wednesday marks another milestone in the deepening partnership between China and Latin America. Following fruitful outcomes at the fourth ministerial meeting of the China-Community of Latin American and Caribbean States Forum and the landmark Beijing Declaration, this development underscores the growing recognition that cooperation with China is a gateway to sustainable development and shared prosperity.

The Beijing Declaration, adopted by participating countries at the meeting on Tuesday, outlines concrete steps for collaboration in green development, digital transformation and poverty alleviation. By emphasizing open and inclusive cooperation, the declaration aligns with Latin America's quest for autonomous development paths, free from the conditionalities often attached to Western-led initiatives.

Colombia, long considered a traditional ally of the United States in Latin America, has made a decisive pivot toward China by joining the Belt and Road Initiative, a move that reflects broader geopolitical and economic recalibrations in the region.

Colombian President Gustavo Petro's administration, advocating for a multipolar foreign policy, has recognized the limitations of over-reliance on US markets and security frameworks. The country's entry into the Belt and Road Initiative signals a strategic realignment toward diversification, particularly in infrastructure, energy and technology, areas where China holds a competitive edge.

China's expertise in large-scale projects, such as the ongoing Bogota Metro Line 1, Colombia's largest infrastructure project to date, demonstrates how Belt and Road investments can address Latin America's chronic infrastructure deficits. Once operational in 2028, it will cut travel time between terminal stations from the existing around three hours to 27 minutes.

China encourages value-added exports from Latin America, moving beyond the traditional commodity-for-loans model. Colombia, for instance, aims to expand shipments of coffee, flowers and even high-tech goods to China, reducing its dependence on volatile raw material markets. In fact, China has long been Colombia's second-largest trading partner, with bilateral trade hitting 149.63 billion yuan ($20.75 billion) in 2024, up 13.1 percent year-on-year.

Colombia's inclusion in the initiative is particularly significant given its geographical position as a bridge between Central and South Americas, with access to both the Pacific and Atlantic oceans. This makes it a crucial node for China's vision of a transcontinental logistics network, including potential rail and port projects that could reshape regional trade flows.

Moreover, the Belt and Road Initiative offers Latin America an alternative to the debt-trap narratives often pushed by Western critics. Unlike past models of foreign investment, China's approach emphasizes joint ventures, technology transfers and long-term industrial partnerships. For example, Chinese companies are not only building Bogota's metro but also investing in local manufacturing, such as medical equipment and telecommunications.

Colombia's accession to the Belt and Road Initiative is a bellwether for Latin America's future. As the region seeks to reduce inequality and boost competitiveness, China's role as a financier, builder and market provider presents a compelling case for deeper integration.

The Beijing Declaration, with its emphasis on mutual benefit, stands as a transformative manifesto of the Global South. This landmark document demands serious engagement from all who seek to understand the aspirations of developing nations.

The road ahead will require careful navigation of geopolitical tensions and domestic reforms. Yet the direction is clear. Latin America is embracing a multipolar world where development, not alignment, is the priority. With Colombia's entry, the Belt and Road Initiative's vision of a connected Global South moves closer to reality, one where shared growth defines the future.

In this new era of cooperation, China and Latin America are not just building infrastructure; they are laying the foundations for a more equitable global economy.

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IMI International Monetary Review

# Recalibration of US-China Relations is Must for Stable Global Governance⋆

*By* WASEEM ISHAQUE*

The recalibration of US-China relations is both a strategic imperative and a prerequisite for the long-term stability and efficacy of global governance. The competition and cooperation between the two most dominant actors in the international system economically, militarily, and technologically, significantly affect multilateral institutions, global standards, and collective solutions to global challenges.

The present trajectory of US-China relations, characterized by rivalry, mutual distrust, and strategic decoupling, has not only undermined bilateral relations but also diminished the efficacy of global institutions including the United Nations, World Trade Organization (WTO), World Health Organization (WHO), and climate governance frameworks.

The competition between great powers is not unprecedented; however, the US-China dynamics are distinguished by the magnitude, intricacy, and systemic repercussions. In the absence of a measured recalibration characterized not by the eradication of competition, but by its pragmatic management, global governance risks becoming progressively fragmented, polarized, and ineffective in tackling pressing global challenges such as climate change, pandemics, nuclear proliferation, and cybersecurity.

A primary justification for recalibration is the shift in the international order from a unipolar to a multipolar configuration. China's Belt and Road Initiative (BRI), the creation of institutions such as the Asian Infrastructure Investment Bank (AIIB), and its proactive diplomatic engagement in forums like BRICS and the Shanghai Cooperation Organization (SCO) illustrate its rising stature and influence. The United States has responded with heightened suspicion and punitive measures, like tariffs, export restrictions, and the securitization of technology and data transfers. This competitive behavior has exacerbated a declining trust deficit, hindering the attainment of consensus on global norms and standards.

The global governance framework is being challenged by transnational issues necessitating collective action, which is nearly unattainable without at least modest cooperation between Washington and Beijing. The absence of cooperation at a time of mutual vulnerability highlighted the pressing necessity for a formal discussion between the two great powers over global health governance, data exchange, and public health infrastructure. Climate change necessitates a more pressing need for recalibration.

Economic interdependence regarded as a stabilizing element, has evolved into a double-edged sword in US-China ties. Trade, investment, and supply chain interconnectedness intricately link their economies, indicating shared incentives for stability. Conversely, economic interdependence has been exploited, by employing tariffs, sanctions, and investment restrictions as instruments of strategic advantage.

The rhetoric of decoupling, albeit partially realized, has engendered uncertainty in global markets, impeded technological collaboration, and compromised the WTO's tenets of open and rules-based commerce. This fragmentation diminishes efficiency and creativity while complicating the governance of global digital standards, cybersecurity, and intellectual property rights. A calibrated economic involvement, supported by new regulations, confidence-building initiatives, and dispute-resolution frameworks, is important to maintain the integrity of global economic governance.

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Recalibrating US-China relations is not solely focused on enhancing bilateral contacts; it is an essential structural requirement for the protection and strengthening of global governance. In the absence of a stable and predictable framework for interaction between the two dominant powers, multilateral institutions would experience paralysis, international standards will transform into contested battlegrounds, and the world will gravitate towards heightened uncertainty. The international community has a genuine interest in promoting and enabling a US-China to reset their relations that prioritize responsible statecraft over competition.

In a world burdened by geopolitical tensions, economic instability, and pressing global issues ranging from climate change to artificial intelligence (AI), few relationships possess as much significance, potential, and risk as that between the United States and China.

Amid trade and tariff disputes and diplomatic distrust, it is easy to overlook the periods when the US and China collaborated to facilitate significant transformations. The normalization of relations in the 1970s contributed to the reconfiguration of the global order. Subsequently, China's entry into the World Trade Organization in 2001 facilitated China's economic ascent and concurrently opened new markets for American enterprises. The bilateral cooperation on global challenges has demonstrated the potential of this relationship.

China and the United States will not reach consensus on all matters; nor is it necessary for them to do so. The intrinsic differences in political systems, values, and strategic perspectives render friction unavoidable, however, dissent does not necessitate animosity. The shared commitment of the two presidents to the Geneva agreement and their acknowledgment of the progress achieved indicates a pragmatic trajectory ahead.

This is a delicate equilibrium that influences global financial markets, regional security in Asia, climate initiatives, artificial intelligence governance, and global health. Furthermore, revitalizing US-China cooperation could facilitate the restoration of multilateralism during a period when international institutions are burdened by nationalism and great-power competition.

For the purposes of world peace, security, and development, China and the US must maintain cooperation and enduring relations for strong global governance.

IMI International Monetary Review

# The Era of Chain Connectivity: Strategic Significance of the ASEAN-China-GCC Trilateral Mechanism⋆

*By* SHAO ZHICHENG AND ZHAI KUN*

Premier Li Qiang and foreign heads of state, heads of government and representatives of the Association of Southeast Asian Nations and the Gulf Cooperation Council attend the ASEAN-GCC-China Summit in Kuala Lumpur, Malaysia on May 27.

On May 27, 2025, the first ASEAN-China-Gulf Cooperation Council (GCC) Summit convened in Kuala Lumpur, Malaysia. In a joint statement, the three parties underscored economic complementarity and strategic coordination, pledging to align cross-regional development strategies, strengthen regional value chains, and promote the liberalization and facilitation of trade and investment. Within this evolving diplomatic context, the concept of chain connectivity has emerged as a key framework for understanding China's current approach to Belt and Road Initiative (BRI) cooperation.

**Institutionalizing trilateral cooperation**

The ASEAN-China-GCC summit built on three established bilateral frameworks: China–ASEAN, China–GCC and ASEAN–GCC. Institutional momentum has grown steadily, with the China–GCC Strategic Dialogue Action Plan (2023–2027) and the ASEAN–GCC Framework of Cooperation (2024–2028) laying the groundwork for trilateral coordination.

At the summit, Chinese Premier Li Qiang proposed positioning the trilateral mechanism as a model of cross-regional openness, cross-stage development cooperation and inter-civilization integration. He called for strategic alignment and macroeconomic coordination through a multi-sectoral approach. Malaysian Prime Minister Anwar Ibrahim characterized the initiative as a new chapter in ASEAN's external engagement, while Vietnamese Prime Minister Pham Minh Chinh and the Amir of the State of Kuwait, Mishal Al-Ahmad Al-Sabah stressed the urgency of supply chain integration and crisis resilience. This convergence of perspectives reflects a growing consensus on the mechanism's strategic trajectory.

**Chain connectivity: Structural extension of the Belt and Road Initiative**

While the early years of the BRI emphasized physical infrastructure (hard connectivity), regulatory alignment (soft connectivity), and cultural exchanges (people-to-people connectivity), the present phase calls for deeper structural linkages — specifically across value chains, supply chains, industrial chains and innovation chains. Chain connectivity does not replace prior modes of integration but extends them in response to shifting geopolitical conditions and the reconfiguration of global production.

The Beijing Initiative for the Connectivity of Industrial and Supply Chains, launched at the second China International Supply Chain Expo (CISCE), called for a system defined by stability, efficiency, inclusiveness and mutual benefit.

As Ren Hongbin, Chairman of the China Council for the Promotion of International Trade, emphasized, international economic cooperation is fundamentally shaped by division of labor and comparative advantage. These principles now underpin the evolving framework of chain connectivity.

In the ASEAN-China-GCC context, this agenda is moving from rhetorical vision to policy implementation. The Joint Statement issued at the summit outlines commitments to strengthening supply chain resilience, facilitating trade and investment, and safeguarding access to critical materials essential for energy transition. By incorporating these priorities into the structure of trilateral cooperation, China is shaping a new model of Belt and Road engagement that seeks to address global fragmentation through institutional and structural coordination.

The chain connectivity framework reflects a broader logic of co-construction, strategic alignment and rules-based cooperation. It brings together the development agendas of Southeast Asia, the Middle East

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and China not as a response to exclusion, but as a deliberate strategy to reinforce the foundations of global economic governance. Amid resurgent protectionism and growing uncertainty in the international trading system, this trilateral platform provides institutional support for policy coordination and capacity building, while enabling emerging economies to strengthen their autonomy over development pathways.

**From strategic vision to institutional architecture**

For chain connectivity to be realized, complementarity in industrial structure must be accompanied by systemic coordination in finance, logistics and innovation.

First, financial integration provides institutional scaffolding. During the summit, China's Cross-Border Interbank Payment System (CIPS) signed a memorandum of understanding with the Central Bank of the UAE to jointly explore interlinked payment systems.

This initiative aims to enable local currency settlement for businesses across the Middle East and North Africa. By late 2024, nearly 100 ASEAN-based banks had been integrated into the CIPS network, either directly or indirectly, helping to normalize the use of renminbi in regional transactions.

Second, logistics corridors are essential to maintaining continuity and scale. The Joint Statement emphasized the joint development of logistics corridors and digital platforms to support high-quality Belt and Road cooperation and enhance seamless regional connectivity. The "Silk Road Maritime" network, launched in 2018, has since expanded to connect with the China–Europe Railway Express and other multimodal systems. In 2024, the first maritime–rail corridor linking GCC countries was inaugurated, further opening China's southeastern transport gateway. That same year, the China–Laos Railway moved over 19 million tons of freight, with integrated operations reducing transit time between Southeast Asia and Europe.

Third, the trilateral mechanism is seeking long-term alignment in emerging industries. In the context of global climate change and green growth, cooperation is deepening in fields such as renewable energy, sustainable fuels and digital infrastructure. Ongoing dialogues around standard-setting and knowledge exchange suggest that chain connectivity is evolving into a platform for co-developing future industries across regions.

By grounding chain connectivity in concrete institutional arrangements, the ASEAN-China-GCC partnership provides a framework for fostering resilient globalization. Instead of retreating into fragmented regional spheres, it advances an integrated model of South–South cooperation based not on dependency, but on reciprocity and shared strategic interests. As existing global rules face growing contestation, the emergence of this trilateral mechanism reflects a broader shift—from passive adaptation to fragmentation toward the active construction of more inclusive and durable alternatives.

IMI International Monetary Review

# Stablecoins

## Are Stablecoins Ready for Payments?⋆

*By* OUSMÈNE MANDENG*

**Viability will depend on being allowed to work in inter-bank transactions**

Stablecoins have emerged as the preferred payment instrument in blockchain-enabled ecosystems. But they mostly operate in closed loops. To matter, they will need to adapt to open loop applications through generalised clearing as a foundation for scalability in payments.

The increase in volumes of stablecoins has been considerable but values remain small in total payments. The stock of stablecoins was about $210bn at end-February, up from $140bn in the same period last year, while monthly global transaction values increased by 50% over the past 12 months to $710bn (Visa).

This compares to about $810bn (US, 2022) and $300bn (euro area, 2023) of monthly average card transaction values. In the American and European large-value payment systems, $9.1tn (US Fedwire) and $35tn (euro area T2) were processed monthly in 2023.

Stablecoins are digital monies issued on blockchains to offer a payment instrument fixed to the national currency at par for blockchain-enabled payments. To ensure convertibility at par, stablecoin issuers usually maintain a reserve or backing portfolio. Similar to other par instruments, stablecoins are vulnerable to runs.

The transfer of a stablecoin can be rapid, usually providing low cost, easy access and high levels of convenience. However, the essential advantages of stablecoins rest mostly on operating closed-loop applications.

Monies can be transferred in closed and open loops. In closed loops, monies move between two persons, both sharing the same institution or payments system, representing simple book-entry-like adjustments. Transactions that involve persons at two different institutions (open loops) require the institutions to clear. Funds are transferred normally between banks in the domestic large-value payments system or in cross-border transactions through nostro accounts with correspondent banks.

**Stablecoins need clearing arrangements with banks**

Most closed loop systems can offer fast and seamless transactions. The real challenge in payments arises in open loops. They require clearing arrangements by which financial institutions accept monies from other institutions. The biggest obstacle to money transfers is not the technical transfer but counterparty and credit risks, liquidity and compliance. To allow stablecoins to be used to conduct payments more generally, there needs to be clearing arrangements between stablecoins and banks.

In domestic payments, where a stablecoin is transferred to a payee who is not on-boarded by the stablecoin issuer, the stablecoin payer normally needs the bank of the payee to accept the stablecoin. This implies an off ramp by the stablecoin issuer by redeeming the stablecoin and transferring the proceeds to the payee bank or through a clearing agent who accepts the stablecoin and makes an equivalent fund transfer to the payee bank.

In cross-border payments, stablecoins would have to be cleared by the foreign bank as a foreign currency claim. As in cross-border payments, there is normally no fund transfer and payments clear

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through nostro-vostro account relationships between banks, the foreign payee bank may retain the stablecoin or seek redemption via a correspondent bank with an equivalent claim through its nostro account.

To be eligible for clearing by banks, stablecoin issuers need to represent acceptable counterparty and credit risks and the operations should not give rise to undue principal and settlement risks. Regulation and the prudential treatment of stablecoins will need to ensure they do not pose excessive costs for banks in terms of risk mitigating measures, including regulatory capital and liquidity buffers.

If stablecoins were accepted as collateral in finance operations of central banks and banks, it would significantly enhance their attractiveness in open loop operations. Any institution that accepts the stablecoin would have to be on-boarded by the stablecoin issuer to observe critical compliance provisions.

**Why stablecoins?**

Banks are advancing plans to issue tokenised deposits, bank deposits issued on blockchain, leveraging existing bank networks. Asset managers are working on issuing tokenised money market fund shares to offer very high-grade payment instruments to target large-value payments. Both are economically equivalent to and offer significant advantages over stablecoins, representing relatively familiar instruments and exhibiting broader network effects.

It is not clear stablecoins can offer sufficient differentiation from other blockchain-enabled par instruments. They also tend to be more expensive to hold as they are typically non-interest bearing. In cross-border payments, the absence of fund transfers could make stablecoins highly competitive relative to ordinary bank nostro claims. Regulation should be sufficiently harmonised to establish a level playing field across instruments with similar economic characteristics.

The viability of stablecoins will depend on their efficient operation in open loop applications. Whether they become a core payments instrument or remain niche will largely depend on their ability to bridge the gap between crypto ecosystems and the banking system.

IMI International Monetary Review

# Building a National Stablecoin Strategy⁎

*By* TONY MCLAUGHLIN*

Countries worldwide have an opportunity to strengthen their positions as financial centres by establishing themselves as hubs for stablecoin transactions. Two complementary strategies would bring substantial economic benefits: enabling domestic financial institutions (regulated banks and non-banks) to receive and convert foreign stablecoins; and promoting global acceptance of locally issued stablecoins.

These forward-looking policies would generate significant fee and foreign exchange revenue for financial institutions, ensure proper regulatory oversight of digital currency flows, create diversified demand for government debt and reinforce a nation's role as an innovative financial centre in the global economy.

**Inbound stablecoin conversion**

A global stablecoin clearing system would enable a country's financial institutions to receive stablecoins from foreign issuers and convert them to local currency at par value.

If financial institutions were able to capture just 5% of the hypothetical $1tn global stablecoin redemption flow, this could generate approximately $1.83bn in annual gross revenue for the domestic financial sector. This would create a new revenue stream for banks and regulated fintechs without requiring them to take principal risk. Processing occurs through existing regulatory frameworks similar to how foreign currency cheques are handled today through international cash letter arrangements.

There are several regulatory benefits to this strategy. It ensures all foreign stablecoin flows into the country are processed through regulated institutions with robust know-your-customer, anti-money laundering and sanctions controls. It prevents disintermediation of domestic financial institutions by unregulated offshore stablecoin platforms and unhosted wallets. And it provides regulators with visibility into digital currency flows entering the economy.

This strategy also creates a foundation for bilateral trade negotiations: 'We'll facilitate acceptance of your stablecoins on a national level if you'll do the same for ours.' It positions the country as a forward-thinking jurisdiction embracing digital currency innovation within regulatory guardrails, and strengthens its competitive position against other financial centres hesitant to engage with digital assets.

**Outbound national stablecoins**

Promoting global acceptance of locally denominated stablecoins creates international demand for digital national currency, with significant macroeconomic benefits. Locally issued stablecoins held overseas indirectly generate demand for domestic government debt (as backing assets). This creates a new channel for the national currency to act as a reserve currency in digital form and broadens the utility of the domestic currency in international trade and cross-border transactions.

Consider consumers purchasing from overseas merchants through global marketplaces. These substantial payment flows could be denominated in local stablecoins, which many overseas marketplace sellers would willingly hold as part of a diversified currency portfolio. This creates sustainable foreign demand for domestically denominated assets without requiring immediate settlement back to the seller's local currency.

This strategy extends the country's financial influence in the growing digital economy, reduces transaction costs for domestic businesses engaged in global trade and provides a complementary digital currency strategy alongside any potential future central bank digital currency initiatives.

**Policy recommendations**

⁎ The article first appeared on 3 April 2025.

* Tony McLaughlin is Founder of Ubyx and the originator of the Regulated Liability Network.

To make the most of this opportunity, countries should clarify the regulatory treatment of financial institutions receiving foreign stablecoins on behalf of clients and engage with clearing systems like Ubyx to ensure national interests are represented in this emerging infrastructure.

They should establish a cross-sector working group with the finance ministry, central bank, financial regulators and industry participants to develop a coherent national stablecoin strategy. This group should consider targeted incentives to encourage domestic financial institutions to develop stablecoin acceptance capabilities.

Countries should include stablecoin interoperability in discussions with international financial centres and trade partners, while enabling regulated banks and non-banks to participate in public-permissionless blockchains with appropriate risk management frameworks.

Finally, it is important to distinguish between infrastructure and outsourcing in regulatory frameworks to allow financial institutions to operate on public blockchains, as well as support accounting recognition of stablecoins as cash equivalents under appropriate conditions.

Nations that have historically thrived by embracing financial innovation while ensuring appropriate safeguards stand to benefit significantly from stablecoins. A progressive policy approach represents a substantial opportunity to generate economic benefits, strengthen regulatory oversight and enhance a country’s position as a global financial leader in the digital age.

By enabling both inbound conversion and outbound usage of locally-issued stablecoins, nations can establish themselves as pivotal hubs in the global digital currency landscape.

IMI International Monetary Review

# Legislation on Stablecoins a Milestone for Hong Kong*

*By* ZHOU LANXU AND OSWALD CHAN

Stablecoins: New possibilities opened up for cross-border use of digital yuan

Hong Kong's introduction of the world's first dedicated legislation on fiat-referenced stablecoins — a type of cryptocurrency — marks a significant milestone in the city's push to solidify its status as a global financial hub that pioneers in virtual asset regulation, financial experts said.

The move also reflects China's broader strategic ambition to strengthen its financial heft in the digital age, the experts said. They added that the legislation may open up new possibilities for cross-border use of the digital yuan, or e-CNY, while providing a reference for any potential adoption of stablecoins in other parts of the country.

A stablecoin is a digital currency that is built on blockchain technology and pegged to fiat currencies or other assets at a designated exchange rate to maintain a stable value. Fiat-referenced stablecoins are backed by fiat currencies, which are government-issued money not backed by a physical asset such as gold.

In late May, the Legislative Council of the Hong Kong Special Administrative Region passed the Stablecoins Bill, establishing a licensing regime for fiat-referenced stablecoins issuers. The bill became law on May 30 when it was gazetted as the Stablecoins Ordinance.

While the commencement date of the ordinance is currently unknown, the Hong Kong Monetary Authority said it expects the ordinance to take effect this year.

"Hong Kong's Stablecoins Ordinance marks the world's first official legislation targeting stablecoins, setting a policy benchmark globally," said Song Ke, executive vice-president of Renmin University of China's Shenzhen Research Institute.

Song, who is also deputy director of the university's International Monetary Institute, said the ordinance provides a clear legal foundation for the development of the stablecoin market in Hong Kong, offering regulatory certainty for institutions and investors and paving the way for innovation in the regional stablecoin ecosystem.

Under the new regime, anyone who issues fiat-referenced stablecoins in Hong Kong or issues stablecoins backed by the Hong Kong dollar, whether within or outside the city, must obtain a regulatory license.

Stablecoins have drawn regulatory attention globally. On May 19, the United States Senate advanced its own bill to regulate stablecoins, called the GENIUS Act.

Yuan Shuai, deputy secretary-general of Z-Park Internet of Things Industry Alliance, said Hong Kong's Stablecoins Ordinance has significant importance for the global financial hub amid intensifying global competition over stablecoin leadership.

"It provides institutional support for Hong Kong to attract global stablecoin issuers and related enterprises, further consolidating Hong Kong's position as an international financial hub and enhancing its voice and competitiveness in the global virtual asset market," Yuan said.

Song, from Renmin University of China, added that the legislation also opens new possibilities for the cross-border use of the e-CNY, the digital version of the renminbi, representing a positive factory for the internationalization of the Chinese currency.

"By enabling conversion into stablecoins pegged to the Hong Kong dollar, the e-CNY could be integrated into the broader stablecoin ecosystem, expanding its role in cross-border settlements," Song said, adding that such synergy may allow China to explore innovations for cross-border payments, improve efficiency and reduce reliance on SWIFT, the world's leading system of secure financial messaging services.

He said that while issuing a renminbi-backed stablecoin is not yet feasible, Hong Kong's ordinance can serve as a regulatory pilot, offering insights for the central government in evaluating stablecoin oversight effectiveness.

"Hong Kong's more open regulatory environment for the crypto industry will present opportunities for the subsidiaries of mainland banks to gain experience in the market," Moody's Investors Service said in its research report.

* Published on China Daily | Updated: 2025-06-04.

Relevant Chinese stocks surged amid the advancement of the legislation, with H-shares of Lianlian DigiTech, a digital payment solution provider in Zhejiang province, closing 64.27 percent up on Monday before retreating afterward.

"Licensed banks and major fintech firms may issue Hong Kong dollar-backed stablecoins within the year," said Wang Peng, an associate researcher at the Beijing Academy of Social Sciences.

Key application scenarios would include cross-border payments, securities settlement and decentralized finance — blockchain-based financial services operating without traditional intermediaries like banks, Wang said.

ZA Bank, a digital bank in Hong Kong, said it believes the new legislation brings greater clarity and confidence to the stablecoin market, contributing positively to the long-term development of the industry.

# Geopolitical Risks and Challenges

## How Rising Geopolitical Risks Weigh on Asset Prices*

By SALIH FENDOGLU, MAHVASH S. QURESHI AND FELIX SUNTHEIM*

Heightened tensions can hurt stock markets, raise government borrowing costs, and pose risks to financial stability

Global geopolitical risks remain elevated, raising concerns about their potential impact on economic and financial stability.

Shocks such as wars, diplomatic tensions, or terrorism can disrupt cross-border trade and investment. This can hurt asset prices, affect financial institutions, and curtail lending to the private sector, weighing on economic activity and posing a threat to financial stability.

Such risks are challenging for investors to price due to their unique nature, rare occurrence, and uncertain duration and scope. This can lead to sharp market reactions when geopolitical shocks materialize.

As we show in a chapter of the latest Global Financial Stability Report, stock prices tend to decline significantly during major geopolitical risk events, as measured by more frequent news stories mentioning adverse geopolitical developments and associated risks. The average monthly drop is about 1 percentage point across countries, though it's a much larger 2.5 percentage points in emerging market economies.

Of the different types of major geopolitical risk events, international military conflicts hit emerging market stocks the hardest, likely because of more severe economic disruptions compared with other events. In these cases, the average monthly drop in stock returns is a significant 5 percentage points, twice as much as for all other types of events.

Heightened geopolitical risks may also affect the public sector as economic growth slows and governments spend more. Consequently, sovereign risk premiums—measured by prices for credit derivatives that protect against default—often increase after geopolitical events by, on average, about 30 basis points for advanced economies and 45 basis points for emerging market economies. Such financial strains are especially significant in emerging market economies, where premiums increase up to four times as much.

**Cross-border spillovers**

Geopolitical risk events can also spill over to other economies through trade and financial linkages, increasing the risk of contagion. Stock valuations decline by an average of about 2.5 percent following the involvement of a main trading partner country in an international military conflict. Likewise, sovereign risk premiums rise when trading partners are involved in geopolitical risk events, and the effect is at least twice as large for emerging market economies with high public debt relative to economic output, low international reserves adequacy, and weak institutions, as the chapter shows.

Heightened uncertainty is a key channel for asset price reactions. Geopolitical shocks tend to raise macroeconomic uncertainty for several months. Investors, however, recognize these risks and demand compensation for holding stocks that may perform worse when hit by a shock.

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* This blog is based on the April 2025 IMF Global Financial Stability Report, "Geopolitical Risks: Implications for Asset Prices and Financial Stability."

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Eventually, a sudden drop in asset prices may weigh on bank and non-bank financial institutions with potential spillovers to the broader financial system and the real economy. For example, banks tend to curb lending, and investment funds face lower returns and elevated redemption risk when exposed to geopolitical risk events.

**Mitigating risks**

While it may seem like the global economy and financial markets are regularly upended by unpredictable and even unprecedented events, there is still much that the financial sector and those charged with safeguarding it can do to protect financial stability.

Financial institutions and their regulators should allocate adequate resources to identify, quantify, and manage geopolitical risks. For example, through stress tests and other analyses that incorporate how such risks are likely to interact with financial markets.

In addition, financial institutions should hold enough capital and liquidity to help them endure potential losses from geopolitical risks. Emerging market and developing economies should further develop and deepen financial markets to help investors manage risks. Finally, since countries with weaker buffers are particularly vulnerable to geopolitical shocks, sufficient fiscal policy space and adequate international reserves could help them better defend against such disruptions.

IMI International Monetary Review

# US Tariffs can Boost China-ASEAN Trade*

*By* AMITENDU PALIT*

President Xi Jinping's visit to Vietnam, Malaysia and Cambodia comes at a time when China and most of the Southeast Asian region are working on strategies to offset the impacts of a new round of high tariffs by the United States on their imports.

Apart from China, which has traditionally been the largest source of imports for the US, most Southeast Asian countries are major exporters to the US. With the US administration deciding to "correct the goods trade imbalances" that the US has with its trade partners, the economies that have large trade surpluses with the US have been hit with the highest tariffs.

Currently, the US has announced accumulated tariffs of 245 percent on Chinese imports. Also, after the US announced the imposition of reciprocal tariffs on April 2, the tariffs on exports from several US trade partners have increased significantly. Among Southeast Asian countries, Cambodia has attracted the highest tariff hike — 49 percent — followed by Laos, Vietnam and Myanmar, with tariffs of 48 percent, 46 percent and 44 percent respectively. Malaysian goods, meanwhile, face 24 percent tariffs.

Although the US administration has delayed most of the tariffs by 90 days, a baseline tariff of 10 percent has been levied since the announcement of the reciprocal tariffs on practically all US trade partners, including the countries mentioned above. Further higher tariffs on specific countries will come into effect after 90 days.

In the intervening period, countries are expected to individually negotiate with the US on a variety of mutual tariff and non-tariff market access barriers. The success of these negotiations will determine the eventual country-specific tariffs.

Since the beginning of the United States' trade war against China in 2018, Southeast Asia has attracted considerable attention, because of the shifting of a number of investment projects and parts of industry and supply chains from the Chinese mainland to various Southeast Asian countries. The relocation was due to the producers wanting to export goods to the US from locations that didn't attract the kind of tariffs that products from China did.

Vietnam, Cambodia, Laos, Malaysia, Thailand and Indonesia are important countries in this regard. Exports from these countries have been getting entry into the US at low MFN (most-favored-nation) tariffs that are about 2.5 percent on most items. In addition, some of these countries have also been enjoying preferential market access through the US Generalized System of Preferences.

However, the new set of tariffs will significantly impact the access exports from these countries will get to the US market. Therefore, these countries need to identify new markets and diversify their exports.

Reciprocal tariffs introduced by the US are likely to have the wider impact of encouraging more trade diversion from the US market. This is expected to develop into a US plus one strategy. In this respect, the main exporters from Southeast Asia to the US, such as Vietnam, Thailand and Indonesia, will look to export more to China.

As the world's second-largest economy, China is the most important regional market that Southeast Asian economies will look forward to diversifying their exports. This intention also complements China's efforts to boost domestic consumption, particularly those of imports.

Increasing imports from Southeast Asia, particularly through existing trade agreements, such as the Regional Comprehensive Economic Partnership and the China-ASEAN Free Trade Agreement, should be economically beneficial for China.

Having access to more inexpensive imports from the region that will meet both its consumption and intermediate input requirements can help China shift more of its domestic production to high-tech areas. More imports from the region will also help support the large online retail market in the country that can source more goods from the region and offer a wider variety to domestic customers.

These prospects will also encourage Chinese businesses to expand their capacities in Southeast Asia with an eye to making products for the mainland market.

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* The author is a senior research fellow and research lead (trade and economics) at the Institute of South Asian Studies, National University of Singapore. The views don't necessarily reflect those of China Daily.

The current volatility in world trade caused by the US tariffs will lead to the realignment of global production networks, the functioning of supply chains and cross-border patterns of regional trade. It is quite likely that one of the most prominent shifts could be increased trade between China and Southeast Asia with several Southeast Asian countries becoming major exporters to China, and Chinese investment further increasing in the region. President Xi's visit to Southeast Asia and his meetings with regional leaders could mark the beginning of this new transition.

IMI International Monetary Review

# Tariffs: Impact on MENA will be Indirect But Far from Irrelevant*

*By* YARA AZIZ*

**Neutrality between US and China may come under pressure**

While the immediate effects of sweeping US tariffs will fall hardest on major exporters such as China and the European Union, the Middle East and North Africa region will not be untouched. The impacts may be delayed and mostly indirect, but they will test the region's resilience in the year ahead.

At first glance, most MENA economies appear insulated. The US is not a major trading partner for much of the region. On average, only around 5% of MENA exports go to the US, and much of this consists of oil and gas, which are typically exempt from tariff measures. In the Gulf, direct exposure is even lower. The United Arab Emirates and Saudi Arabia, for instance, send just 2% to 4% of their exports to the US, most of it in hydrocarbons that avoid tariff coverage. Based on these figures, the region seems unlikely to face immediate disruption.

But that view is deceptive. Trade policies of this scale rarely stay contained. Protectionism disrupts global supply chains, shifts investment flows and generates market uncertainty that ripples well beyond the countries directly involved. MENA economies, especially those that rely heavily on hydrocarbons and global capital, are acutely sensitive to these second-order effects.

**Energy prices and trade diversion**

Oil markets are especially vulnerable. A sustained trade dispute between major economies could weigh on global growth expectations, pushing energy prices lower. For Gulf states, this creates immediate fiscal strain. Saudi Arabia, which is at the centre of the region's economic transformation efforts, relies heavily on oil export revenue to fund capital projects and maintain macroeconomic stability. A drop in prices complicates budget execution, slows project delivery and increases pressure on public finances. The impact on smaller, more vulnerable economies like Bahrain or Oman would be even more pronounced.

There is also the risk of trade diversion. When large markets such as the US raise tariffs, exporters seek alternative destinations for their goods. That includes regions with open trade regimes and few restrictions – precisely the profile of the Gulf Cooperation Council. Chinese manufacturers facing reduced access to the US may begin offloading excess inventory to Gulf markets, even if it means accepting slimmer margins or losses.

This practice, often described as dumping, is not new. The region experienced it in 2017 when Chinese steel, blocked from the US and EU, found its way into Gulf markets and undercut local producers. There is a risk of history repeating itself, this time across a broader range of sectors.

**Some countries will be hit harder than others**

Some countries in the region face more concentrated exposure. Jordan sends over a quarter of its exports to the US, with apparel and garments making up the majority. Tariffs could undercut the competitive edge Jordanian producers hold, reducing orders and putting employment in export-dependent sectors at risk.

On the other end of the spectrum, countries like Türkiye may find narrow advantages. US tariffs on EU and Chinese goods could make Turkish products more competitive in the American market. Combined with diversified exports and the possibility of strengthened trade ties with Europe, Türkiye could manage to position itself more favourably, at least in the near term.

Morocco may also see some balance sheet relief from lower oil prices, given its status as a net energy importer. But this would be offset if trade tensions cause broader pressure on global demand for commodities like phosphates and fertilisers, key export products for the country.

**Opportunities from the disruption**

Yet this period of disruption could also bring opportunity. The GCC's geography has long made it a key node in global trade, dating back to its role on the ancient Silk Road, where goods, culture and capital

* Published on 30 April 2025.
* Yara Aziz is an Economist, Economic and Monetary Policy Institute, OMFIF.

flowed between Asia, Africa and Europe. That legacy still shapes its positioning today. As trade routes begin to shift again, the region's strategic location is once more a strength.

There is growing potential to deepen intra-regional trade, enhance links with emerging markets in sub-Saharan Africa and South Asia and expand trade relations with India. These shifts not only open new markets for Gulf exporters but also offer avenues for greater resilience.

Additionally, trade is no longer just about goods. The region is increasingly investing in digital infrastructure, logistics and alternative payment systems that can reduce reliance on traditional financial channels. These developments could help mitigate external shocks and allow for more autonomous economic positioning.

Taken together, these dynamics suggest a region that will not feel the initial shock of US tariffs. MENA's exposure lies not in direct trade volumes, but in the fragility of the global environment that sustains its economies. The GCC sits in a shaky position. It has so far maintained a careful balance, growing ties with both Washington and Beijing while steering clear of hard alignment. But as the global trading system becomes more fractured, that neutrality may come under increasing pressure.

The question now is whether that stance can hold in a world where trade is increasingly weaponised. Still, with the right positioning, the region is not just vulnerable. It is also well placed to adapt. If policy-makers can seize new openings while preparing for external shocks, the Middle East may emerge not only resilient, but more globally integrated than before.

IMI International Monetary Review

# Growth and Resilience in Central, Eastern, and Southeastern Europe in a More Fragmented World*

*By* KRISTALINA GEORGIEVA*

Since its first gathering here in 2017, this conference has become an important forum for policymakers to discuss the challenges confronting the region.

And, as usual, we have much to discuss: the successes, the unfinished business and, now, huge new challenges.

First, a few words on the successes.

Over the last three decades, reforms promoting economic openness and integration—first with the EU, then within the EU—have helped the countries of Central, Eastern and Southeastern Europe achieve a remarkable convergence with the standards of living of their more advanced peers.

Since the mid-1990s, incomes have more than doubled and the gap relative to the advanced Europe has shrunk sharply.

Manufacturing became a catalyst for productivity growth as integration into European and global value chains helped CESEE economies reach beyond their domestic markets.

At the same time, openness to FDI accelerated capital accumulation and technology transfer.

EU accession played a huge role. Powered by the domestic structural reforms put in place on the path to EU accession countries that joined the EU accelerated their income convergence with the advanced Europe and outperformed comparable countries outside of the block.

Thus, it is fair to pause and say: well done.

Second, the unfinished business.

The journey is far from complete. Reforms slowed after EU accession. After the Global Financial Crisis, investment fell significantly and contributed to a productivity slump that has only worsened since Covid.

Various economic challenges were already calling out for revitalizing reforms. The demand for skilled workers is rising, but labor supply is tightening. High energy costs are hurting manufacturing competitiveness. New technologies in the auto sector—and AI—could alter export value chains.

So even before the latest global economic developments, there certainly was much more work to do.

And now, there are huge new challenges.

The sweeping disruptions to world trade that are underway are plain for all to see. World trade is being tested. And while most of the CESEE countries are less impacted directly, let us be very clear: the indirect impact is significant as these disruptions pose a major threat to the region's main trading partners and to the overall economic model of openness that CESEE countries rely on.

Trade tensions and uncertainty complicate domestic and foreign investment plans. This is particularly painful for a region that needs access to modern production processes, jobs in high-productivity sectors, and export demand.

So here is my main message to you today: standing still, taking shelter, and hoping the storm will pass is not a plan. It would be much wiser to assume that many of the shifts we see are here to stay, and to act accordingly.

So, what should CESEE countries do in order to negotiate this stormy economic weather? How can they catch a tailwind from the "Adriatic Bora" and keep powering forward?

I would point to three critical priorities:

Steering a steady course in terms of macroeconomic policy—monetary and fiscal policies for stability;

Getting the ship into better working order so it can sail forward faster—that is, pursue structural policies for growth; and

Integrating more deeply into and within the single market of the EU—strength through regional cohesion.

Let me briefly discuss each of these, in turn.

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* Opening Remarks by Kristalina Georgieva at the CESEE High-Level Conference in Dubrovnik, Croatia. Published on May 30, 2025.
* Kristalina Georgieva, IMF Managing Director.

Priority one: action to mitigate uncertainty. The best antidote to uncertainty is a stable macroeconomic environment.

Central banks must remain agile and focused on achieving their targets. Where inflation is still high and persistent, policymakers should tread cautiously. Clear communication is key. Independence lends credibility and must be protected.

Fiscal policy must focus on ensuring sustainability and policy space. Countries with low deficits and debts can use fiscal space to invest in essential areas such as energy security. But in countries where fiscal space is limited, governments need to either reallocate spending or boost fiscal revenues.

Priority two: take decisive action to boost growth potential. In a new study, we find that domestic reforms across the CESEE region could lift GDP levels by 7 percent over the medium term. The potential goes up to 9 percent for the Western Balkans.

Further productivity gains from better education, more efficient labor markets that allow talent to thrive, and cutting red tape are waiting to be tapped. In the Western Balkans and aspiring EU entrants, closing governance gaps with the EU frontier delivers the highest dividend. The case to act decisively is compelling.

Priority three—last but certainly not least: CESEE countries must ensure they retain the benefits of their economic integration with Europe and the global economy.

Integration has been a major source of knowledge transfer and capital deepening, particularly through FDI. As is the case across the EU as a whole, the CESEE region would benefit from further progress in completing the EU's single market.

Our analysis shows that internal barriers add significant costs — for goods they are equal to 44 percent tariffs, and for services to a staggering 110 percent! Completing the single market can be a major factor in strengthening the performance of the EU economy and improving its attractiveness for investment.

In a forthcoming working paper on Europe's reform priorities, we outline several concrete steps: a more integrated electricity market; more capital for startups; better labor mobility across borders; and simpler regulations. Together, these measures could raise EU GDP by about 3 percent over the next ten years.

In addition, we argue that the EU budget can lend more of a hand. Tying EU funds for public investment to progress on reform implementation would provide a double blessing: more central fiscal funding, and more effective use of it.

With that, let me conclude.

We at the IMF stand ready to support you, as we always have. Through our surveillance and technical assistance, we are committed to supporting the CESEE region unlock its growth potential. The steadily increasing demand we see for IMF capacity development, including in public investment management and central banking, testifies to our role as your partner in your quest for faster growth and stronger resilience.

The region is at a crossroads. Faced with structural headwinds and a much more volatile external environment, reinvigorating domestic reforms are now essential—to navigate the stormy seas and to unlock the region's potential to sail faster.

The time to act is now. By moving decisively, you can transform the current challenges into opportunities and chart a brighter future for the region.

IMI International Monetary Review

# Emerging Markets and Tariffs: Asia will Bear the Brunt*

By KIRSTIE SPENCE*

It is difficult to determine the precise impact of tariffs on emerging market economic activity. There are too many moving parts, including the possibility of negotiated reductions, retaliatory actions by US trading partners and fluctuations in the currencies of affected economies.

That said, we can look at the current level of tariffs and exports to the US to give us an idea about the extent of EM gross domestic product that is at risk (see Figure 1). Economic theory suggests that tariffs should lead to weaker exports and reduce domestic inflation in the tradable goods sector.

**First-order impact**

Based on the level of tariffs as of 8 April, Asia will bear the brunt, with Latin America coming off better. Elsewhere, Central and Eastern Europe countries have limited trade with the US, so any direct impact will be relatively muted. Most Middle Eastern countries are only facing the baseline tariffs, while energy might be excluded. Africa is a mixed bag, with some markets at or close to the baseline and others more significant.

There is also a more indirect impact that will be felt by countries that are more trade-orientated and integrated in global supply chains. Tariffs will result in a drag to the overall trade cycle, reducing exports and growth. Asia will be in the firing line, given trade links with China, but also CEE and Türkiye given their links to the European Union.

**Secondary effects**

Secondary effects are likely to dominate EMs through the following channels.

Slower US growth is expected, but there is a possible upside from China stimulus. Higher US import prices will negatively impact domestic consumers, while the uncertainty around tariffs might cause businesses to postpone investment and hiring. Slower US/global growth (and potentially a recession) has the potential to impact EM countries through weaker demand for exports, lower tourism and remittances. That said, a significant stimulus package from China, if it materialises, could offset some of the weakness in US growth.

Oil prices have dropped, which will affect EM countries differently. Saudi Arabia is the most exposed among Gulf Cooperation Council economies, while the United Arab Emirates remains the most diversified. Meanwhile, lower oil prices will be a significant positive for the big energy importers like India and Türkiye, where the benefits could outweigh the negative impact of slower US growth.

Lower EM inflation looks likely. Unlike the US, which is facing higher inflation risks, tariffs might heighten deflationary pressure in China, which may then spill over to other EMs. With Chinese exporters increasingly excluded from the US market, Chinese goods might be redirected to other countries, thereby lowering prices in those economies. Weaker global growth and lower commodity prices may also lead to lower EM inflation.

Market sentiment is currently weak, but core EM should be resilient. The last few years have seen a bifurcated EM universe emerge, consisting of higher-rated core EM countries and lower-rated frontier economies. Lower-rated economies may struggle with a prolonged downturn in market sentiment, with some of them only regaining access to international markets fairly recently. The more developed core countries, meanwhile, have altered their borrowing characteristics to become less reliant on short-term foreign borrowing than in the past. Many of these countries have strong enough external balance sheets and access to capital to withstand any volatility.

With tariffs specifically, markets will also be determining which EMs have a higher share of household consumption in their GDP and a higher share of services in their export basket, as well as those that have the fiscal and monetary headroom to support their economies if needed.

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* Published on 15 April 2025.

* Kirstie Spence is Principal Investment Officer for the Capital Group Emerging Markets Local Currency Debt LUX Fund.

**Investing in this environment**

EM credit: EMs with lower external vulnerabilities and smaller internal imbalances offer greater market resilience and more flexibility for policy-makers to address external risks. That said, spreads are generally fairly tight in these higher-rated economies. Currently, we see opportunities in certain Latin American corporates, where companies are expected to have a competitive advantage due to the relatively lower tariffs imposed. Additionally, the companies and sectors we favour are generally not overly dependent on the US.

Exchange rates: In theory, the dollar should be stronger because there is greater demand for US dollars and lower demand for foreign currencies. But longer term, tariffs may reduce US growth, leading to lower real rates, which both tend to weaken the dollar. Current dollar weakness most likely reflects the lack of clarity on tariffs and their impact on US growth.

As well as any impact from the dollar, EM currencies could be more directly impacted through the trade channel and growth concerns/market sentiment. Regionally, EM Asian currencies might weaken the most, especially if this supports exports in the face of tariffs. CEE could fare better given their higher correlation to the euro, while Latin American currencies could outperform given the region's relatively better outcome.

EM local currency debt: During the pandemic, many major EM central banks allowed weaker currencies and cut interest rates to support growth. We could see a similar approach now, especially given current levels of real rates, inflation dynamics, lower commodity prices and the softening dollar. More developed EM countries might focus more on their domestic mandates, relying less on guidance from the Federal Reserve.

We anticipate the most policy easing in Asia, where inflation is at or below target levels and real interest rates remain in restrictive territory. There are several opportunities in Asian duration, particularly in Indonesia, which offers high real rates and stable low inflation. India's large deficits are mitigated by local funding and a multi-year tightening trend, making it an attractive option for longer-duration investments.

We also see duration opportunities in Latin American countries. Mexico and Brazil are particularly noteworthy, both offering relatively high yields. Mexico is experiencing a slowdown in inflation and economic activity, combined with a relatively stable currency, which should pave the way for further rate cuts. Brazil has historically been less affected by tariff-induced volatility due to its relatively closed economy, and aggressive rate hikes have helped stabilise its macroeconomic environment.

Overall, the high carry of select EM positions should provide a sufficient income cushion against any meaningful slowdown in global growth.

# Monetary and Fiscal Policy

## China | Stocktaking China's New Toolkit in its Monetary Policy Framework

*By* JINYUE DONG AND LE XIA

We have been keeping a close watch on the evolution of China's monetary policy framework. In 2016, we introduced the PBoC's newly established "corridor system" (China Economic Watch: Looking for new monetary policy tools in the liberalized-interest-rate environment) while In 2019, we comprehensively explained the PBoC's important reform to eliminate China's longlasting "dual track" interest rate system and to make the MLF (medium lending facilities) rate and one-year Loan Prime Rate (LPR) as the new policy rate (China Economic Watch: China | LPR: China's market-based "policy" rate).

The PBoC continued to upgrade and improve its monetary policy framework so as to smooth monetary policy transmission mechanism from the policy rate to market interest rates and ultimately to the real economy. The relevant reform measures gained traction again after Mr. Pan Gongsheng became the new governor of the PBoC in July 2023.

Governor Pan's upgrading of China's monetary policy framework concentrates on three dimensions as below. In addition to enhancing the transmission channel from key policy rates to the real economy, Governor Pan's efforts also open the way for the PBoC to pursue its balance-sheet expansion to counter cyclical growth slowdown.

1. Promoting 7-day reverse repo as the new monetary policy rate in place of MLF (medium lending facilities). Starting from July 2024, the PBoC officially promoted 7-day reverse repo rate as the new policy rate to replace the previous policy rate MLF and one-year LPR. It suggests that the central bank will only control short-term policy rate in the future and let the market to decide the medium and long-term market rates, which is similar to the monetary policy framework as of in the advanced economies. At the same time, the PBoC has already started to fade out the role of MLF (medium lending facilities) as the policy rate.
2. Upgrading the "corridor system". The PBoC attempts to narrow the "corridor" of interest rate by defining its new upper bound and lower bound. In so doing, the PBoC confines the 7-day reverse repo rate within a desirable and narrower range.
3. Developing new monetary policy tools: (i) allowing the PBoC to directly buy and sell in the secondary market as a new base money supply channel; (ii) Open market operaions Buyout Reverse Repo; (iii)creating swap facilities with securities, mutual funds and insurance companies, to support these institutions to use qualified collaterals in their hands in exchange for high liquidity assets from the PBoC, such as treasury bonds and central bank bills; and (iv) Re-lending facilities for qualified large shareholders to repurchase the shares of listed firms.

**Promoting 7-day reverse repo as the new policy rate**

China's policy rate setting has been gradually evolved in the past decades amid several rounds of interest rate liberalization reforms. Interest rate liberalization used to be an essential part of China's price reforms, which were at the heart of the country's transition from a planned to a market economy in the financial industry.

China's current interest rate system is complex, which can be grouped into four categories:

(i) Interest rates for central bank operations, including: (a) lending rates of refinance facilities, such as central bank relending rates, rediscount rates and Standing Lending Facility (SLF) rate; (b) deposit rates for required reserves and excess reserves; (c) open market operation (OMO) rates, including central bank repo rates, central bank bill rates etc.

(ii) Interest rates of commercial banking products, particularly lending rates and deposit rates.

(iii) Interest rates in the money market and bond market. The former include China Interbank Offered Rates (CHIBORs) which was introduced as the average transaction price in the unified trading platform in Shanghai in 1996 to enhance the surveillance on interbank lending activity, and Shanghai Interbank Offered Rates (SHIBORs) which is simple averages for different tenors of interest rates quoted by 16 eligible banks in the Shanghai money market to enhance the efficiency of price discovery in the interbank market, introduced in January 2007.

(iv) Interest rates in other financial markets, such as interest rates in the shadow banking sector.

In 1990s, starting from 1993, the concentration of the interest rate liberalization reform was to liberalize interbank rate, bond market repo rate, rediscount rate, etc. In 2000s, the focus changed to expand the ceiling and floor for deposit rate and lending rate. During this time, the PBoC has expanded the deposit and lending rate bands for quite a number of times.

At the end of 2000s, the evolvement of interest rate liberalization eventually formed a typical "dual track" interest rate system. "Dual track" means that ceilings imposed by PBoC on deposit rates in the banking system are a notable binding constraint on the freedom of price discovery in financial markets, while interest rates in the money and bond markets were market determined. However, the level and movement of the interests in money market and in bond market are constrained by regulated deposit rates, due to the dominance of the banking sector in overall financial intermediation.

Finally, on July 20, 2013, the PBoC formally dropped the control of lending rate and in 2015, the PBoC eventually liberalized the deposit rate ceiling, indicating the completion of deposit rate and lending rate liberalization. After that, the PBoC started to introduce the interest rate "corridor system" and promote Medium-term facility rate (MLF) and one-year lending rate (which is equivalent to MLF plus some adding points) as the new policy rate. (see our previous economic watch: China Economic Watch: Looking for new monetary policy tools in the liberalized-interest-rate environment; and China Economic Watch: China | LPR: China's market-based "policy" rate )

In this round of policy rate reform, the purpose of promoting 7-day reverse repo as the new policy rate to replace previously used MLF rate (medium-term lending facilities) is to further promote interest rate marketization and liberalization, through making the central bank only control and influence the short-term policy rate and let the market to decide the medium to long term market rates, which is similar to the interest rate determination mechanism as of in the advanced economies.

That means, instead of controlling the comparatively longer-term rate (such as one-year MLF or one-year LPR), the PBoC in the future only control the short-term rate (7-day reverse repo rate) and to gradually downplay the policy rate role of MLF at the same time, thus letting the market to determine the longer-term rates.

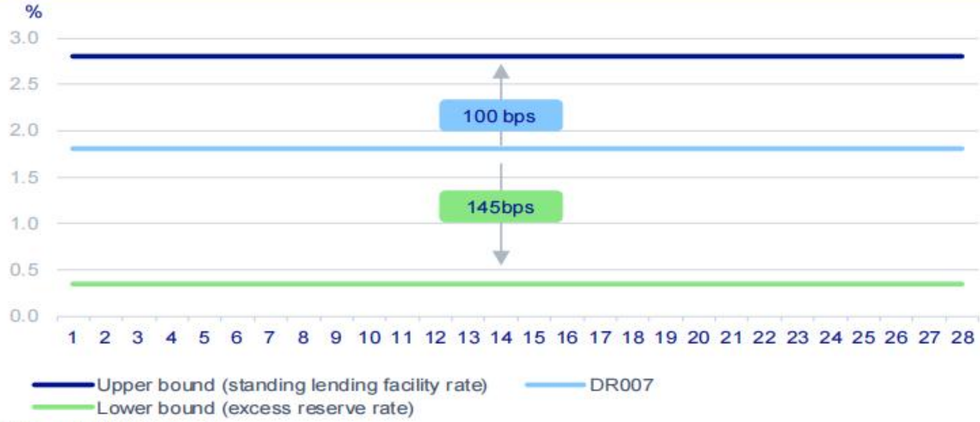
**Upgrading the "corridor" system**

In our previous Economic Watch China Economic Watch: Looking for new monetary policy tools in the liberalized-interest-rate environment , we introduced the newly established "corridor system back to 2016.

At that time, the PBoC has explicitly indicated to use Standing Lending Facility (SLF) rate and Medium-term Lending Facility (MLF) as the upper bound of the corridor, and the excessive reserve interest rate as the lower bound rate. Inside the "corridor", the pledged 7-day Repo rate (DR007) was actively traded in the interbank market but with much lower volatility than SHIBOR, another potential candidate for the policy rate at that time. (Figure 1 describes the original version of the corridor system back to 2016)

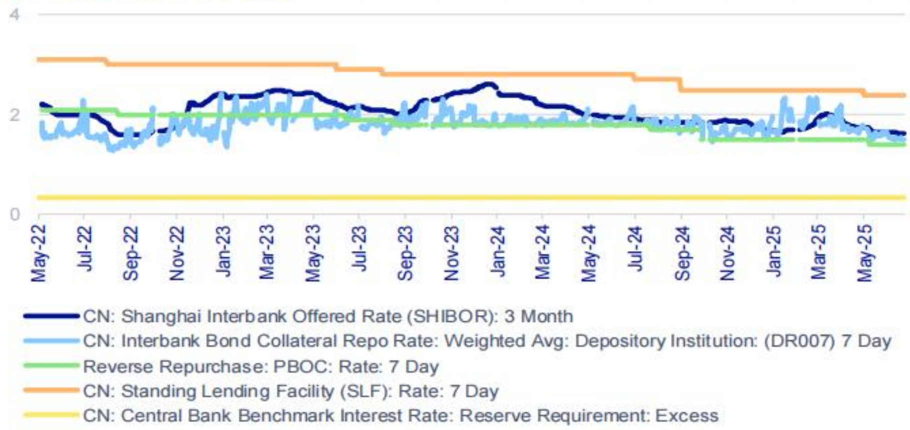
However, this original version of "corridor system" has some shortcomings, chief among them is that the upper bound and the lower bound have been too wide which cannot accurately confine the policy rate. For instance, for a long period of time, the upper bound (SLF) and the lower bound (excess reserve rate) difference has reached 245 bps, which is too wide compared with the "corridor" range in the advanced economies which is normally 25-50 bps. In addition, the distance between DR007 and the upper bound is 100 bps, between DR007 and the lower bound is 145 bps, which means the original version of the "corridor system" is asymmetric. Altogether, the wide "corridor" gives the market very weak signal of where the policy rate will go, thus, significantly weakening monetary policy transformation mechanism and market communications.

**Figure 1: The original version of the "corridor system" (since 2023 August 15)**




Source: CEIC and BBVA Research

**Figure 2: The current "corridor system"**




Source: CEIC and BBVA Research

In addition to the width of the "corridor", there are also some other issues of the current version of "corridor" system that need to be carefully evaluated: (i) The upper bound (SLF rate) has not played an effective role as the "upper bound" to confine the policy rate, because financial institutions would rather take a higher interbank offered rate instead of applying for SLF, because the procedure for SLF application is complicated and time consuming. (ii) The scale of SLF is very small, and its effect is thus very limited. (iii) The lower bound (excess reserve rate) also did not play an effective role to confine the policy rate, because the DR007 has never touch the excess reserve rate, but instead, closer to the upper bound with the asymmetric characteristic stated above.

Thus, narrowing the "corridor" becomes the new direction of updating the monetary policy framework.

In order to solve this issue, the PBoC introduced overnight repo and reverse repo rate on top of the existed 7-day reverse repo. The PBoC announced this new open market operation tool on July 8 2024, which helps the central bank improve liquidity management and better guide market interest rates. This new monetary policy tool helps supply base money when there is a liquidity shortage and withdraw liquidity when there is an excess, helping to stabilize fluctuations in the money market.

The operations, with a term of overnight, will be conducted from 4 pm to 4:20 pm on working days as needed, in addition to its traditional morning operations of 7-day reverse repos operations. The interest rates of the temporary repos and reverse repos will be 20 basis points below and 50 basis points above the seven-day reverse repos operations, or 1.6 percent and 2.3 percent, respectively.

Under this circumstance, many market participants believe that the overnight repo and reverse repo will implicitly become the de facto upper and lower bound of the 7-day reverse repo which is the new policy rate. This indicates that the width of the interest rate corridor will be significantly narrowed from 245 basis points to 70 basis points, which will help reduce the volatility of short-term market interest rates and more clearly convey the central bank's monetary policy signals. Although this market belief is not recognized by the PBoC, at least, it provides a direction of narrowing the "corridor" bounds.

**Introducing new monetary policy tools**

The recently established monetary policy tools to be included in the PBoC's toolbox include the following four, not only including aggregate monetary policy tools but also structural tools:

(i) allowing the PBoC to directly buy and sell in the secondary market as a new base money supply channel; (ii) Open market operaions Buyout Reverse Repo; (iii)creating swap facilities with securities, mutual funds and insurance companies, to support these institutions to use qualified collaterals in their hands in exchange for high liquidity assets from the PBoC, such as treasury bonds and central bank bills; and (iv) Re-lending facilities for qualified large shareholders to repurchase the shares of listed firms.

(i) Treasury bond buy and sell in the secondary market

In August 2024, the PBoC started to buy and sell treasury bond in the secondary market amid open market operations, indicating that the central bank is allowed to use treasury bond buy and sell as the monetary policy tool as a way to inject base money into the market and to conduct the liquidity management. It should be deemed as an additional monetary policy tool to supplement the central bank's toolbox in China.

Started from August 2024, the PBoC conducted the treasury bond buy and sell in the secondary market in a monthly basis from August 2024 to December 2024, with the net bond purchase ranging from RMB 100 billion to RMB 300 billion. However, they stopped this operation from January 2025, given that China's long-term bond yield in the market became extremely low due to the pessimistic expectation of long-term growth. (Figure 3)

Compared with the existed monetary policy tools, the advantage of buying and selling treasury bond in the secondary market is to improve the efficiency of monetary policy transmission mechanism. On top of OMO and MLF etc., treasury bond buy and sell should be a good supplement to help the central bank not only to adjust base money supply but also to influence short-term, medium-term and long-term bond yield as well as the yield curve.

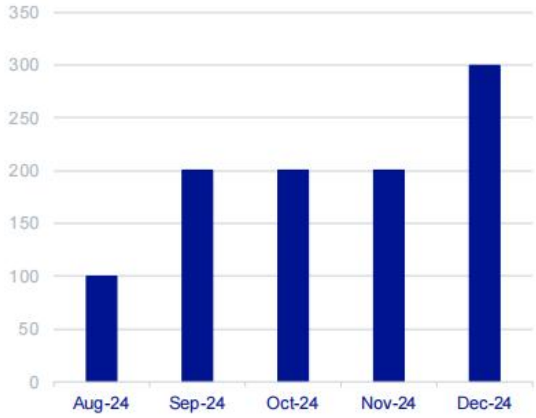
Allowing the central bank to buy and sell treasury bond in the secondary market bear a resemblance to Quantitative Easing (QE) which were widely adpoted in advanced countries in the aftermath of 2008-2009 global financial crisis. The difference is that the PBoC starts to buy treasure bonds even before the zero-bound of policy interest rate is hit. For the moment, it should be deemed as a conventional monetary policy tool of liquidity management in the market given that it also permits the PBoC's to sell treasure bonds in the market. However, the introduction of this policy tool has paved the way for the PBoC to substantially expand its balance sheet (through massive purchase of treasury bonds) so as to stimulate the economy. In that sense, this new policy tool has the potential to become the percusor of "the Quantatitative Easing (QE) with Chinese Characteristics". More importantly, it could take place when the policy rate still remains positive.

(ii) Securities,Funds and Insurance companies Swap Facility (SFISF)

Since October 2024, the PBoC also created swap facilities with securities, mutual funds and insurance companies, to support these institutions to use their bond, stock ETF and CSI 300 stocks etc. as the collateral to exchange for high liquidity assets with the PBoC, such as treasury bond and central bank bills.

The market believes that China's SFISF is very similar to the US FED's Term Securities Lending Facility (TSLF) which allows the primary dealers to use their low liquidity securities as a pledge to exchange with the FED for high liquidity treasury bonds in a bid to support financial markets. The initial quota for SFISF is set at RMB 500 billion. The scale of the first round operation SFISF was RMB 55 billion in October 2024 and the second round was RMB 50 billion in January 2025. (Figure 4)

**Figure 3 TREASURY BOND NET BUY&SELL IN SECONDARY MARKET**




Source: BBVA Research and CEIC

**Figure 4. THE CONDUCT OF FINANCIAL INSTITUTIONS SWAP FACILITIES**


Source: BBVA Research and CEIC

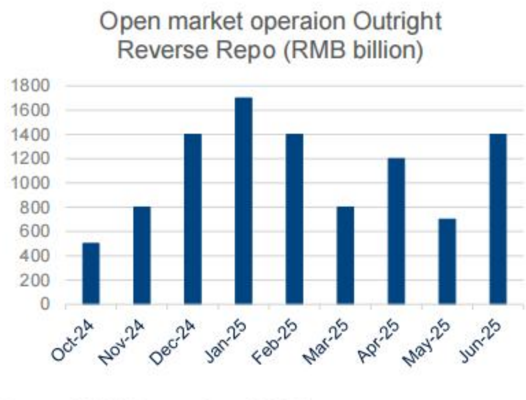
(iii) Open market operaions Outright Reverse Repo.

Outright reverse repo operation is a tool the central bank introduced on October 28, 2024 to manage liquidity in the banking system. They are carried out once each month with a tenor of no more than a year.

The scale of Outright Reverse Repo looks much larger than the other new monetary policy tools and has been conducted in a continuous manner. For instance, from October 2024 to June 2025, the PBoC has conducted the Outright Reverse Repo for 9 months, with the scale ranging from RMB 500 billion to RMB 1,700 billion. (Figure 5)

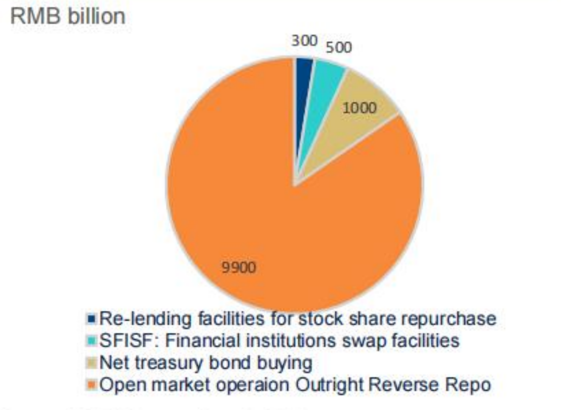
The move is expected to ensure sufficient liquidity in the banking system, keep fluctuations in money markets under control and anchor market expectations. That means, the stepped-up medium-term liquidity injections signal a broader use of quantitative tools to bolster growth.

**Figure 5. OUTRIGHT REVERSE REPO CONDUCT**




Source: BBVA Research and CEIC

**Figure 6. THE COMPARISON OF THE INITIAL SCALE (OR USED SCALE) OF NEW MONETAYR POLICY TOOLS**




Source: BBVA Research and CEIC

(iv) Re-lending facilities for stock share repurchase and increase in shareholding for highquality listed firms.

In order to establish a long-term mechanism to enhance the inherent stability of the capital market, to further maintain the stable operation of the capital market, and boosting market confidence, the People's Bank of China establishes a re-lending program for share repurchase and increase in shareholding, aiming to direct financial institutions to provide loans to listed companies and their principal shareholders. This also belongs to the structural monetary policy tools.

Loan funds shall be used for designated purposes and operated in a closed-loop manner, support share repurchase and increase in the holding of shares of listed companies respectively, and propel listed companies to proactively use tools such as share repurchase and increase in shareholding for market value management.

The scale of the relending facilities for stock share repurchase is RMB 300 billion. And we also provide the comparison of the initial scale (or the already used scale) for the four new monetary policy tools in Figure 6.

**DISCLAIMER**

IMI International Monetary Review

# Steering through the Fog: The Art and Science of Monetary Policy in Emerging Markets*

*By* GITA GOPINATH

It is a pleasure to be with you here at this critical juncture for the global economy. Since early April, the US effective tariff rate has increased to levels last seen over a hundred years ago, and the uncertainty surrounding trade policy and geopolitics has surged.

The economic effects of these developments are expected to be sizeable. Our World Economic Outlook 'reference scenario' projects that tariffs will reduce both global and emerging market (EM) output growth by roughly 0.5 percentage points relative to our forecast prior to the April tariffs. Countries imposing high tariffs, or those that are heavily dependent on trade with those countries, will be hit the hardest. But no country is likely to emerge unscathed: we have downgraded our forecasts for 127 countries that account for 86 percent of global GDP.

The impact on inflation is more varied. For countries facing higher tariffs on their exports, the tariffs are expected to mainly operate as a negative demand shock and exert mild downward pressure on inflation. For countries imposing much higher tariffs, notably the United States, the tariffs will likely act more as an adverse supply shock, boosting inflation while lowering growth.

There are several reasons why economic outcomes could be much worse than our WEO reference scenario. As of now financial conditions have not tightened much, including in emerging markets, and many EM currencies have remained surprisingly resilient against the dollar. If, however, trade policy discussions do not yield lower tariffs soon, financial conditions could tighten abruptly, with major effects on capital flows to EMs. Knightian uncertainty abounds as the global economic order transforms. How should central banks in emerging markets steer through this fog? I will address this question in today's lecture.

## World hit by trade and uncertainty shocks

EM central banks have developed much stronger monetary policy frameworks since the late 1990s, often in the context of adopting inflation targeting. They have benefited from major improvements in governance, with clear mandates focused on price stability. Their operational independence has also increased substantially -- both de jure and de facto -- and they have strengthened their public accountability, as well as transparency. These advancements were invaluable in helping them respond quickly both to COVID and to the subsequent inflation surge, raising interest rates sharply in the latter case to contain inflation and keep inflation expectations anchored.

## EM Central Banks

Even so, significant differences remain between EMs and AEs, especially regarding the strength of the exchange rate channel and the degree to which global factors influence monetary transmission. Several features deserve particular attention:

## Transmission of policy actions and shocks differs in EMs

First, monetary policy transmission appears noticeably weaker in EMs than in AEs, and dependent both on global financial conditions and on the reliance of EM banks on external financing. In advanced economies, an easing of policy rates quickly translates into lower market rates -- which is what matters for the borrowing decisions of households and firms -- and this boosts the economy.

By contrast, my research with Sebnem Kalemli-Özcan and Pierre De Leo (De Leo, Gopinath and Kalemli-Özcan, 2024) shows that when EM central banks loosen policy, the transmission to short-term market rates depends critically on what happens to global financial conditions. If global financial conditions tighten enough – as often follows a surprise tightening in US monetary policy – then domestic market rates may even rise when the EM central bank lowers policy rates. The implicit rise in the risk spread facing borrowers clearly blunts the effectiveness of monetary policy and makes it harder for EMs to cushion the effects of shocks. This is particularly relevant at the current juncture where trade shocks could play out as negative demand shocks in many EMs, calling for looser monetary policy. At the

* This article first appeared on May 7, 2025.

same time, they could play out as negative supply shocks in the US and call for tighter US monetary policy.

EM Monetary Policy

The changing mix of EM external financing also raises new vulnerabilities. EMs have become more dependent on external financing from foreign nonbank financial institutions, including insurance companies and investment funds, with their share of external portfolio financing growing to about 40 percent. While nonbanks help diversify emerging market funding sources and reduce borrowing costs, these types of capital flows are also very sensitive to the global financial cycle.[1] At times of financial stress, investment funds—such as exchange traded funds and open-end mutual funds in particular—are more susceptible to investors withdrawing their money, which in turn causes investment funds to withdraw from the riskiest markets. Consequently, the volume and speed of exit of capital flows have increased over time, as was evident at the start of Covid-19.

Challenges due to weak transmission

This sensitivity of EMs to global stress may also increase given that crypto assets are playing a larger role in cross-border financial intermediation and payments, often spurred by the desire to achieve cost-efficiencies, but also to circumvent capital flow restrictions in some cases. In most EMs, crypto asset use doesn't yet appear high enough to present imminent systemic risks. Even so, crypto assets are growing rapidly in many EMs, and overall usage has become a noticeable share of GDP in some EMs with high inflation and lower macroeconomic stability. For example, Cerutti, Chen and Hengge (2024) find that several EMs in Latin America and Eastern Europe fall in the upper quartile of countries in terms of the magnitude of their bitcoin inflows as a share of GDP, with monthly inflows in the range of 0.1 to 0.8% of GDP. Focusing on a wider set of crypto assets, Cardozo, Fernández, Jiang and Rojas (2024) find that cross-border crypto outflows have reached as much as a quarter of gross portfolio outflows in Brazil.

Use of crypto requires a careful understanding of the risks. Crypto may increase capital flow volatility and exacerbate financial stress, including by allowing investors to easily shift their deposits out of domestic banks into foreign exchange-denominated stablecoins. If crypto flows grow large enough, such disintermediation from the banking system and associated capital outflows could cause financial conditions to tighten and the exchange rate to weaken, and potentially spur a significant economic downturn.

crypto flows grow large enough, such disintermediation from the banking system and associated capital outflows

Weaker policy credibility complicates monetary policy trade-offs

A second difference between AEs and EMs is the relatively weaker credibility of EM monetary policy to deliver low inflation. While EMs have improved their frameworks substantially, inflation expectations still tend to be less well-anchored than in AEs. Consequently, there is a higher passthrough of cost shocks to inflation, as they feed through much more into inflation expectations as well as through other channels such as wage indexation. Oil price shocks tend to impact core inflation more than twice as strongly in a sample of emerging market economies, relative to advanced ones.[2] This high passthrough makes dealing with external shocks particularly difficult for EM central banks, as second-round effects could be sizeable, including from ongoing shocks to trade policy that could disrupt supply chains and raise input costs.

Inflation expectations also tend to be more sensitive to fiscal policy and debt in EMs. This likely reflects increased risks of fiscal dominance and political interference in central bank decisions, which can undermine the public's confidence in the central bank's ability to fight inflation. A surprise increase in government debt tends to boost medium-term expected inflation in EMs significantly, while having little effect in advanced economies.[3]

boost medium-term expected inflation in EMs

Exchange rates have a much larger imprint on price and financial stability

A third critical distinction between EMs and AEs is that the exchange rate has a much larger imprint on price and financial stability in EMs. While passthrough of exchange rate changes to inflation has declined considerably for many EMs, it remains significantly higher than in advanced economies. A 10 percent depreciation of EM currencies against the dollar causes EM price levels to rise by about 2 percent, several times larger than in advanced economies.[4]

The presence of foreign exchange mismatches increases the financial stability risks from exchange rate depreciation. While many EMs have reduced FX mismatches – or lowered the risk through the development of derivatives markets that allow for better hedging -- reliance on dollar funding within the financial system remains an important source of fragility for some EMs. This weakens monetary transmission, as lowering interest rates causes the balance sheets of corporates with unhedged FX liabilities to deteriorate and financial conditions to tighten, which offsets some of the stimulus from easing. EMs that have shifted to relying more on local currency financing also can experience sharp increases in currency premia and local borrowing costs when foreign investors exit these shallow markets. This makes it harder for EMs to deal with an environment of bigger external shocks: even if a tariff abroad would look like a demand shock from the standpoint of an AE economy, the exchange rate depreciation it induces raises risk spreads and makes it harder for the EM central bank to cushion the impact on the economy.

exchange rate depreciation it induces raises risk spreads and makes it harder for the EM central bank

Steering through the fog: How should policy respond?

Having outlined some of the unique challenges emerging market central banks face in the current global context, I will next lay out some broad principles that can help steer through the fog. EMs clearly will differ in how they respond to the shocks and the uncertainty depending on their cyclical conditions and on structural features such as the extent of their exposure to trade and financial disruptions.

This said, and despite the fog, EM central banks should respond forcefully to upside inflation risks if they materialize to ensure that high inflation does not get embedded into inflation expectations. While I've noted that we see the current configuration of tariffs as likely to be slightly disinflationary for many EMs in our reference scenario, there is a significant risk that inflationary pressures could emerge -- from supply chain disruptions and higher input cost pressures in a fragmenting world or from exchange rate depreciations.

Given the high passthrough of both exchange rate changes and cost shocks to inflation in EMs, a major risk is large and persistent second round effects, especially if inflation has been running persistently above target and the fiscal position is weak. History has shown that once inflation becomes embedded in expectations—often through wage and price indexation mechanisms—it becomes significantly more difficult to reverse. If the risk materializes, timely and firm action is critical to keep inflation expectations anchored and reassure the public of the central bank's unwavering commitment to sound monetary policy and price stability.

Foreign exchange intervention should be used prudently

Second, in a more turbulent external environment, foreign exchange intervention (FXI) can help address disorderly market conditions that undermine financial stability. The Fund's Integrated Policy Framework is helpful in identifying conditions when it may be possible to improve tradeoffs facing central banks using FXI and other tools (IMF, 2023; Basu, Boz, Gopinath, Roch and Unsal, 2023).

Notably, central banks can reduce exchange rate pressures by selling FX during episodes of capital flight when FX markets are shallow, allowing central banks not to have to hike policy rates sharply. This can improve macroeconomic outcomes as well as lower financial stability risks.

However, it is important that FXI is not used to reduce exchange rate volatility per se, or to target a particular level of the exchange rate, as such misuse could easily weaken confidence in the central bank's commitment to stabilizing inflation. Moreover, given the finite level of reserves, the bar for FXI should be high to ensure that FX liquidity can be provided when it is really needed. As of now financial conditions have tightened in an orderly manner, which means that when it comes to FXI the advice is to keep the powder dry.

uncertainty

Build financial and fiscal resilience

Third, efforts to build financial resilience through strengthening prudential policies are also desirable. As I have emphasized, EM financial systems remain quite exposed to geopolitical shocks and face growing risks from heightened external finance from foreign nonbanks and potentially crypto. Prudential policies can help them build adequate buffers as well as reduce vulnerabilities arising from high leverage, volatile capital flows, and FX mismatches. On the crypto side, it will be important to develop comprehensive legal, regulatory and supervisory frameworks for crypto assets, including through cooperative global efforts given their cross-border nature (IMF, 2023b). The authorities should also ensure that capital flow management measures, when appropriate, remain effective and not undermined by the use of crypto. And EMs should continue to strengthen macroeconomic frameworks to reduce the risk of currency and asset substitution into crypto assets (often called "cryptoization").

Fiscal policy also plays a critical role in helping ensure macroeconomic stability. Uncertainty shocks have much bigger effects on sovereign spreads when EM debt servicing costs are relatively high. Ensuring that tax and spending policies adjust to keep debt on a sustainable path helps provide buffers to respond to downturns and lowers financial stability risks.

uncertainty

Improve central bank communication, governance, and policy strategy

Lastly, there is a high premium on further strengthening policy frameworks to continue building resilience in a more shock-prone environment.

Clarity of communication has become more critical than ever. Effective communication about the central bank’s reaction function – in qualitative terms – is likely to be useful in helping better anchor inflation expectations and thus improve tradeoffs.

Improved governance – including to strengthen central bank independence – can increase public confidence that the central bank will have latitude to achieve its objectives. Central banks will inevitably make mistakes—no forecast is perfect. But what must be clear is that any deviation from target is the result of uncertainty, not political interference.

EM central banks, as for their AE counterparts, must also adapt their policy strategies to focus more on the distribution of outcomes rather than the modal outlook, and to take more account of risk management considerations. Monetary policy must navigate a world shaped by a multiplicity of shocks — some persistent, some temporary, and some with offsetting effects on inflation where it is difficult to assess the net impact.

Accordingly, many central banks should continue to take steps to revise their frameworks to move away from excessive reliance on central forecasts. This can be facilitated by increasing use of scenario analysis in decision-making.

Improve CB communication

Conclusion

To conclude, EMs have made major strides in improving their monetary policy frameworks, and this has enabled several of them to respond effectively to unprecedented shocks like the pandemic. They are now being tested again as the global economic order is reset and Knightian uncertainty prevails. This uncertainty does not, however, imply gradualism in all matters. If inflation pressures rise, EM central banks will need to respond quickly using policy rates to prevent higher inflation from getting entrenched as they did during COVID. We must recognize that the road ahead may have many unforeseen turns, which calls for further strengthening financial and fiscal resilience and navigating with monetary policy clarity, credibility, and discipline.

IMI International Monetary Review

# Public Investment should be at the Heart of Fiscal Narratives*

*By* ANDREA CORREA*

Not just more money, but better use of it

At first glance, the UK's June 2025 spending review signalled a shift from 'spending' to 'investment'. This change hinted at a more long-term vision for government expenditure.

However, a closer look reveals that while the language has changed, the substance is broadly the same. The review falls short of redefining the purpose, scope and strategic delivery of public investment. There is an urgent need to move beyond inputs and embrace a mindset of generating enduring public value through strategic investment.

**The illusion of investment**

The spending review presents a surface-level narrative of 'choosing to invest', especially in infrastructure. The decision to loosen fiscal rules for capital expenditure has enabled some planning for infrastructure, suggesting a window for more forward-looking investment. Yet this flexibility has not translated into a meaningful signal to investors about long-term fiscal sustainability or coherent planning beyond the immediate political cycle. Instead of laying the foundation for sustained, high-quality investment, the review's proposals are concentrated within the next two years, aligned with the electoral timetable.

Moreover, key sectors such as health and social care have seen increases of 2.8% in day-to-day spending without any corresponding growth in capital investment. This underscores the continued focus on inputs (allocations, cuts, redistributions) rather than on outcomes and systemic transformation.

A further example is the recently announced 10-year Infrastructure Strategy comprising £725bn of government funding, which aims to deliver stability, investment and national renewal. While the scale and ambition of the plan are noteworthy, it remains largely focused on inputs and delivery pipelines, rather than clearly articulating the public value and long-term societal outcomes these investments are meant to achieve. Infrastructure, care systems and green transitions require not just more money but better use of it. Without that strategic clarity, we are at risk of mislabelling short-term expenditures as long-term investments.

Public investment should be understood as a commitment to deliver long-term value and better economic and societal outcomes, which in turn should bolster fiscal positions. A forthcoming OMFIF podcast featuring Mark MacDonald, global public finance management leader at EY, and Udaibir Das, visiting professor at the National Council of Applied Economic Research, highlights how the conversation around investment must refocus on why, what and how we spend public money. It is not enough to create larger budgets or loosen fiscal rules, we must define clear, measurable public value outcomes and design investment strategies to achieve them.

This reorientation demands a fundamental mindset shift: from seeing public investment as an accounting challenge to recognising it as a long-term institutional reality. Public investment should not be at the mercy of political cycles or reduced to administrative frameworks. Rather, it should aim to create enduring benefits: economic resilience, sustainability, social equity and citizen trust.

**Building institutional capacity**

One of the biggest barriers to meaningful public investment is institutional: fragmented frameworks, short-term budgeting and unclear mandates. While government agencies spend significant time on the administrative and technical aspects of budgeting, as the podcast points out, there is insufficient focus on whether these structures are delivering results. This calls for a cultural shift in how the public sector conceives its investment role, adopting an investor mindset that links money spent today to public value delivered tomorrow.

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* This article first appeared on 23 June 2025.

* Andrea Correa is Senior Economist, Economic and Monetary Policy Institute, OMFIF.

Institutional reform should include the development of more participatory and transparent budgeting processes, giving citizens a stake in defining investment priorities. It also means fostering closer collaboration between the public and private sectors, especially when tapping capital markets. Public investment is not solely the state's responsibility; it is a shared endeavour that can benefit from private sector innovation and long-term risk appetite.

Capital markets are increasingly attentive to sustainability and social outcomes. Government credibility in the eyes of investors depends not only on fiscal prudence but also on clear, long-term strategies that reflect stable, inclusive and forward-looking policy environments. If the UK wants to unlock private investment in major public initiatives it needs to demonstrate a coherent public investment plan that transcends electoral cycles.

The failure to align investment planning with long-term public value is not just a technocratic problem, it is a political economy issue. Short-term political incentives discourage sustained investment in projects that may only see returns beyond a government's term. This creates a bias towards spending, prioritising what is visible and immediate, rather than transformative and strategic. Addressing this requires political will and institutional mechanisms that embed long-term thinking into fiscal policy.

**Redefining success in public finance**

If public investment is to be understood as a social contract, then success must be measured not by how much is spent, but by how lives are improved. This requires new metrics and frameworks for evaluating public investment, not just in terms of gross domestic product impact or fiscal balance, but through indicators of well-being, equity and sustainability.

The use of tools such as participatory budgeting can help governments prioritise what matters most to communities. Citizens should not be passive recipients of public services, but active co-creators of public value. This strengthens democratic legitimacy and ensures that investment decisions reflect genuine societal needs.

We are at a pivotal moment. The UK's fiscal future cannot rest on superficial shifts in language or marginal tweaks to expenditure frameworks. The 2025 spending review should be seen as a wake-up call. To meet the challenges of the next decade we need a paradigm shift: from spending to strategic public investment, from short-term allocations to long-term outcomes and from political decisions to participatory governance.

# Debt Management

## Managing Director Remarks' at the IMF Conference on Public Debt Transparency—Aligning the Law with Good Practices[⋆]

*By* KRISTALINA GEORGIEVA[*]

It is my great pleasure to join you because the topic that you will be discussing truly affects countries, businesses, communities, in a way that slows down progress and makes it harder for countries that are still falling behind to catch up.

We all know the data. Global public debt is expected to approach 100 percent of global GDP by the end of the decade. In other words, we would owe as much as we generate in one year. And this is worse than what we had during the pandemic.

You all know that governments are wrestling with tight budgets. And now with trade policy uncertainty, the fiscal trade-offs are going to be even more complicated. This is a problem everywhere in countries rich and poor, but it is particularly painful for emerging markets and developing economies, where the mounting cost of servicing debts is squeezing their ability to make investments and to respond to shocks.

It is against this backdrop that at the Fund we have been doing extensive work on issues of global debt architecture and sovereign debt restructurings. These efforts have intensified since the pandemic, and you are all aware we came up with the Common Framework, and then we realized we needed to have an inclusive space for debtors and creditors, both public and private, so we created the Global Sovereign Debt Roundtable. I see people who are members, and I want to appreciate all those who are engaged in it.

We are also actively working with authorities in Paris Club and non-Paris Club countries to bring everybody to the table for debt restructuring. Our engagement seeks to improve coordination, ensure that countries play by global rules, and very important, that there is comparability of treatment across creditors during debt restructuring.

Five years ago, much less was known about the magnitude and nature of lending from non-Paris club creditors, or how to encourage their involvement in debt restructuring. Since then, we need to recognize that significant progress has been made in helping improve transparency in lending practices and encouraging fair burden sharing across creditors, including the non-Paris Club countries.

Overtime, the G20 Common Framework has become more efficient and work in this regard continues. We are not done. We also see that the Global Sovereign Debt Roundtable plays a significant role as evidenced by the recent publication of the Sovereign Debt Restructuring Playbook. You play by the book, you get things done fast. It spells out steps to speed up the restructuring process, and it defines countries' accountability for their actions. Importantly, this also includes compiling data to give a clear picture of domestic and external debt and the creditors who hold this debt.

So why is debt transparency so important? For the reasons we were describing - Yan in her introduction, then we saw the little movie and now me.

We have high level of debt and on top of it, countries are increasingly using complex forms of financing that are often opaque. New debt instruments have emerged such as guaranteed, securitized and collateralized debt contracts linked to. public-private partnerships, state-owned enterprises and pension funds. And because of the novelty and complexity of these instruments, our experience is that too much

⋆ Published on May 14, 2025.
* Kristalina Georgieva, Managing Director, IMF.

debt remains hidden from the eyes of policymakers and from the public. And too often it comes to light only when it is late, through the debt restructuring process.

Hidden debt inflicts real costs. It saps investor confidence. It increases borrowing costs. And it puts debt sustainability at risk, which can lead to a debt crisis.

Simply put, you cannot manage what you cannot see. And this is why we need light to cut through the fog surrounding the mountain of debt. We need the right laws and requirements in both borrower and creditor countries to defer the decision-making to competent bodies so they can do what is right for debt reporting and debt management. And that is the topic of today's conference, this is what you will be doing here.

Let me say a little bit about our work at the Fund.

As we heard from Yan, we have identified debt transparency as a public good, and we have done a lot of work already.

Even if it is not labeled as debt transparency at the heart of it, when we support debt management in countries, this is what we do. Let me give you three examples.

First, back in 2023, we published a paper on ‘Making Public Debt Public.’ It looked at factors that underlie the lack of disclosure and the IMF's role in reforms. We found that debt disclosure in borrowing low-income countries and emerging market economies falls way short due in large part to the increasing share of non-marketable and SOE debt. And in keeping with the theme of today's conference, gaps in borrowing countries' domestic, legal, institutional, and operational frameworks hinder transparency. We ought to close those gaps.

Second, our debt limit policies now require more detailed transparency on debt information. Including for the first time, we require the publication of the holders of a country's public debt.

Third, in our Article IV consultations, we introduced a more structured and transparent assessment of data adequacy on debt, where broader and more granular debt data will be required. And this assessment will inform not just us, it would inform countries, and it would inform those interested to invest in countries.

We have scaled up our training on debt transparency. We have delivered over 200 capacity development projects just on debt management in the last two years.

How many of you have been following our spring meetings this year? So, for those who were here and for those who weren't, a very important message that came out of this meeting was, countries need to put their own house in order. It was a line I used in my curtain raiser speech. And then I was so delighted to hear it played back to me by country delegations. They would say, it is tough, we have to get our own house in order and getting your own house in order absolutely requires transparency.

Good law drives good practices, and it drives good arrangements. There are many questions countries need to answer. They need to answer ‘who has the authority to borrow on behalf of the country,’ ‘who can sign a valid contract,’ ‘can the state's resources be used as collateral?’ We look at the law for answers to these questions and I can tell you, they seem obvious and yet there are so many countries in which they still need to be answered.

Our Legal Department reviews debt-related legislation, as we heard from the movie, from the little clip. They did the review for 85 countries and we found several areas for improvement in legal frameworks. Less than half of the country surveyed require debt management and fiscal reporting. It's a big gap we have to close. In many cases, the legal definition of public debt is too narrow. It excludes SOEs or it excludes types of borrowing and as a result some forms of that fall outside the sovereign's awareness. When we are in a situation like this, we do have to (a) recognize what the gaps are, (b) work together to close these gaps, and I can tell you at the Fund we are at the disposal of our members to do exactly that.

We have in this conference policymakers from 72 countries. We have representatives of civil society organizations, from private sector and academia. And I am very uplifted because I think together we can make a difference. And from our side, we intend to work hard to be part of making that difference.

First, our upcoming review of debt sustainability analysis for low-income countries will consider how we can better support debt transparency. It complements the completion of a similar review of that sustainability analysis for market access countries. And I would welcome engagements as we go with this review.

Second, our work on the Global Sovereign Debt Roundtable and the Common Framework will engage constructively all relevant parties so they do their part for debt transparency. In the recent meeting of the Global Sovereign Debt Roundtable, there was a very strong commitment to it, let's get it done. Debtors can be more transparent about the debt on their books. Creditors can be more forthcoming in outlining what they are lending for. And I think we can, working together, get really good data. So good debt management becomes the norm, not the exception.

And third, we will systematically draw lessons from experience in our surveillance program and capacity development engagements to develop and share best practices in advancing debt transparency. We will periodically report on progress in strengthening legal frameworks for debt transparencies as part of our reporting on progress with the multi-pronged approach to reduce debt vulnerability. In other words, we concretely commit specifically to how we are going to act to advance this agenda.

Accurate information is so critical. I'm sure you know the saying ‘garbage in, garbage out.’ What we want is to clean the garbage.

Benjamin Franklin, to paraphrase his words, we can say ‘transparency is always good policy.’

Enjoy your work here. Have fun, get things done.

July 2025
Vol.12, No.3

# Rising Global Debt Requires Countries to Put their Fiscal House in Order*

*By* ERA DABLA-NORRIS, VITOR GASPAR AND MARCOS POPLAWSKI-RIBEIRO*

Amid heightened uncertainty, policymakers will need to deal with complex trade-offs between debt, slower growth, and new spending pressures

Major policy shifts underway have heightened global uncertainty. The series of recent tariff announcements by the United States, and countermeasures by other countries have increased financial market volatility, weakened growth prospects, and increased risks. They come in the context of rising debt levels in many countries and already strained public finances, which in many cases will also need to accommodate new and permanent increases in spending, such as defense. Rising yields in major economies and widening spreads in emerging markets further complicate the fiscal landscape.

We project global public debt to increase by 2.8 percentage points this year—more than twice the estimates for 2024—pushing debt levels above 95 percent of gross domestic product. This upward trend is likely to continue, with public debt nearing 100 percent of GDP by the end of the decade, surpassing pandemic levels. These numbers are based on the World Economic Outlook reference projections, reflecting tariff announcements made between Feb. 1 and April 4. Amid substantial policy uncertainty and a shifting economic landscape, debt levels could rise even further.

In this environment, fiscal policy faces critical trade-offs: balancing debt reduction, building buffers against uncertainties, and meeting urgent spending needs amid weaker growth prospects and higher financing costs. Navigating these complexities will be essential for fostering stability and growth

Risk of higher debt

Debt risks were already elevated. According to the Fiscal Monitor's debt-at-risk, which utilizes data up to December 2024, in a severely adverse scenario global public debt could reach 117 percent of GDP by 2027. This would represent the highest level since World War II, exceeding reference projections by almost 20 percentage points.

Risks to the fiscal outlook have further intensified. Debt levels may rise even further than the debt-at-risk estimates if revenues and economic output decline more significantly than current forecasts due to increased tariffs and weakened growth prospects. Additionally, escalating geoeconomic uncertainties could heighten debt risks, driving up public debt through increased expenditures, particularly in defense. Demands for fiscal support could also rise for those vulnerable to severe disruptions from trade shocks, pushing up spending. The Fiscal Monitor estimates that a significant rise in geoeconomic uncertainty could lead to a public debt increase of approximately 4.5 percent of GDP in the medium term.

Tighter and more volatile financial conditions in the United States may have ripple effects on emerging markets and developing economies, leading to higher financing costs. This significantly impacts commodity prices, resulting in lower prices and heightened price volatility. Limited fiscal improvements may further heighten risks from rising interest rates, especially as many countries have substantial financing needs. High interest rates could limit essential spending on social programs and public investments. Additionally, reduced foreign aid, due to shifting priorities among advanced economies complicates financing for low-income countries.

Complex policy tradeoffs

In an uncertain and rapidly changing world, countries will need to first and foremost put their own fiscal house in order. This means implementing prudent policies within robust fiscal frameworks to build public confidence and help reduce uncertainty.

Fiscal policy should prioritize reducing public debt and establishing and widening buffers to address spending pressures and economic shocks. This means finding the right balance between adjustment and

* This blog is based on Chapter 1 of the April 2025 IMF Fiscal Monitor, "Fiscal Policy under Uncertainty."

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supporting economic growth, tailored to each country's unique situation, available resources, and overall economic conditions.

Countries with limited room in government budgets should implement gradual and credible consolidation plans and allow automatic stabilizers, like unemployment benefits, to work effectively. Any new spending needs should be offset by spending cuts elsewhere or new revenues. For countries with greater fiscal flexibility, it is important to utilize available resources judiciously within well-defined medium-term plans. Fiscal support for businesses and communities impacted by severe trade dislocations should be both temporary and targeted, with a strong emphasis on transparency and effective cost management.

More generally, advanced economies should tackle issues related to aging populations by reprioritizing spending, advancing pension and healthcare reforms, and broadening the tax base. In emerging and developing economies, enhancing the tax system is crucial due to historically low revenues. Low-income developing countries should stay the course on fiscal adjustments given financing challenges. Timely and orderly debt restructuring alongside such adjustments is essential for countries facing debt distress.

Additionally, fiscal policy, alongside other structural policies, should focus on enhancing potential growth. This can help ease challenging tradeoffs between growth and debt sustainability. For instance, well-designed pensions and energy subsidy reforms can generate savings that can be used to support social programs and infrastructure investments.

As significant policy changes and heightened uncertainty reshape the global economic landscape, the fiscal outlook has worsened. To effectively navigate these challenges, governments should focus on building public trust, ensuring fair taxation, and managing resources wisely. By doing so, they can foster resilience and promote sustainable growth in uncertain times.

July 2025
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# Disclosing Public Debt Boosts Investor Confidence, Cuts Borrowing Costs*

*By* YAN LIU*

Greater debt transparency builds investor confidence, helps reduce borrowing costs, and strengthens debt sustainability—reducing the risk of shocks that can lead to a debt crisis

Public debt is projected to reach nearly 100 percent of global gross domestic product by the end of this decade, surpassing even pandemic-level highs. Governments, particularly those in emerging market and developing economies, face both mounting debt service costs and shrinking room to maneuver in government budgets. The result is fewer resources for social programs or investments, reduced capacity to respond to shocks, and higher borrowing costs.

In addition to issuing more debt, countries are increasingly using complex and opaque forms of financing. New debt instruments such as guaranteed, securitized, and collateralized debt contracts linked to public-private partnerships, state-owned enterprises, or SOEs, and pension funds have appeared on the scene. Because of the novelty and complexity of these instruments, more debt now remains hidden from policymakers and the public. And often it comes to light too late, during the debt restructuring process.

When revealed, hidden debt can erode confidence in the government, in its data, and its administrative capacity to provide an accurate representation of the country's finances. This may lead to higher borrowing costs, and, if the size of the hidden debt is substantial, put debt sustainability at risk and potentially trigger a debt crisis.

Simply put, you can't manage what you can't see, and this is why we need light to cut through the fog surrounding the mountain of debt. We need the right laws in both borrower and creditor countries and strong institutions to do the reporting and debt management the laws require. Debt transparency is clearly a public good.

Law's essential role

Law is the cornerstone of debt transparency. Public debt is so important that the question of whether the executive or legislature has ultimate authority to borrow on behalf of a country is spelled out in many national constitutions. Laws tell us who can sign a valid loan contract on behalf of a country and whether and under what conditions state resources can be used as collateral. At the same time, we have found that, in many cases, laws on public debt remain inadequate, murky, or poorly implemented.

Recently, the IMF hosted a conference on legal reform and debt transparency which brought together policymakers, representatives from borrower and creditor countries, civil society organizations, the private sector, and academia. The goal was to sharpen our collective understanding of the links between legal frameworks and debt transparency.

The gathering followed a recent review by the IMF Legal Department on debt-related legislation that found major gaps in 85 countries. For example, fewer than half of the countries surveyed require debt management and fiscal reporting by law, meaning that no one government agency or office is responsible for managing debt. Whether a country can handle certain types and amounts of borrowing or bond issuances is never fully known by policy makers and parliamentarians. In many cases, the legal definition of public debt is too narrow and excludes SOEs or types of borrowing, such as sub-national lending. As a result, some forms of debt fall outside the sovereign's awareness. This debt accumulates off the balance sheet, without oversight.

Authorities should be held accountable for their decisions about public debt. This means that the state audit institution should have the authority to conduct audits on public debt and report them.

What else must countries do to overcome the challenge of hidden debt?

Enact laws on public debt management that provide for debt disclosure. Policies and political priorities may shift, but legal obligations remain. A strong legal framework defines what counts as public debt, who can borrow, and what must be disclosed.

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* Published on June 12, 2025.
* Yan Liu is General Counsel and Director of the Legal Department of the International Monetary Fund.

Implement those laws. Some countries have adopted solid legislation to find they are ignored in practice. Ultimately, laws are only as good as the systems and institutions that enforce them.

Use legal reform as a bridge to build consensus and alignment. It is not just about good rules—it's about resilience. Law reform can transform debt transparency from a short-term policy choice to a long-term public commitment. Experience shows that when stakeholders across government, civil society, and international and creditor communities are all involved, reforms are implemented and defended.

The IMF has been doing extensive work on debt transparency over the years:

Our 2023 policy paper, Making Public Debt Public, looked at factors that underlie the lack of disclosure and the IMF's role in reforms. We found large debt disclosure gaps in low-income countries and emerging market economies and attributed the gaps to the increasing share of non-marketable and SOE debt.

IMF debt-limit policies now require more detailed disclosure of debt information, including the publication of the holders of a country's public debt.

In recent years, our Article IVs, the IMF's annual health checks of member economies, have called for a more structured and transparent assessment of data adequacy. This assessment, which includes debt data, will inform discussions with the authorities on broader data issues and prioritize efforts to improve fiscal and public debt transparency frameworks through our capacity development work.

The IMF has also scaled up technical assistance and training on debt transparency, delivering more than 200 capacity development missions just on debt management in the past two years. The Legal Department has expanded its capacity development efforts in this area through legal reviews, diagnostic missions, advisory support, and drafting of laws and regulations.

Ultimately, transparency isn't just about data collection; it's about legal clarity, institutional accountability, and public trust. It's important for countries to put their house in order, but to get there, we must have a strong foundation—that is, the right laws followed by strong institutions that implement them.

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# AI Needs More Abundant Power Supplies to Keep Driving Economic Growth⋆

*By* CHRISTIAN BOGMANS, PATRICIA GOMEZ-GONZALEZ, GIOVANNI MELINA AND SNEHA THUBE*

The power-hungry technology requires policies to help expand electricity supplies, incentivize alternative sources, and help contain price surges

Artificial intelligence is an emerging source of productivity and economic growth that's also reshaping employment and investment.

AI has the potential to raise the average pace of annual global economic growth according to scenarios in our recent analysis, included in the IMF's April 2025 World Economic Outlook.

AI, however, needs more and more electricity for the data centers that make it possible. The resulting strain on power grids has major implications for global electricity demand.

The world's data centers consumed as much as 500 terawatt-hours of electricity in 2023, according to the most recent full-year estimate by the Organization of the Petroleum Exporting Countries. That total, which was more than double the annual levels from 2015-19, could triple to 1,500 terawatt-hours by 2030, OPEC projects.

As the Chart of the Week shows, electricity used by data centers alone, already as much as that of Germany or France, would by 2030 be comparable to that of India, third world's largest electricity user. This would also leapfrog over the projected consumption by electric vehicles, using 1.5 times as much power than EVs by the decade's end.

Data center energy consumption is growing fastest in the United States, home to the world's largest concentration of centers. Power needed for US server farms is likely to more than triple, exceeding 600 terawatt-hours by 2030, according to a medium-demand scenario projection by McKinsey & Co.

The boom in building new warehouses for data stored in the cloud and answering AI queries underscores the urgency for policymakers, who need effective energy strategies to ensure adequate supplies can meet surging demands.

Increasing electricity demand from the technology sector will stimulate overall supply, which, if responsive enough, will lead to only a small increase in power prices. More sluggish supply responses, however, will spur much steeper cost increases that hurt consumers and businesses and possibly curb growth of the AI industry itself.

Under current energy policies, the AI-driven rise in electricity demand could add 1.7 gigatons in global greenhouse gas emissions between 2025 and 2030, about as much as Italy's energy-related emissions over a five-year period.

Demand for computing and electricity from AI platforms is subject to wide uncertainty. Efficient, open-source AI models like DeepSeek lower computing costs and electricity demand. However, reduced costs increase AI usage, and more energy-intensive reasoning models raise electricity demand.

The net effect on electricity demand is still uncertain, which may delay energy investments, causing higher prices. Policymakers and businesses must work together to ensure AI achieves its full potential, while minimizing costs. Implementing policies that incentivize multiple energy sources can enhance electricity supply, help mitigate price surges and contain emissions.

⋆ Ganchimeg Ganpurev and Andrea Pescatori contributed to this blog, which is based on the Commodity Special Feature included in the April 2025 World Economic Outlook and an IMF working paper: Power Hungry: How AI Will Drive Energy Demand. For more on AI impacts across economies, see the working paper: The Global Impact of AI: Mind the Gap.

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IMI International Monetary Review

# Working Paper

## Challenges and Policy Recommendations for Financial Support in China-Africa Industrial Cooperation*

*By* TU YONGHONG AND XIA ZELONG*

The Third Plenary Session of the 20th CPC Central Committee emphasized strengthening international cooperation in industrial and supply chains to enhance China's resilience and voice in the global value chain through high-level opening-up. As an emerging hub for global industrial relocation, Africa's strategic role has shifted from resource export to capacity cooperation. In September 2024, President Xi Jinping proposed the "Ten Cooperation Initiatives" at the Forum on China-Africa Cooperation, aiming to advance China-Africa modernization and support broader Global South development, signaling a new stage of collaboration driven by coordinated modernization. Africa serves both as a strategic partner in optimizing China's industrial layout and as a vital platform for South-South cooperation. Financial cooperation has supported integrated development of infrastructure and industrial parks, aligning investment, construction, and operations to accelerate industrialization. Based on field research, this paper explores how governments, financial institutions, and enterprises can better coordinate efforts to upgrade industrial chains and overcome key bottlenecks in China-Africa cooperation.

**Current State of China-Africa Economic and Trade Cooperation**

Over the past decade, China-Africa economic and trade cooperation has entered a period of rapid growth, characterized by comprehensive and multi-layered development. Trade volume has continued to expand, investment fields have deepened, and industrial collaboration and financial support have been steadily strengthened. The overall positioning of China-Africa relations has been elevated to a new era of an all-weather China-Africa community with a shared future. In the coming three years, the Chinese government will provide RMB 360 billion in financial support, including RMB 210 billion in credit lines, RMB 80 billion in various forms of aid, and at least RMB 70 billion in outbound investment by Chinese enterprises, further enhancing industrial and supply chain cooperation. The Belt and Road Initiative is increasingly aligned with the African Union's Agenda 2063, with deepening progress in policy coordination, infrastructure connectivity, trade facilitation, financial integration, and people-to-people exchange, leading to remarkable achievements in economic cooperation.

China-Africa trade has made significant progress. Total trade volume rose from USD 10.6 billion in 2000 to USD 295.6 billion in 2024, representing a nearly 27-fold increase and a compound annual growth rate of 14.7 percent (see Figure 1). Since 2009, China has remained Africa's largest trading partner for 16 consecutive years. In 2024, China-Africa trade accounted for more than 20 percent of Africa's total foreign trade. Structurally, trade between China and different African regions is relatively balanced. West Africa, due to its abundant oil and gas resources, leads with 27.6 percent of total trade, followed by Central, Southern, Northern, and Eastern Africa (see Figure 2).

**Figure 1 China–Africa Trade Volume, 2000–2024 (USD 100 million)**

* This article is part of the research outcomes of the National Social Science Fund Major Project titled "Advancing the Internationalization of the Digital RMB through the China-Africa Community with a Shared Future," and a sub-project on financial support mechanisms for the high-quality development of the Yangtze River Economic Belt.

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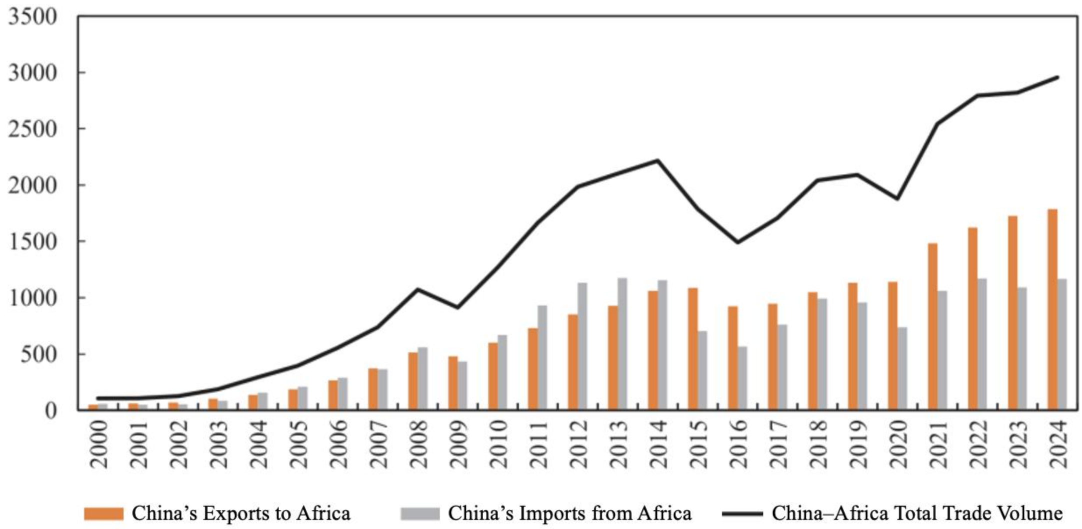
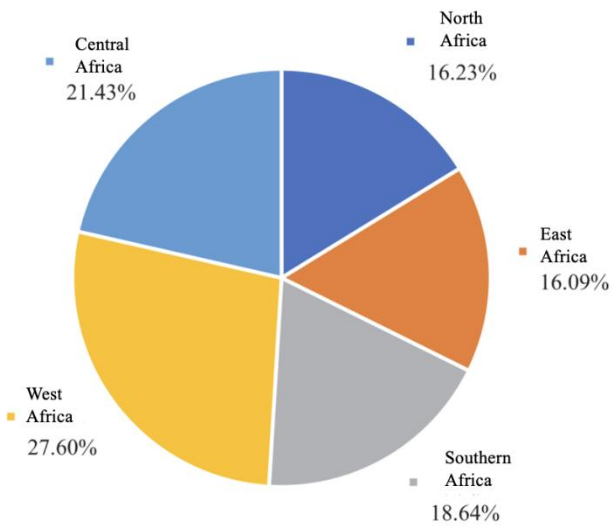



Source: General Administration of Customs of the People's Republic of China, Total Value of Imports and Exports by Country/Region

**Figure 2 Regional Breakdown of China–Africa Trade, 2024 (%)**

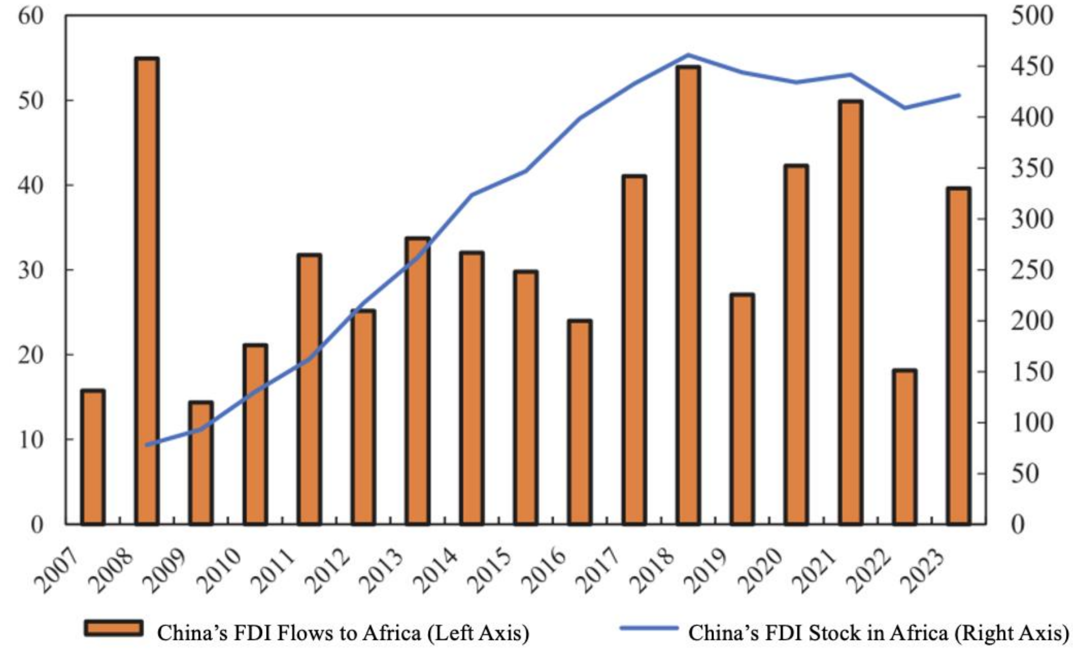



Source: General Administration of Customs of the People's Republic of China, 2024 Total Value of Imports and Exports by Country/Region; compiled by the authors

Note: Based on the regional classification by UNCTAD, Africa is divided into five sub-regions in this paper: North Africa, West Africa, Central Africa, East Africa, and Southern Africa.

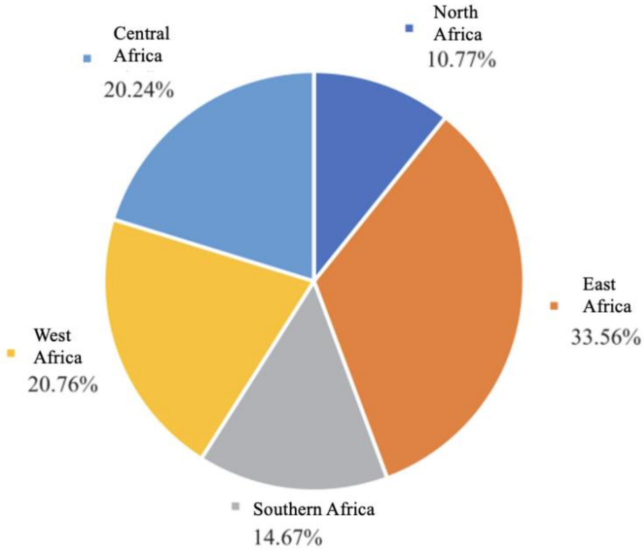
Chinese direct investment in Africa has grown rapidly. From 2007 to 2023, annual average investment flows reached USD 3.2 billion. After peaking at USD 46 billion in 2018, total investment stock entered a phase of adjustment (see Figure 3). East Africa, as one of the continent's population centers, holds advantages in geography, transportation, affordable labor, and manufacturing, and has become China's largest African investment destination with a share of 33.56 percent (see Figure 4). China's involvement in infrastructure and major project construction in Africa is primarily conducted through engineering contracting. Since 2010, China's annual contracted project revenues in Africa have consistently exceeded USD 30 billion, with total cumulative revenue surpassing USD 700 billion by the end of 2023. China's investment and construction in Africa has not only systematically improved the continent's infrastructure but also laid the foundation for industrialization through value chain integration, creating over 1.1 million jobs and continually driving economic momentum.

**Figure 3 China's FDI Flows and Stock in Africa, 2007–2023 (USD 100 million)**




Source: Statistical Bulletin of China’s Outward Foreign Direct Investment

**Figure 4 Regional Distribution of China’s Direct Investment Stock in Africa, 2023 (%)**

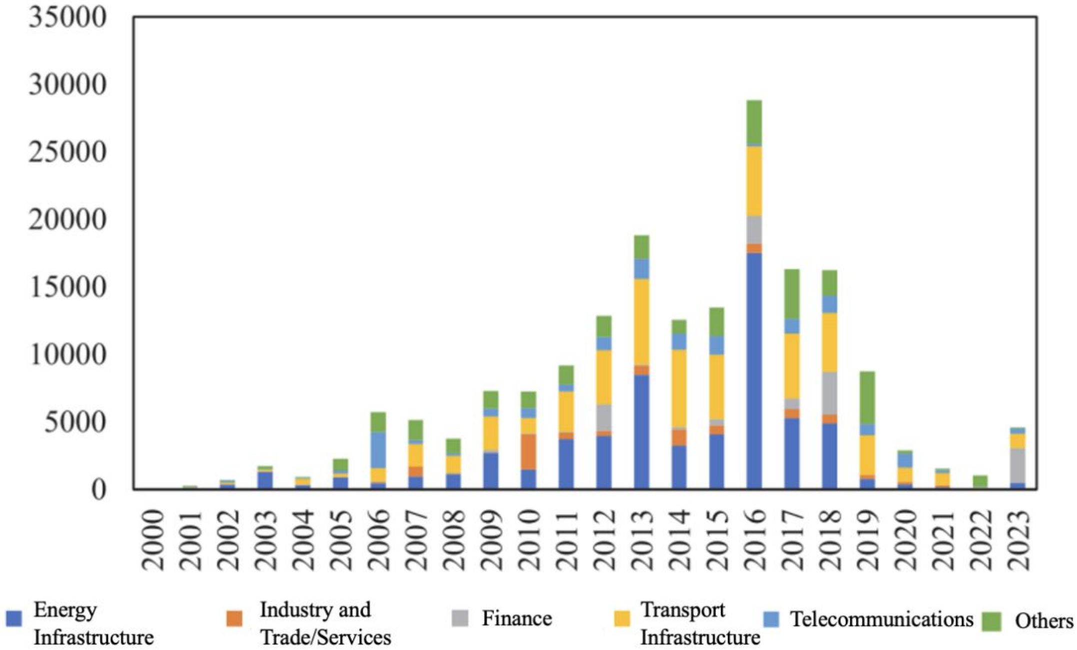



Source: 2023 Statistical Bulletin of China’s Outward Foreign Direct Investment; compiled by the authors

Industrial cooperation serves as a key link in deepening China-Africa relations. Through an infrastructure-driven value chain restructuring model, China has promoted optimization of Africa’s industrial layout and improved its position in global value chains. Landmark projects undertaken by Chinese firms, such as the Addis Ababa–Djibouti Railway, Doraleh Multipurpose Port, and Ethiopia’s national trunk highway network, have built modern transport corridors and significantly enhanced regional logistics efficiency. For example, along the Addis Ababa–Djibouti Railway, industrial parks such as the Eastern Industry Zone and Wuxi Industrial Park focus on manufacturing sectors including textiles and garments, steel, and chemicals. These parks follow a model of “technology transfer, localized production, regional sales and export,” driving growth in industrial output and accelerating the industrialization process of African countries.

Robust financial support has been indispensable to China-Africa economic cooperation. From 2000 to 2023, China provided 1,306 loans totaling USD 182.28 billion to 49 African governments and 7 regional organizations, with a record-high USD 28.82 billion in 2016 (see Figure 5). Loans primarily targeted energy and transport infrastructure, including the Addis Ababa–Djibouti Railway, Ethiopia's Gilgel Gibe III hydropower station, and related power transmission projects, effectively filling local investment gaps. Chinese banks have expanded their presence in Africa in step with Chinese enterprises. Industrial and Commercial Bank of China (ICBC) covers 20 African countries through its stake in Standard Bank Group, while Bank of China operates in 8 key African countries via branches and representative offices, establishing a "broad outreach plus deep engagement" service model. In addition, Chinese tech companies have contributed to the development of Africa's financial infrastructure. For instance, Huawei has led the development of mobile payment platforms such as Kenya's M-Pesa and Ethiopia's Telebirr. As of now, Telebirr, by integrating high-frequency scenarios such as government payments and fuel transactions, is driving Ethiopia's shift from cash-based to smart digital payment systems, reaching over half of the country's population.

**Figure 5 China's Loans to Africa by Amount and Sector, 2000–2023 (USD million)**




Source: China–Africa Loan Database, Global Development Policy Center, Boston University

**Challenges Facing Chinese Investment in Africa**

In the context of East Africa's regional development, Ethiopia and Djibouti have become exemplary cases of land-port economic integration under the China-Africa Belt and Road framework. Through landmark projects such as the Addis Ababa–Djibouti Railway, Djibouti Port, and the Eastern Industrial Park, a model of coordinated development has emerged, offering a "infrastructure–industry–logistics" linkage as a practical path for African industrialization. However, despite these initial successes, deeper structural challenges persist. These include a mismatch between front-loaded infrastructure investment and lagging industrial chain development, tensions between the need for localized operations and unstable policy environments, and conflicts between short-term project returns and long-term debt sustainability. These issues are particularly evident in contexts involving exchange rate volatility, foreign exchange controls, and financing constraints. Chinese enterprises are now facing a critical transition from "scale expansion" to "quality upgrading" in their Africa strategies.

**Institutional Risks and Governance Challenges in African Countries**

**1. Currency Sovereignty Risks and Foreign Exchange Controls**

Many African countries are under persistent pressure of currency depreciation, posing significant financial risks for enterprises holding local currency assets. In Ethiopia, for instance, exchange rate liberalization has triggered extreme volatility in the birr. Following foreign exchange reforms in July 2024, the birr depreciated by over 100 percent within a month. By March 2025, the official exchange rate had surpassed 1:130. Chinese companies widely face exchange rate risk, with those holding substantial birr-denominated assets or receivables suffering severe foreign exchange losses.

Structural contradictions exist between Africa's foreign exchange control regimes and the needs of industrialization. In the early stages of industrial chain development, firms rely heavily on imported intermediate goods such as steel billets and greige fabrics, generating rigid foreign exchange demand. After making substantial fixed-asset investments, Chinese firms often struggle to convert local currency revenues into the required foreign currency during operations. For example, a Chinese steel company in an industrial park, despite stable local sales and cash flow, faces extended and uncertain forex approval processes, which delay raw material procurement and result in chronic supply disruptions. Over half of its production capacity remains idle. This "forex shortage–production halt" cycle has become self-reinforcing, severely undermining business continuity.

**2. Unreliable Policy Commitments and Weak Governance Capacity**

A common issue in many African countries is the low credibility of policy commitments. Their institutional environments often feature a combination of frequent policy changes and weak administrative effectiveness. In Ethiopia, for example, post-conflict governance has suffered major dysfunction, leading to reduced policy execution efficiency and regulatory breakdowns. Chinese companies frequently encounter difficulties such as unexpected regulatory penalties despite compliance, significant delays between policy commitments and their implementation, and a lack of transparency in customs valuation mechanisms. These factors have greatly dampened investment confidence among Chinese enterprises operating in Africa.

**3. Debt Traps and Sustainability Challenges**

Debt sustainability poses a major constraint for many resource-poor African countries in their development paths. Ethiopia and Djibouti, for example, lack abundant high-quality natural resources and have pursued debt-driven growth models, making it difficult to replicate the capital accumulation seen in resource-rich nations. As domestic economic instability grows, these countries have witnessed rising debt levels and declining repayment capacities. The Addis Ababa–Djibouti Railway illustrates how a debt-intensive financing structure creates a strong dependency between project sustainability and industrial synergy. In reality, many Chinese-led infrastructure projects in Africa struggle to repay loans solely through their own operations and instead rely on subsequent industrial deployment to enhance the marginal output of infrastructure, thereby strengthening national economic capacity and improving debt repayment ability.

**Adaptability Challenges in the Financial Support System for China-Africa Cooperation**

**1. Persistently High Financing Costs**

African financial markets are characterized by high costs for both domestic and cross-border financing. On the domestic side, field research indicates that the benchmark interest rate for local currency loans at the Commercial Bank of Ethiopia remains at 15 percent, while annualized interest rates for microloans can exceed 300 percent, far above financing costs in China. On the cross-border front, Chinese enterprises undertaking construction projects in Africa face high interest rates on U.S. dollar loans, with growing exposure to dollar-denominated interest rate risks. The burden of dollar-based borrowing has become a major constraint on enterprise development. For example, the Djibouti International Free Trade Zone project is financed through loans linked to the Secured Overnight Financing Rate (SOFR), and amid the U.S. Federal Reserve's tightening cycle, the actual financing cost has risen to 8 percent. Under dual financing pressures, some enterprises have resorted to scaling down projects or reducing investment intensity, directly undermining economic efficiency.

**2.Structural Deficiencies in Financial Markets and Inadequate Services**

Africa's financial system is highly bank-centric, with severely underdeveloped capital markets and an urgent need for broader financial sector development. Chinese banks' service networks in Africa lag significantly behind those in other regions, and their financial products and services often fail to meet the financing needs of Africa's evolving industrial chains. Coupled with weak financial infrastructure, digital finance innovations face institutional barriers. For example, mobile payment systems led by companies like Huawei face serious limitations in advancing cross-border settlements. Domestic institutions have offered insufficient support, making it difficult to substantively contribute to the development of Africa's financial systems. More critically, restrictive foreign bank entry policies in countries like Ethiopia fundamentally constrain the market-based allocation of financial resources.

**Endogenous Bottlenecks in the Localization of Chinese Enterprises in Africa**

**1.Internal Competition Under Homogenized Business Models**

As the number of Chinese enterprises operating in Africa continues to grow, competitive pressure within industries has intensified. On the industrial front, many Chinese firms entering African markets possess mature domestic technologies, but internal technological barriers remain low, resulting in limited differentiation among firms. In traditional sectors such as textiles and steel, product homogenization is common, leading to intensified price competition and a shrinking profit margin across the industry. On the market side, although African countries offer demographic advantages, limited consumer purchasing power constrains effective market demand. Market growth has lagged behind the pace of Chinese business expansion. In the engineering contracting sector, the depletion of high-quality project resources has led to irrational competition among central state-owned enterprises, resulting in collective welfare loss.

**2.Information Asymmetry and Strategic Perception Gaps**

Africa remains a relatively underdeveloped frontier in the global expansion of Chinese enterprises. Compared with more mature markets like Southeast Asia, Africa's industrial collaboration networks are still in the early stages of the "flying geese" development model. In China, there exists a generational gap in the strategic recognition of Africa's industrial value. From the perspective of market actors, early entrants to Africa have been mainly central state-owned enterprises such as China Civil Engineering and China Communications Construction, whose operations are driven by political mandates rather than market dynamics. This divergence in strategic orientation creates dual layers of information barriers for Chinese firms: they lack access to localized market intelligence in host countries and receive limited institutional support from within China.

## Policy Recommendations

### At the Government Level

**1.Further Promote RMB Internationalization**

A circular RMB ecosystem should be established in Africa. The current foundation is already in place, with the Cross-Border Interbank Payment System (CIPS) having 7 direct participants and 56 indirect participants on the continent. However, challenges remain due to dollar dependence and limited RMB liquidity. It is necessary to develop a closed-loop mechanism encompassing "financing–procurement–settlement" in RMB. Future loans to Africa should prioritize RMB-denominated instruments, using the lower cost of RMB financing to restructure existing dollar debts. For countries with moderately strong currencies, bilateral central bank currency swap agreements can be used to enhance RMB supply.

**2.Strengthen Policy Coordination and Strategic Support**

Top-level design and coordinated planning between Chinese and African governments should be reinforced to address structural challenges through national-level policy cooperation. A regular government–enterprise dialogue platform should be established to incorporate enterprise concerns into the China-Africa cooperation agenda and relay the voices of Chinese businesses to African authorities. This would also help guide orderly competition within the industry. Leveraging existing cooperation zones, blockchain-enabled cross-border barter platforms should be developed to alleviate currency mismatch issues through digital governance tools while simultaneously promoting African goods in international markets.

**3.Improve the Debt Sustainability Framework**

A long-term "relief–development–reinvestment" mechanism should be established. In the short term, debt relief can be achieved through rescheduling and restructuring to ease repayment pressure on African countries. In the medium term, diversified repayment options should be explored, such as accepting mining rights or high-quality agricultural products as alternative repayment assets. In the long term, under the framework of the Forum on China-Africa Cooperation (FOCAC), infrastructure investment should be deeply integrated with industrial chain development to enhance African countries' competitiveness in global value chains.

### At the Financial Institution Level

**1.Innovate Multi-Tiered Exchange Rate Risk Management Tools**

Financial institutions should establish a tiered and differentiated service framework for managing exchange rate risks, offering products and services tailored to the African market. For large-scale infrastructure projects, Chinese banks may develop structured currency option portfolios to provide customized hedging solutions. For small and medium-sized enterprises (SMEs), standardized forward foreign exchange contracts can be introduced, leveraging bulk pricing mechanisms to reduce per-transaction costs. In parallel, digital exchange rate risk management platforms should be developed, integrating functions such as real-time rate monitoring, risk exposure alerts, and intelligent hedging strategy generation to enhance cross-border fund management efficiency.

**2.Strengthen the RMB Cross-Border Financing System**

The cross-border financing support system should be optimized to build a sustainable RMB financing network. Chinese financial institutions should expand their presence in Africa and improve efficient and secure RMB settlement infrastructure to better serve Chinese enterprises. The volume of RMB-denominated loans to Africa should be increased, while exploring collateralized financing models based on project revenue rights and accounts receivable, thereby reducing African countries' and enterprises' dependence on U.S. dollar funding.

**3.Improve Credit Insurance and Risk Mitigation Mechanisms**

A comprehensive credit protection framework should be developed, integrating risk assessment, insurance coverage, and financing coordination to strengthen risk safeguards for China-Africa economic activities. Leveraging the scale advantages of Sinosure, a full-cycle project risk assessment framework should be established to help enterprises identify and manage risks. Priority coverage should be given to Chinese participation in infrastructure and industrial capacity cooperation projects, with gradual expansion to include supporting firms in the industrial chain. This would promote a model of risk-sharing and benefit-sharing among Chinese and African enterprises.

### At the Enterprise Level

**1.Strengthen Localization of Operational Systems**

Build a fully localized industrial ecosystem. Rely on industrial parks and free trade zones to promote cluster-based development and enhance regional supply capacity through vertical integration and increased local procurement of raw materials. In response to foreign exchange controls, explore local resource development models and establish cross-border barter mechanisms to absorb excess local currency, integrating high-quality commodities such as coffee and salt into supply chains to accelerate capital turnover. Strengthen local talent development by fostering university–enterprise partnerships and technology transfer, enhancing workforce skills, and gradually localizing management teams to create sustainable competitive advantages.

**2.Enhance Risk Prevention and Management Capabilities**

Strengthen foreign exchange risk management mechanisms. Large enterprises should establish dedicated FX management departments and develop multi-layered hedging structures that incorporate spot position monitoring, forward contract locking, and derivative instrument portfolios. Small and medium-sized enterprises should adopt digital management systems to monitor real-time exchange rate fluctuations and apply natural hedging strategies to align local and foreign currency cash flows, reducing net risk exposure.

**3.Advance Differentiated Industrial Chain Upgrading**

Focus on improving product quality and increasing value-added output to avoid price wars and internal competition. Chinese chambers of commerce should lead the establishment of industry self-regulation mechanisms, including technical standards and fair pricing guidelines, to reduce homogenized competition. Enterprises should also deepen their presence in African markets by prioritizing investments in mid- to high-end manufacturing and gradually extending into higher-value segments such as R&D, design, and branding services, thereby enhancing core competitiveness and securing long-term growth objectives.

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