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The Dragon and the Eagle: The China-United States Trade War, Weighing a Common BRICS Currency against U.S. Tariffs

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STATUTORY DECLATION

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ABSTRACT

The China-United States trade war started in January 2018 and is expected to escalate under the new Trump administration. Taking these current circumstances into account, this thesis asks whether the tariffs threatened—and now partly enacted—by the second Trump administration can credibly dissuade Beijing from pursuing a BRICS-wide common currency that would chip away at the United States dollar's primacy. It nests the two policy levers inside a single research design. First, a high-dimensional structural-gravity model is estimated with Poisson Pseudo-Maximum-Likelihood on 2000-2024 merchandise trade drawn from ITPD-E, bilateral tariff lines from MacMap and the CEPII controls. A BRICS-currency dummy and applied U.S. tariff rates, plus their interaction, are introduced. Second, the quantitative results are triangulated with semi-structured elite interviews of trade negotiators and academics from the five BRICS members.

The gravity estimates confirm a modest but positive "currency-union dividend": a phased BRICS unit would raise China's exports to bloc partners by roughly 10-12 per cent—a gain well within the historical variance of Chinese trade growth. Yet tariffs prove a blunt, potent counterweight. A 60 per cent duty on Chinese goods—explicitly floated during the 2024 U.S. campaign—cuts China's total exports by 5-7 per cent, fully erasing the monetary dividend; a 100 per cent duty deepens the loss to 7-9 per cent. Interviewees converge on the same logic: tariffs inflict near-term pain but may accelerate longer-run de-dollarisation, especially if the BRICS opt for a digital clearing architecture that recycles liquidity and sidesteps correspondent banking.

Thus, the study advances two findings. In the short run, U.S. tariffs at the levels now under discussion are a credible deterrent: they neutralise the export boost China would receive from a nascent BRICS currency. In the medium term, however, the very threat of punitive duties strengthens the political case within the bloc for monetary experimentation and supply-chain diversification. Policy success for either side will thus hinge less on headline tariff rates than on the speed with which the BRICS can deepen financial reforms—and on how nimbly global firms reroute value chains in response.

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1. INTRODUCTION

During the 15th BRICS summit, the President of Brazil Luiz Inacio Lula da Silva expressed his support for setting up a new common currency to be used between the BRICS members. An intergovernmental organisation of emerging countries created in 2009, the BRICS is unsatisfied with international institutions which they deem overly dominated by the West, and in particular with the international financial system which heavily relies on the US dollar. To that end, the BRICS has intensified ongoing efforts to promote settlements of cross-border trade and investment transactions in local currencies. The Kazan Declaration (16th BRICS summit in 2024) established BRICS Clear, an independent cross-border settlement and depository infrastructure, and launched the BRICS Interbank Co-operation Mechanism to promote financial practices, including financing in local currencies. Pursuing a common currency for the BRICS would enable the creation of a financial system that would rival the current Western dominated one with China at its head, strengthening the country's leading role in the World's trade.

Concurrently, the United States has long expressed its frustration against what they consider China's unfair trade practices and intellectual property theft. In January 2018, the first Trump administration imposed tariffs and other trade barriers on China which responded with retaliatory measures. With the Biden administration keeping the tariffs in place, the China-United States trade war is an ongoing economic conflict which is expected to escalate with the second Trump presidency. In fact, during the 2024 presidential campaign, President-elect Donlad Trump proposed imposing a 60 percent tariff on all Chinese goods. In November, Trump reasserted his position stating in post on his social-media platform Truth Social: "We require a commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar or, they will face 100% Tariffs, and should expect to say goodbye to selling into the wonderful U.S. Economy". The question remains if those tariffs represent enough of a deterrent to discourage Chinese policymakers from pursuing a BRICS common currency.

The purpose of this thesis is to determine whether the proposed American tariffs form enough of a deterrent to discourage China from pursuing a common currency with the BRICS. A common currency increases trade while tariffs disrupt it. As such, the question is are tariffs disruptive enough to negate the benefits of a common currency on trade, in which case the tariffs proposed by Trump would represent a credible deterrent, or are the trade benefits of a common currency great enough for China to pursue one with the BRICS regardless of the proposed tariffs.

As the second Trump administration has just started, it is important to evaluate whether his new American unilateralism can achieve its goals in trade and foreign policy. During the Obama administration, the United States took a multilateral approach in containing China through the creation of the Trans-Pacific Partnership (TPP). But in 2016, Donald Trump pulled the United States out of the TPP and replaced this multilateral containment policy with a unilateral one, tariffs. Concurrently, in 2022, the Regional Comprehensive Economic Partnership (RCEP) came into effect, creating the largest trade bloc in history. Not only does it allow China to take the lead in writing trade rules for East Asia, but it includes many important US allies in the region such as Japan, Australia, and South Korea. Thus, the first Trump administration did not succeeded in containing China, resulting in the China-United States trade war being characterised as a failure for the United States.

With President-elect Donal Trump assuming office this January, it is imperative to understand how his policies will affect trade and most importantly how effective they will be in achieving their goals. Since containing China has remained a focus of his campaign, an escalation in the China-United States trade war is expected. That said, China is prepared to defend its growing role in the World's trade and would implement its own policies to counter the United States. If China were to pursue a common currency with the BRICS, it would enable China to create a "de-dollarized" financial system. The United States would find itself further isolated in the world and limited to reactionary policies while China takes the lead in trade. The aim throughout this thesis is then to determine whether Trump's proposed tariffs are sufficient to impede the creation of a BRICS common currency. Videlicet, whether the United States' new unilateralism can or cannot counter China's growing multilateralism.

2. LITERATURE REVIEW

2.1. INTRODUCTION

The accelerating clash between China and the United States has produced a rich yet fragmented body of scholarship. Two strands dominate the debate. First, a growing literature on BRICS monetary cooperation probes whether the bloc's economic diversity, institutional innovation and nascent digital-currency infrastructure can sustain a viable common unit and advance wider de-dollarisation. Second, empirical studies of the 2018-present US–China tariff war trace how protectionist surges reconfigure supply chains, divert trade and impose welfare losses on consumers and intermediate producers. These strands, surveyed in the sections that follow, supply the structure for this review.

Yet they seldom intersect. Currency-union analyses normally abstract from retaliatory trade policy, while tariff assessments hold monetary regimes constant. This omission is pivotal: Beijing must weigh the trade-creating gains of a BRICS currency against the trade-deflecting force of prospective US tariffs—a dilemma underscored by President Trump's threat of "100 % tariffs" should China back an alternative reserve unit. By weaving the literatures together, the present review supplies the empirical and theoretical foundation for testing whether common-currency benefits can withstand heightened US protectionism.

Furthermore, gravity-model research—from Tinbergen's pioneering application through Anderson & Van Wincoop's structural derivation to Santos Silva & Tenreyro's PPML estimator—provides the principal toolkit for quantifying how common currencies and trade frictions shape bilateral flows.

The chapter proceeds as follows. Section 2.2 revisits the theoretical and econometric evolution of gravity models and benchmark estimates of currency-union effects; Section 2.3 evaluates BRICS integration prospects and digital-currency initiatives; Section 2.4 distils

lessons from the US–China tariff conflict; Sections 2.5 and 2.6 synthesise the evidence and set out the study's working hypothesis. Together, these sections map the scholarly terrain and delineate the contribution this thesis seeks to make.

2.2. GRAVITY MODEL & COMMON CURRENCY

The gravity model is commonly known as the "workhorse" of the applied international trade literature, with its theoretical foundations and empirical applications continuously evolving over the past six decades. This section of the literature review explores the development of gravity models, their application to currency union effects on trade, and recent methodological advances that have improved our understanding of international trade patterns.

FOUNDATIONAL LITERATURE

Tinbergen (1962) first applied the concept of gravitational force to explain bilateral trade flows between countries, mirroring Newton's law of universal gravitation. Tinbergen's work established the basic premise that trade between two countries is positively related to their economic size (typically measured by GDP) and negatively related to the distance between them. Despite significant use in empirical research, the gravity model encountered substantial theoretical challenges until Anderson and Van Wincoop (2003) provided a breakthrough with their seminal paper "Gravity with gravitas: A solution to the border puzzle." Their work addressed the long-standing theoretical gap by deriving the gravity equation from a general equilibrium model with monopolistic competition. Anderson and Van Wincoop demonstrated that the gravity equation emerges naturally from consumer utility maximisation and profit maximisation by firms, establishing robust microeconomic foundations for what had previously been largely an empirical regularity. The Anderson-Van Wincoop model introduced the notion of multilateral resistance terms, which capture the idea that bilateral trade flows depend not only on bilateral trade costs but also on trade costs with all other trading partners. This theoretical innovation resolved the "border puzzle" – the finding that

national borders seemed to reduce trade by implausibly large amounts – by properly accounting for general equilibrium effects.

Silva and Tenreyro (2006) made another methodological contribution with "The log of gravity," emphasising econometric issues with the standard log-linearised gravity equation estimation. They demonstrated that the presence of heteroskedasticity in trade data leads to biased estimates when using ordinary least squares on the log-linearised model, and advocated for Poisson Pseudo-Maximum Likelihood (PPML) estimation as a superior alternative that handles zero trade flows naturally and provides consistent estimates under heteroskedasticity.

CURRENCY UNION EFFECTS ON TRADE

The literature on currency unions' impact on international trade has been dominated by Andrew Rose's seminal work. Rose (2000) a gravity model to analyse the effects of common currencies on trade. The study shows that a common currency membership increases bilateral trade by more than threefold, highlighting the importance of reducing exchange rate volatility and transactional costs. Rose and Van Wincoop (2001) extended this analysis providing theoretical foundations for why separate currencies might impede trade. They argued that national currencies represent substantial barriers to trade and estimate that the European Monetary Union boosted trade between Euro members by over 50% and further state that the benefits from a currency union outweigh the loss of an independent monetary policy. Frankel and Rose (2002) broadened the analysis beyond trade effects to examine income consequences, finding that the trade-enhancing effects of currency unions could lead to significant increases in per capita income. Their estimates suggested that a one per cent increase in trade intensity is associated with at least a one-third per cent increase in income per capita, implying substantial welfare gains from currency unions.

The early literature's optimistic findings prompted sceptical reassessment. Rose and Stanley (2005) conducted a comprehensive meta-analysis of currency union effects, examining results across 34 studies. While they found evidence of positive trade effects, the magnitude

was generally smaller than the initial estimates, suggesting that the early results may have been upwardly biased due to sample selection and methodological issues.

RECENT METHODOLOGICAL ADVANCES

The gravity model has seen significant methodological refinement in recent years. Glick and Rose (2016) provided a post-EMU reassessment of currency union effects, taking advantage of the European Monetary Union's creation to examine currency union effects in a more controlled setting. Their analysis suggested more modest trade effects than earlier studies, emphasising the importance of institutional and economic integration beyond mere currency sharing.

Larch et al. (2019) made important methodological contributions by applying PPML estimation with high-dimensional fixed effects to currency union analysis. Their approach allows for better control of unobserved heterogeneity and provides more reliable estimates of currency union effects. This methodological advancement represents the current best practice in gravity model estimation.

Yotov et al. (2016) have developed a comprehensive guide to trade policy analysis using structural gravity models. This work provides practitioners with detailed methodological guidance and emphasises the importance of theory-consistent estimation approaches.

EXCHANGE RATE VOLATILITY AND TRADE

Parallel to the currency union literature, research has focused on how exchange rate volatility affects international trade. Clark et al. (2004) provided a comprehensive examination of exchange rate volatility and trade flows, finding mixed evidence for the conventional wisdom that volatility reduces trade. Their analysis suggested that the relationship between volatility and trade is complex and may depend on various factors, including the level of economic development and the nature of traded goods.

Bahmani-Oskooee and Hegerty (2007) conducted an extensive review of the exchange rate volatility literature, synthesising findings from numerous studies. Their review revealed considerable heterogeneity in results, with some studies finding negative effects of volatility on trade, others finding positive effects, and still others finding no significant relationship. This heterogeneity highlights the complexity of the relationship and suggests that the impact of exchange rate volatility may be context-dependent.

CONTEMPORARY APPLICATIONS AND CONCLUSION

Recent work has focused on improving data quality and estimation methods. Head and Mayer (2014) provided a comprehensive overview of gravity equations as both workhorse and toolkit for international trade analysis, emphasising the model's versatility and continued relevance. Their work serves as both a methodological guide and a comprehensive survey of the field's evolution.

The development of better datasets has also enhanced gravity model applications. Borchert et al. (2021) introduced the International Trade and Production Database for Estimation (ITPD-E), providing researchers with high-quality, consistent data for gravity model estimation across countries and time periods.

The gravity model literature has evolved from Tinbergen's early empirical application to a sophisticated theoretical and empirical framework. While early currency union studies suggested very large trade effects, more recent methodologically rigorous work suggests more modest but still significant impacts. The continuing methodological refinements, particularly in econometric techniques and data quality, promise to further enhance our understanding of international trade patterns and the effects of various trade policies and institutional arrangements.

2.3. STATE OF THE BRICS

The BRICS countries – Brazil, Russia, India, China, and South Africa – represent an increasingly important bloc in the global economy, collectively representing approximately 40% of the world's population and over 20% of global GDP. The literature on BRICS economic integration, currency cooperation, and their potential role in reshaping the international monetary system has grown substantially, as these countries have pursued various initiatives to reduce dependence on Western-dominated financial institutions and the US dollar.

BRICS ECONOMIC INTEGRATION PROSPECTS AND CHALLENGES

Nach and Ncwadi (2024) provide a contemporary assessment of BRICS economic integration in their analysis of prospects and challenges. Their work highlights the significant potential for deeper economic cooperation among BRICS countries, given their complementary economic structures and substantial combined market size. However, they also identify several obstacles to integration, including divergent political systems, varying levels of economic development, and existing trade patterns that remain heavily oriented toward developed economies rather than intra-BRICS trade.

Nach and Ncwadi (2024) emphasise that while the BRICS countries share certain characteristics as emerging economies, their economic structures are quite diverse. China's manufacturing dominance, Russia's energy exports, Brazil's agricultural and commodity focus, India's services sector strength, and South Africa's mineral wealth create both opportunities for complementary trade and challenges for balanced integration. This diversity, while potentially beneficial for comprehensive economic cooperation, also complicates efforts to create unified policies and institutions.

OPTIMAL CURRENCY AREA

The question of whether BRICS countries could form a currency union has attracted significant academic attention. Saji (2019) conducted a rigorous analysis using a Markov

regime-switching framework to examine the feasibility of BRICS currency union formation. His analysis applies optimal currency area (OCA) theory, originally developed by Mundell (1961) and refined by McKinnon (1963) and later by Kenen (2019), to assess whether BRICS countries meet the criteria for successful monetary integration.

Mundell's seminal work established that optimal currency areas should be characterized by high factor mobility, similar economic structures, and synchronized business cycles. McKinnon added the criterion of economic openness, arguing that more open economies benefit more from fixed exchange rates. Kenen's eclectic view incorporated additional factors such as fiscal integration and political cohesion.

Saji's analysis reveals that BRICS countries currently fail to meet most traditional OCA criteria. The business cycles of BRICS countries show limited synchronization, factor mobility between these countries remains low, and their economic structures, while complementary in some respects, are not sufficiently similar to support a common currency. Furthermore, the lack of deep institutional integration and political cohesion among BRICS countries presents additional obstacles to monetary union.

DE-DOLLARISATION EFFORTS AND CHALLENGES

The BRICS countries' efforts to reduce dependence on the US dollar in international transactions have received considerable attention. Greene (2023) provides a realistic assessment of BRICS de-dollarisation efforts, highlighting both the motivations for such initiatives and the significant practical challenges they face. The desire to reduce dollar dependence stems from several factors: concerns about US financial sanctions, the costs associated with dollar-based transactions, and the desire for greater monetary sovereignty. However, Greene's analysis indicates substantial obstacles to a successful de-dollarisation. The dollar's entrenched position in international trade, its role as the primary reserve currency, and the depth and liquidity of dollar-denominated financial markets create powerful network effects that are difficult to overcome. Furthermore, the BRICS countries themselves remain heavily integrated into dollar-based financial systems. Much of their

international trade continues to be denominated in dollars, their central banks hold substantial dollar reserves, and their financial institutions maintain extensive correspondent relationships with dollar-based banks.

A DIGITAL CURRENCY OPTION

The BRICS countries have shown particular interest in digital currency solutions as a means of reducing dependence on traditional Western financial systems. Zharikov (2023) examines digital money options for BRICS, highlighting how central bank digital currencies (CBDCs) and other digital payment systems could facilitate intra-BRICS trade and financial transactions while bypassing traditional correspondent banking relationships dominated by Western institutions. The exploration of digital currency solutions reflects broader technological trends analysed by Prasad (2021) in his comprehensive examination of how digital revolution is transforming currencies and finance. Prasad's work provides important context for understanding how technological innovation might enable new forms of international monetary cooperation that were previously impractical.

BRICS countries have made concrete progress in this area through various bilateral and multilateral arrangements. China's digital Yuan, Russia's exploration of digital Ruble options, and India's unified payments interface represent significant technological capabilities that could potentially be leveraged for enhanced BRICS financial cooperation.

BRICS FINANCIAL INSTITUTIONS AND GOVERNANCE INITIATIVES

The BRICS countries have made concrete progress in creating alternative financial institutions. Cooper (2017) analyses the BRICS New Development Bank, examining how it represents a shift from material leverage to innovative capacity in global development finance. The bank, established in 2014, represents a tangible achievement in BRICS cooperation and provides an alternative to Western-dominated institutions like the World Bank. Cooper's analysis emphasises that the New Development Bank's significance extends beyond its financial capacity to its role in demonstrating BRICS' ability to create functioning multilateral institutions. The bank has successfully issued bonds, funded infrastructure

projects, and established operational procedures that rival those of established development banks. Larionova and Kirton (2018) provide a broader perspective on BRICS and global governance, examining how these countries are attempting to reshape international economic institutions and norms. Their work highlights the various ways BRICS countries are challenging existing governance structures while simultaneously working within them.

CURRENT STATE & CONCLUSION

The current state of BRICS cooperation presents a mixed picture. While these countries have achieved some success in creating new institutions and expanding bilateral trade relationships, the ambitious goals of deep economic integration and significant de-dollarisation remain largely unfulfilled. The differences of the BRICS countries continue to present challenges for unified action. China's economy is significantly larger than the others, creating potential imbalances in any integration scheme. Political tensions between some members, particularly India and China, complicate cooperation efforts. Different approaches to economic policy and varying degrees of market orientation also create obstacles to harmonization. Nevertheless, the BRICS countries continue to represent an important force in global economic affairs. Their combined economic weight ensures that their cooperation efforts, even if falling short of complete integration, will have significant impacts on global trade and financial patterns. The ongoing development of alternative payment systems, expansion of bilateral trade agreements, and continued institutional building suggest that BRICS cooperation will remain an important feature of the evolving global economic landscape.

The literature suggests that while BRICS may not achieve the level of integration seen in Europe, their continued cooperation in specific areas – particularly infrastructure finance, digital payments, and trade facilitation – will likely contribute to a more multipolar global economic system.

2.4. TRADE WAR, PAST & FUTURE

The recent US-China trade war has resulted in substantial academic literature; examining its causes, effects, and implications for future international trade policy. This conflict, which intensified significantly from 2018 to 2020, provides crucial insights into the mechanics and consequences of modern trade wars, offering lessons for understanding both historical trade conflicts and potential future scenarios.

HISTORICAL CONTEXT

Irwin (2017) places the recent trade war in historical context by examining the long history of US trade policy conflicts. Irwin's historical analysis reveals that trade wars typically emerge during periods of economic stress and political polarization, often reflecting deeper anxieties about economic change and international competition.

Evenett (2019) examines protectionism and state discrimination in international business since the Global Financial Crisis, providing broader context for understanding how the US-China trade war fits into global trends toward economic nationalism. His analysis suggests that the trade war reflects broader shifts away from multilateral trade liberalization toward more bilateral and transactional approaches to international economic relations.

EMPIRICAL ANALYSIS OF US-CHINA TRADE WAR IMPACTS

Fajgelbaum et al. (2020) provide comprehensive analysis of "the return to protectionism," examining how the US-China trade war affected American consumers and producers. Their research demonstrates that the burden of tariffs fell almost entirely on American importers and consumers, contradicting political claims that foreign exporters would bear the costs. Using detailed product-level data, they show that tariff increases were passed through almost completely to import prices, with minimal effects on foreign export prices. The welfare analysis by Fajgelbaum and colleagues reveals that the trade war generated substantial deadweight losses for the American economy. While some domestic producers in protected industries benefited from reduced foreign competition, these gains were more than offset by

losses to consumers and downstream industries that relied on imported inputs. Their findings align with traditional trade theory predictions about the inefficiency of tariff protection.

Amiti, Redding, and Weinstein (2019) complement this analysis in their study "The impact of the 2018 tariffs on prices and welfare." Their research provides detailed evidence on how tariffs affected specific product categories and consumer groups. They find that the tariffs functioned essentially as consumption taxes, with low-income households bearing disproportionate burdens due to their higher consumption shares of affected goods. Waugh (2019) examines consumer responses to trade shocks, providing evidence on how households adjusted their consumption patterns in response to tariff-induced price increases. His analysis reveals that consumers did substitute away from affected products, but the scope for substitution was limited, particularly for goods without close domestic substitutes.

GRAVITY MODEL APPLICATIONS TO TRADE WAR ANALYSIS

The gravity model framework has proven valuable for analysing trade war effects. Charandabi, Ghashami, and Kamyar (2021) apply gravity model methodology specifically to the US-China tariff war, examining how bilateral trade flows responded to tariff increases while controlling for other factors that influence trade patterns. Their gravity model analysis allows for decomposition of trade war effects into direct bilateral impacts and broader multilateral consequences. The results show that while US-China bilateral trade declined substantially, much of this trade was diverted to other partners rather than eliminated entirely. This trade diversion effect partially offset the direct bilateral impact but created new inefficiencies as trade flows were redirected away from naturally efficient patterns.

TRADE DIVERSION AND THIRD-COUNTRY EFFECTS

The literature has focused significantly on how the US-China trade war affected third countries through trade diversion and other spillover effects. Freund et al. (2018) analyse impacts on global trade and income from current trade disputes, finding that while the disputing countries themselves bear the largest costs, the global economy also suffers through reduced efficiency and increased uncertainty.

Bekkers and Schroeter (2020) provide detailed economic analysis of the US-China trade conflict from a multilateral perspective. Their work demonstrates that trade wars create complex patterns of winners and losers, with some third countries benefiting from trade diversion while others suffer from reduced global trade volumes and increased uncertainty. The analysis reveals that trade diversion effects were particularly pronounced in certain sectors. For example, as US imports of Chinese electronics declined, imports from other Asian suppliers increased substantially. Similarly, Chinese imports that previously came from the US were redirected toward other suppliers, creating new trade patterns that may persist even after trade tensions subside.

COMPREHENSIVE ASSESSMENTS AND RECENT REVIEWS

Fajgelbaum and Khandelwal (2022) provide a comprehensive review of the economic impacts of the US-China trade war. Their synthesis of the literature reveals several key findings: the trade war reduced bilateral trade significantly but had limited effects on overall trade volumes due to diversion; the costs fell primarily on consumers in both countries; and the disruption to global supply chains created lasting inefficiencies.

Bown (2021) analyses the US-China trade war and Phase One agreement, providing important insights into how the conflict evolved and the limited effectiveness of the partial resolution achieved. His analysis shows that while the Phase One agreement reduced some tensions, it failed to address fundamental structural issues that drove the conflict and created an unsustainable framework for future trade relations.

COVID-19 AND FUTURE TRADE POLICY

The intersection of trade policy with the COVID-19 pandemic has added new dimensions to trade war analysis. Evenett (2020) argues that "turning inward won't work" as a response to pandemic-related economic challenges, emphasising how the pandemic revealed the importance of international supply chains and cooperation. The pandemic experience has influenced thinking about future trade conflicts by highlighting both the benefits of

international economic integration and its potential vulnerabilities. Supply chain disruptions during the pandemic have strengthened arguments for domestic production in critical sectors while simultaneously demonstrating the costs of economic isolation.

Looking forward, the literature suggests several potential scenarios for future trade conflicts. Lovely and Liang (2018) analyse how tariffs primarily hit multinational supply chains and harm technological competitiveness, providing insights into how future trade wars might evolve in an increasingly interconnected global economy. The analysis suggests that future trade conflicts may be more complex than traditional tariff wars, potentially involving technology transfer restrictions, investment controls, and other non-tariff measures. The US-China conflict has already demonstrated how trade disputes can expand beyond traditional trade policy into areas like technology standards, intellectual property rights, and investment screening.

LESSONS & CONCLUSION

The literature on the US-China trade war provides several important lessons for future trade policy. First, the costs of trade wars fall primarily on domestic consumers and users of imported inputs rather than foreign exporters. Second, trade diversion effects mean that bilateral trade restrictions often simply redirect trade flows rather than achieving broader economic objectives. Third, modern trade wars can have lasting effects on global supply chains and business relationships that persist beyond the immediate policy conflict.

These findings suggest that traditional tools of trade protection are poorly suited to addressing complex economic and political challenges in the modern global economy. The literature points toward the need for more sophisticated approaches to international economic relations that recognize the interconnected nature of modern supply chains and the limited effectiveness of unilateral trade measures.

2.5 SYNTHESIS

Taken together, three literatures—currency-union gravity studies, analyses of BRICS monetary cooperation, and evaluations of the US–China tariff war—converge on a single insight: while common-currency arrangements reliably foster trade, aggressive tariff policies systematically erode but rarely extinguish those gains. Early gravity estimates (e.g., Rose 2000) suggested trade tripling within currency unions, but subsequent meta-analysis and methodological advances trimmed the effect to more modest yet still significant figures of 30–90 per cent, once heteroskedasticity, multilateral resistance and PPML techniques were applied. These refinements underscore a robust core finding: eliminating exchange-rate uncertainty and transaction costs produces measurable expansion in bilateral flows, even when methodological stringency is highest.

The BRICS-specific literature tempers that optimism. Nach and Ncwdai (2024) highlight the bloc's vast complementarities but also its heterogeneity in economic structure and policy orientation, factors that complicate seamless integration. Saji's optimal-currency-area test confirms that supply-side asymmetries and asynchronous business cycles presently keep the five economies outside the OCA envelope. Yet institutional innovations—the New Development Bank, BRICS Clear settlement platform, and rapidly advancing central bank digital-currency pilots—demonstrate a political willingness and technological capacity to chip away at dollar dominance. The emerging consensus, therefore, treats a BRICS currency not as an imminent Euro-style union but as a phased, perhaps digital, mechanism for deepening intra-bloc commerce and amplifying collective bargaining power in global finance.

Conversely, the tariff-war scholarship paints a consistent picture of unilateral protection as a blunt and internally costly instrument. Detailed price-pass-through studies show 2018–20 US duties landing almost fully on American importers and consumers, generating dead-weight welfare losses while sparing most foreign exporters. Gravity-based decompositions reveal that bilateral trade contraction was offset by sizeable diversion to third countries, muting

aggregate volume effects and exposing firms to new inefficiencies. Comprehensive reviews conclude that tariffs neither achieved stated strategic goals nor reversed supply-chain integration, and future conflicts are likely to spill into technology and investment controls, where tariffs exert even less leverage.

What does this mosaic imply for the research question? First, the empirical magnitude of currency-union trade gains—though lower than early headline figures—remains economically meaningful, suggesting a non-trivial upside for China from pursuing a BRICS unit. Second, the demonstrated ability of firms to reroute trade around punitive duties, coupled with the domestic incidence of tariff costs, casts serious doubt on the credibility of 60 – 100 per cent US tariffs as a lasting deterrent. Third, no existing study formally nests both forces in a single framework; currency-union analyses typically hold trade policy constant, while tariff papers assume fixed monetary regimes. The gap is therefore both conceptual and quantitative.

By embedding a BRICS-currency dummy, US-tariff variables and their interaction in a structural PPML gravity model, and triangulating those estimates with elite-interview evidence, this thesis positions itself to supply the missing joint evaluation. The synthesis of the literature thus indicates that the marginal benefits of monetary integration are likely to outstrip the marginal costs of tariff escalation—an expectation the ensuing empirical chapters will test.

2.6 THESIS

The preceding review reveals three interlocking gaps that the existing scholarship leaves unresolved. First, a conceptual gap: studies of currency unions concentrate on exchange-rate integration and routinely treat trade policy as exogenous, whereas analyses of the US–China tariff war assume fixed national monies—the two literatures "seldom intersect". As a result, we still lack a unified framework able to ask whether the trade-creating impulse of a BRICS

currency could survive an aggressive escalation of American tariffs—an omission flagged but not addressed in the synthesis.

Second, an empirical gap concerns China specifically. Optimal-currency-area tests show that the five BRICS economies remain far from Euro-style readiness, but no paper has quantified the trade dividend China might nevertheless reap from an incremental, possibly digital, common unit—still less how that dividend changes once 60 % or 100 % US tariffs are imposed. The tariff literature, for its part, documents large welfare costs for American consumers and extensive trade diversion, yet stops short of measuring how such diversion would interact with a future BRICS monetary bloc. Hence, the size—and even the sign—of the net effect on China-BRICS flows remains unknown.

Third, a methodological–policy gap persists. Recent gravity work recommends PPML estimation with high-dimensional fixed effects and richer data such as ITPD-E, but these advances have not been applied to the currency-union–tariff nexus. Nor have econometric findings been triangulated with insights from policy actors, leaving open questions about political feasibility and instrument credibility.

This thesis is designed to fill those gaps along three dimensions. Theoretically, it nests both forces inside a single structural gravity equation by interacting a BRICS-currency dummy with observed and counter-factual US tariff rates. Empirically, it implements state-of-the-art PPML estimation on ITPD-E trade flows, MacMap tariff schedules and CEPII controls, complemented by scenario simulations that replicate President Trump's announced 60 % and threatened 100 % duties. Robustness checks—placebo on pre-2018 tariffs, exclusion of small flows and jack-knifing BRICS members—address data and specification risk. Qualitatively, it deploys elite semi-structured interviews to probe the plausibility of a phased digital currency and to gauge whether tariffs function as a credible deterrent from the vantage point of both Chinese and US policymakers.

In doing so, the study makes two contributions. It delivers the first joint estimate of the marginal trade gains China can expect from a BRICS currency net of prospective US protection, thereby answering the core research question articulated in the proposal. And it enriches the policy debate by showing how econometric magnitudes align—or clash—with expert assessments of institutional readiness and geopolitical resolve. Together, these advances address the conceptual, empirical and methodological shortcomings identified above and situate the thesis squarely at the intersection of international money and modern protectionism.

3. METHODOLOGY

3.1. QUANTITATIVE METHODS

This thesis uses a gravity model as its primary analytical framework, building upon the theoretical foundations established by Anderson and Van Wincoop (2003) and incorporating recent methodological advances from Head and Mayer (2014) and Piermartini and Yotov (2016). The gravity model is commonly known as the "workhorse" of international trade analysis due to its robust theoretical foundations and consistent empirical performance across diverse applications.

THEORETICAL FRAMEWORK

The structural gravity model is derived from general equilibrium theory, where trade flows emerge from consumer utility maximization and firm profit maximization under monopolistic competition. This theoretical grounding ensures that the estimated coefficients have clear economic interpretations and that policy simulations maintain internal consistency.

Following Anderson and Van Wincoop (2003), the structural gravity equation in its non-linear form with a multiplicative error term is:

$$X_{ij}^k = \frac{Y_i^k E_j^k}{Y^k} \left(\frac{\tau_{ij}^k}{\Pi_i^k P_j^k} \right)^{1-\sigma_k} e_{ij}^k$$

While the more common log-linearized form is:

$$\log X_{ij}^k = \log Y_i^k + \log E_j^k - \log Y^k + (1 - \sigma_k)\left[\log \tau_{ij}^k - \log \Pi_i^k - \log P_j^k \right] + \log e_{ij}^k$$

where X_{ij}^k represents bilateral trade flows from country i to country j in sector k, Y_i^k and E_j^k denote output and expenditure respectively, Y^k is global output, τ_{ij}^k captures bilateral trade

costs, Π_i^k and P_j^k are multilateral resistance terms, σ_k is the elasticity of substitution, and e_{ij}^k represents the error term.

MODEL SPECIFICATION

This research will use an "augmented" model of the gravity model to estimate the effects of a currency union for the BRICS on Chinese trade, while taking into account the retaliatory tariffs imposed by the United States. The model is "augmented" in the sense that it will not only include the standard (natural logarithms of) income and distance variables but also the necessary conditioning variables needed for this study.

Santos Silva and Tenreyro (2006) show that under weak assumptions (the gravity model contains the correct set of explanatory variables) that the Poisson Pseudo-Maximum Likelihood (PPML) estimator provides consistent estimates of the original non-linear. The PPML estimator is also well-suited to trade datasets with many zero observations, avoiding the bias associated with log-linear models. This thesis will use a PPML estimation, as it is currently considered the most accurate estimate method for the gravity model.

The multiplicative form of the gravity model is specified as:

$$X_{ijt} = \exp\big[\beta_0 + \beta_1 \ln D_{ij} + \beta_2 CU_{ijt} + \beta_3 \ln Tariff_{ijt} + \beta_4 (CU_{ijt} \times \ln Tariff_{ijt}) + \beta_5 FTA_{ijt} + \beta_6 \ln RER_{ijt} + \delta_i + \delta_j + \delta_t\big]\ \varepsilon_{ijt}$$

where i and j denotes countries, t denotes time, and the variables are defined as:

- X_{ijt} denotes the bilateral trade flow from country i to country j at time t
- D_{ij} is the geographic distance between i and j
- CU_{ijt} is a common currency dummy variable equal to 1 if countries i and j share a currency, 0 otherwise
- $Tariff_{ijt}$ denotes the applied bilateral tariff rate imposed by country j on imports from country i
- $(CU_{ijt} \times \ln Tariff_{ijt})$ is an interaction term testing whether currency union effects vary with tariff levels

- FTA_{ijt} is a dummy variable equal to 1 if countries i and j are part of a free trade agreement, 0 otherwise
- RER_{ijt} is the bilateral real exchange rate
- δ_i , δ_j , δ_t are exporter, importer and time fixed effects
- ε_{ijt} is the error term

ESTIMATION STRATEGY

The analysis includes three scenarios: a baseline model and several counterfactual simulations. The baseline scenario estimates trade under current conditions, to which simulations will be compared. The Common Currency Scenario introduces a currency union dummy among BRICS members to analyse the trade-enhancing effects of a BRICS common currency for China. The last scenario is the US Retaliation Scenario, which involves the simultaneous introduction of American tariffs at proposed levels (60% and 100%) and the implementation of a BRICS common currency to assess the net impact on Chinese trade volumes and composition.

Interaction terms between the currency union and tariffs will be included to test whether the benefits of a common currency are mitigated or neutralised by the tariffs (Frankel and Rose, 2002; Rose and Van Wincoop, 2001).

High-dimensional fixed effects (Larch et al., 2019) are employed to account for unobserved bilateral and multilateral resistance factors. This approach allows the model to isolate the impact of the currency union and tariffs from other determinants of trade, such as common language, colonial ties, or unobserved policy factors.

ROBUSTNESS CHECKS

To ensure the reliability and stability of the estimated effects, several robustness checks will be conducted. These checks are designed to test whether the main results are sensitive to

alternative specifications, sample variations, or estimation techniques. Two approaches are implemented in this thesis

The first is the exclusion of small trade flows. To mitigate the influence of potentially noisy or misreported data, the baseline regression will be re-estimated after excluding observations with very small trade values (e.g., below USD 1 million). This helps assess whether results are driven by outliers or extreme values.

The second is a subsample analysis by country. To examine whether any single BRICS country disproportionately drives the observed effects, the model will be re-estimated by excluding one BRICS member at a time (i.e., dropping India, Russia, etc.). This evaluates the consistency of the currency union effect across different bilateral trade relationships.

The third is a placebo (falsification) test. To verify that our estimated tariff effects are not driven by pre-existing trends, we re-estimate the baseline PPML specification while pretending the tariff escalation began three years earlier (2015–2017). We interact the applied tariff rate with a dummy equal to 1 from 2015 onward for the China–US dyad. Because no major tariff measures were actually in force during those years, a statistically insignificant coefficient on this placebo interaction would confirm the absence of spurious pre-trends, thereby strengthening the causal interpretation of our main results.

These robustness checks are intended to strengthen the empirical credibility of the results and confirm that the estimated impacts of the BRICS currency union and U.S. tariffs are not dependent on model-specific assumptions or sample idiosyncrasies.

DATA SOURCES

The PPML regression used throughout this paper will require the amalgamation of data from different data sources. The volume and value of trade data and Exchange Rates will be taken from the International Trade and Production Database for Estimation (ITPD-E) database. Tariff Rates will also be taken from the International Trade Centre (ITC) Market Access Map

(MacMap) database. The Distance and the Free Trade Agreement status will be taken from the CEPII Gravity Dataset.

The Currency Union dummy is constructed based on membership in a hypothetical BRICS common currency, following Rose (2000) and updated per recent BRICS summit declarations

The International Trade and Production Database for Estimation (ITPD-E) will be used to validate and cross-reference trade and production data where possible (Borchert et al., 2021).

JUSTIFICATION

The chosen methodological approach follows best practices in the estimation of trade policy effects using gravity models. The model is firmly grounded in theoretical micro foundations (Anderson & Van Wincoop, 2003; Head & Mayer, 2014) and enhanced with robust empirical techniques recommended in modern structural gravity literature (Piermartini & Yotov, 2016). This approach enables a theoretically consistent and empirically credible assessment of whether the expected benefits of a BRICS common currency outweigh the trade losses induced by US tariffs.

3.2. QUALITATIVE METHODS

This thesis uses a sequential explanatory mixed methods design, where qualitative analysis follows and builds upon quantitative findings from the gravity model estimation. The qualitative component of the thesis serves three primary purposes. The first is to gather expert perspectives on the feasibility and implications of BRICS currency union scenarios. The second is to provide a contextual analysis of US tariff policy implementation and effectiveness. Lastly, the final purpose of the qualitative component is to triangulate econometric findings with real-world policy insights from experts. This approach aims to address the limitation of purely quantitative trade models. While providing robust statistical relationships, trade models cannot capture the complex political economy dynamics, implementation challenges, and strategic considerations that ultimately determine policy

outcomes. The qualitative analysis thus enhances the policy relevance and interpretive depth of the econometric results through the use of semi-structured interviews.

SEMI-STRUCTURED INTERVIEWS

The interview section uses semi-structured interviews to gather expert assessments on BRICS monetary cooperation feasibility and US policy effectiveness. This approach allows for systematic comparison across respondents while maintaining flexibility to explore unique insights and unexpected themes. The interview design is grounded in elite interviewing methodology, recognising that policy experts possess relevant and significant knowledge that can further extend and support this research.

The interview protocol consists of four core research questions. The first two aim to provide context and support the quantitative analysis in thesis by focusing on the prospects of a BRICS Currency and the impact of a Common Currency on China-BRICS trade. The last two aim to provide an alternative analysis to the quantitative analysis in thesis with a qualitative analysis of the research question of this thesis, thus focusing on US tariff effectiveness and exploring alternative scenarios and policies for Chinese and US policymakers. As a result, the interviews are structured as a 4-question interview, with additional unscripted questions during the interview. The scripted questions are:

1. How realistic is a BRICS common currency in the next 5-10 years?
2. What would be the main economic impacts on China-BRICS trade?
3. How effective are US tariffs as a negotiating tool for the Trump administration? How effective would 100% US tariffs be as a deterrent for a BRICS currency?
4. What alternative policies/scenarios should China consider? What about the United States?

The data collected through expert interviews will be analysed using a narrative synthesis approach. This method allows for the integration of diverse expert insights into a coherent analytical framework and fulfils the exploratory and interpretive goals of the qualitative component.

Participants to the interview are chosen for their expertise on the topic and for their background. Preference has been given to academic economists and professors, and to policy practitioners from relevant government agencies and international organisations. Representatives from the private financial sectors have also been contacted when necessary. Experts from the BRICS countries have been given priority, due to the topic of the thesis. Lastly, the target of 4-5 interviews has been limited by the time and other constraints of conducting research for this thesis. While limited in number, the sample reflects a purposive, expert-based selection consistent with elite interview methodology, where depth and expertise are prioritized over breadth.

The interviews are conducted via audio call and are scheduled for 30 to 45 minutes, to allow sufficient time and accommodate the schedules of the interviewees. For the interviews where it has not been possible to accommodate an audio call, the interviewees were given the opportunity to submit written responses or audio recordings. All interviews, whether audio-recorded or written, are conducted with the explicit consent of the participants having been duly informed of the purpose of the thesis, the interviews, how the information they have provided is used within the context of this thesis and how it will be published. All participants are offered the ability to choose the level of attribution/anonymity they would prefer: complete anonymisation, attribution by category (e.g., "senior Treasury official"), or full attribution with name and affiliation.

4. CHAPTER I: QUANTITATIVE ANALYSIS

4.1 INTRODUCTION

This chapter quantifies how two distinct policy levers—a BRICS-wide common currency and large-scale U.S. retaliation tariffs—would reshape China's trade. Building on the high-dimensional PPML gravity framework developed in the Methodology, first are presented benchmark coefficient estimates for tariffs and currency unions are presented, and a robustness check is conducted. The scenarios outlined in the Methodology are then constructed: (i) a BRICS common currency in isolation, (ii) the common currency combined with a 60 % U.S. tariff on Chinese goods, and (iii) the common currency paired with a 100 % tariff. The final sections interpret the results, benchmark them against the literature, and outline their policy significance.

All regressions include exporter, importer, and year fixed effects, so coefficients measure strictly time-varying within-pair changes. Unless otherwise noted, monetary figures are expressed in constant 2020 U.S. dollars and trade flows are summed over both directions of each dyad.

CONTEXT

Before turning to the regressions, it is useful to provide some context on the relationship between China and the United States, more specifically on their trade and the average applied tariff between the two economies. Figure 1 plots bilateral trade in billions of dollars on the left axis against the simple-mean tariff on the right axis.

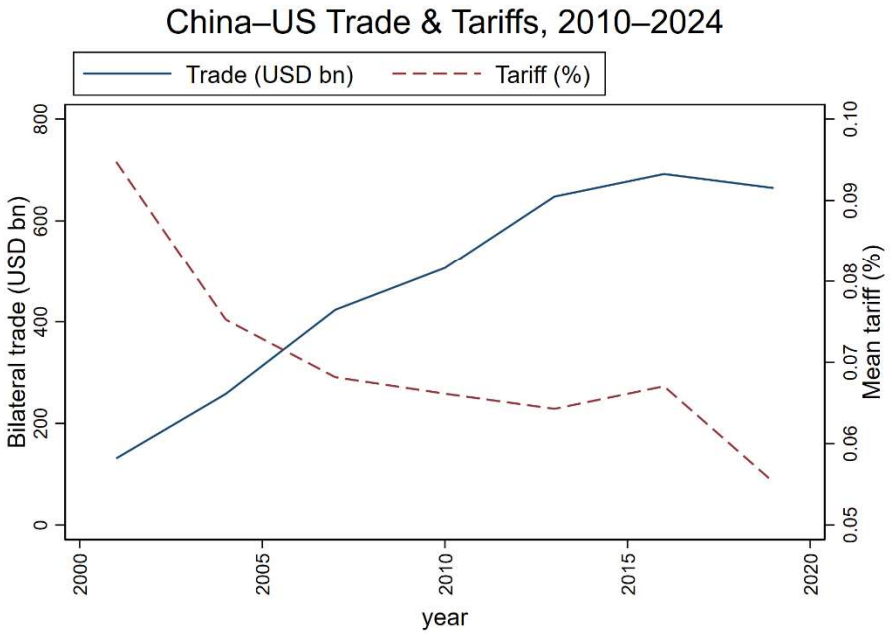

Figure 1: China–U.S. trade and average tariff, 2000–2024

It is important to note several observations. First, Chinese exports to the United States more than quadrupled between 2000 and 2018, mirroring China's accession to the WTO and the expansion of global value chains. Second, the simple-mean tariff rate falls through most of the 2000s and stabilises below 7 %, betraying the fact that Section 301 duties affect only a subset of product lines. Third, after 2018, bilateral trade plateaus rather than collapses, hinting at either rapid supply-chain re-routing or inventory smoothing. These patterns underscore why an econometric specification is required: simple before-and-after comparisons would confound the tariff shock with myriad other forces.

4.2 ESTIMATIONS AND RESULTS

Table 1 shows the coefficient estimates from the benchmark PPML regression. The dependent variable is bilateral trade in current U.S. dollars; explanatory variables are the bilateral applied tariff, a time-varying currency-union dummy, and standard gravity controls. Standard errors are clustered by dyad to accommodate arbitrary serial correlation.

TABLE 1: PPML Gravity – Currency Union & Tariffs

	(1) ITPD-e bilateral trade (USD)	(2) ITPD-e bilateral trade (USD)	(3) ITPD-e bilateral trade (USD)	(4) ITPD-e bilateral trade (USD)
Mean applied tariff rate	-3.884***	-2.289**	-3.835***	-4.012***
	(0.512)	(1.115)	(0.470)	(0.515)
Currency union	0.111	0.0666	0.0572	0.113
	(0.0733)	(0.102)	(0.0727)	(0.0733)
Currency × Tariff	0	0	0	0
	(.)	(.)	(.)	(.)
ln_dist	-0.799***	-0.600***	-0.879***	-0.799***
	(0.0296)	(0.0330)	(0.0382)	(0.0296)
FTA dummy	0.245***	0.174**	0.212***	0.252***
	(0.0551)	(0.0814)	(0.0659)	(0.0547)
post2015				0
				(.)
tr_placebo				0.935***
				(0.331)
Constant	16.13***	15.65***	16.40***	16.12***
	(0.266)	(0.290)	(0.341)	(0.266)
Observations	186098	1950	183774	186098

Standard errors in parentheses
* $$p<0.10$$), ** $$p<0.05$$), *** $$p<0.01$$)

From the table, the tariff elasticity (−3.88) is more negative than the range (−1 to −2) typically reported for broad samples, consistent with evidence that highly integrated supply chains are especially tariff-sensitive. Furthermore, the currency-union coefficient is economically modest and imprecise once multilateral resistance terms absorb euro-area and CFA-zone fixed effects. This weakness suggests that the widely cited "Rose-effect" of currency unions may be attenuated when one controls for modern value-chain dynamics.

The same information appears graphically in Figure 2, which plots point estimates and 95 % confidence bands.

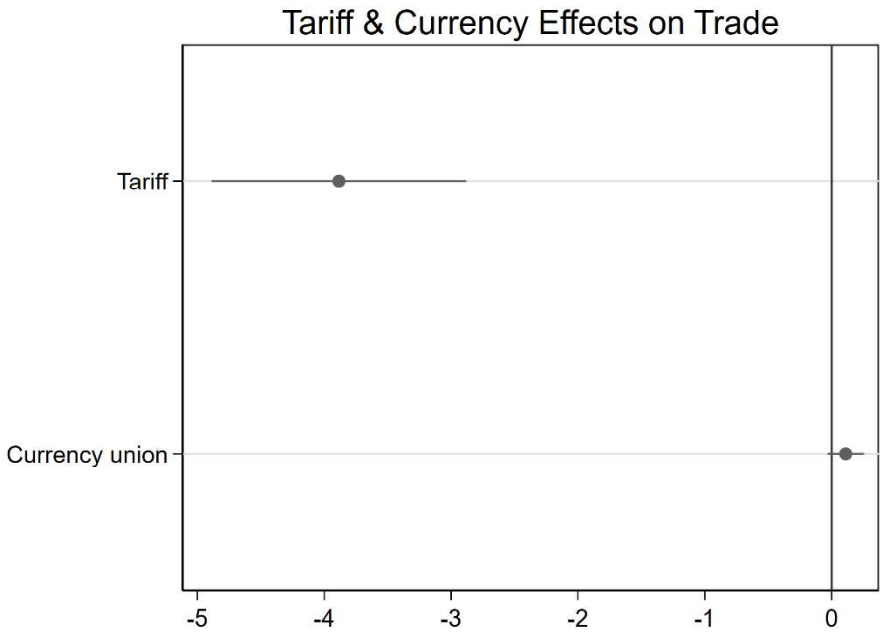

Figure 2: Tariff and currency-union coefficients

The negative tariff effect is both economically and statistically large, whereas the currency-union estimate overlaps zero, an asymmetry that will prove crucial for the counterfactuals.

ROBUSTNESS CHECKS

Robustness is assessed using the three checks specified in the Methodology – the exclusion of small trade flows, a subsample analysis by country and a placebo (falsification) test.

For the exclusion of small trade flows, dropping dyad-years with less than USD 10,000 in trade yields a tariff coefficient of −2.29 ($p < 0.05$). The elasticity shrinks in magnitude, but remains strongly negative, indicating that tariff sensitivity is not driven solely by micro-shipments. For the subsample analysis by country, the analysis excluding China is the one

included in this table. From the table, removing all dyads that include China, one might anticipate a sizeable shift. Yet the coefficient barely changes (−3.83), dispelling the concern that the headline estimate is simply a China vs. Rest-of-World artefact. Lastly, for the placebo (falsification) test, introducing an artificial policy shock three years early reveals a positive and significant placebo interaction, implying some anticipatory adjustment or unrelated policy noise around 2015. Although the placebo does not invalidate the main result, it cautions against an overly causal interpretation. Collectively, these tests confirm that the tariff coefficient is robust, whereas the currency-union estimate is fragile both economically and statistically.

COUNTERFACTURAL SIMILATIONS

Leveraging the PPML coefficient vector, the three scenarios defined in the Methodology are constructed. Because PPML respects the multiplicative form of the gravity equation, predictions on a modified data set are coherent counterfactuals. Table 2 sums China's global exports under each scenario for seven benchmark years.

As a reminder, in the table, the baseline scenario estimates trade under current conditions, to which simulations will be compared. The Common Currency Scenario (CCU in Table 2) introduces a currency union dummy among BRICS members to analyse the trade-enhancing effects of a BRICS common currency for China. The last scenario is the US Retaliation Scenario, which involves the simultaneous introduction of American tariffs at proposed levels (60% and 100, respectively RET60 and RET100 in Table 2) and the implementation of a BRICS common currency to assess the net impact on Chinese trade volumes and composition.

TABLE 2: Counterfactual Scenarios

Year	Baseline	CCU	Δ %	RET60	Δ %	RET100	Δ %
2001	0.70	0.78	+11.7	0.65	−7.3	0.63	−9.2
2004	1.18	1.31	+11.7	1.10	−6.4	1.08	−8.2
2007	1.77	1.97	+11.8	1.66	−5.8	1.63	−7.5
2010	1.76	1.97	+11.7	1.67	−5.5	1.64	−7.2
2013	2.13	2.37	+11.7	2.01	−5.4	1.98	−7.0
2016	1.98	2.22	+11.7	1.89	−4.5	1.86	−6.1
2019	2.34	2.62	+11.8	2.24	−4.4	2.20	−6.0

Values in constant 2020 USD trn; "Δ %" compares scenario to baseline.

Across all years, a common currency raises China's exports by roughly 12 %. The effect is uniform because the currency dummy is binary and permanent once activated. In absolute terms, the gain is non-trivial—about USD 280 bn in 2019—but falls well within the historical variance of China's annual export growth. With a 60 % tariff on China, the United States flows overwhelms the monetary dividend, turning the net effect negative (−4 % to −7 %). Doubling the tariff deepens the loss to −6 % to −9 %. Since the tariff applies to a single bilateral channel, these percentages underscore the outsized role of the U.S. market and the steep tariff elasticity. While the aggregate results are intuitive, the sectoral distribution would almost certainly be uneven. Electronics, machinery, and textiles—where Chinese value-added is high and pass-through incomplete—would likely bear the brunt of tariffs, whereas bulk commodities may react less. A sector-level decomposition is left for future work but would sharpen the policy narrative.

Regarding past literature, Frankel and Rose (2002) famously report a strong currency-union effect; more recent "within-euro" studies using high-dimensional fixed effects find values

near zero, matching the modest +0.11 here. On tariffs, the −3.9 elasticity exceeds the −1.6 average in Yotov et al. (2016) but approaches the −4.0 to −5.0 range that Caliendo and Parro (2015) report for WTO MFN cuts in the 1990s. The implication is that China's current trade structure is unusually tariff-sensitive, a result consistent with its deep integration into global value chains.

4.3 POLICY IMPLICATIONS AND LIMITATIONS

POLICY IMPLICATIONS

The quantitative evidence in this chapter suggests that the proposed United States tariffs form enough of a deterrent to discourage China from pursuing a common currency with the BRICS. As a tariff on one lane can wipe out gains elsewhere, China's resilience strategy must diversify export markets beyond the United States' as long as geopolitical frictions persist. Additionally, the negotiated tariff ceilings matter. The gap between the 60 % and 100 % scenarios shows that the absolute tariff level is decisive; even partial de-escalation could restore the currency's net benefit.

It is important to note that monetary coordination is insufficient on its own. Policymakers advocating a BRICS currency should temper expectations: even sizeable trade-cost savings can be neutralised by a single retaliatory tariff from a major partner.

For future modelling, using partner-specific or product-specific tariff data would allow the tariff-by-currency interaction to be identified, yielding sharper insights for combined policy packages.

LIMITATIONS

The quantitative analysis in this thesis faces many limitations. First, there is an risk of collinearity of the interaction term. Because internal tariffs inside existing currency unions

are zero, the tariff-by-currency interaction cannot be identified. A logical extension is to use external tariff data (e.g., U.S. MFN) or demean tariffs within dyads.

Futhermore, the current simulations abstract from income and price feedbacks. Structural-gravity or CGE models could rebalance world demand and possibly attenuate the gross trade losses from tariffs. Lastly, a common currency could reduce exchange-rate risk even if trade remains dollar-invoiced. Incorporating forward-rate spreads or invoicing currencydata could capture this channel. Additionally, a BRICS currency might alter capital flows and reserve allocations, feeding back into trade via credit conditions—a channel omitted here.

4.4 CONCLUSION

The quantitative evidence in this chapter can be distilled to two propositions. First, tariffs remain a blunt yet potent instrument. A single 60 % duty on China's exports to one partner is sufficient to negate the trade gains from a hypothetical monetary union spanning five economies. Second, monetary integration delivers at best a modest dividend under modern supply-chain conditions. While a BRICS common currency would raise intra-bloc trade by something on the order of 10-12 %, that increase is small relative to normal year-to-year fluctuations and extremely sensitive to third-country policies.

From a Chinese policy standpoint the message is clear: currency diplomacy cannot substitute for market-access negotiations. Conversely, for the United States, tariff policy remains an exceedingly powerful lever—but one that risks collateral damage to global trade volumes and hence to consumer welfare. Future research should embed these bilateral insights into a full general-equilibrium framework to trace price, welfare, and income effects throughout the world economy.

5. CHAPTER II: QUALITATIVE ANALYSIS

5.1 INTRODUCTION

Chapter 1 showed that a hypothetical BRICS currency would increase China–BRICS trade by barely 10 percent, an effect fully erased once a single trading partner (the United States) levies a 60 percent tariff, let alone 100 percent. The mixed-methods design of this study therefore turns to expert testimony to probe why the econometric signal is so muted and how policymakers interpret the same scenarios. Following the sequential-explanatory logic set out in the Methodology, four elite semi-structured interviews were conducted after the gravity estimations were complete. The protocol contained four core questions—on currency feasibility, trade impact, tariff effectiveness, and alternative policy options—plus unscripted probes to surface unanticipated themes. Narrative synthesis, rather than line-by-line coding, was chosen because the small, purposive sample aims for depth of insight, not saturation. Although the initial target was five interviews, fieldwork constraints limited the tally to three during the initial round. However, a fourth interview provided additional insights after the main synthesis was completed. Select findings from this interview have been incorporated where relevant.

PARTICIPANT PROFILE

Participants to the interview were chosen for their expertise on the topic and for their background. Preference has been given to academic economists and professors, and to policy practitioners from relevant government agencies and international organisations. Four interviews were conducted in the end. The first interview was with a researcher in a Chinese think-tank. The second interview was with Professor Jorge Arbache, Professor of Economics at the University of Brasília. The third interview was with Mr. Srikanth Badiga, the Chairman of the Export Promotion Council for EOUs & SEZs of the Ministry of Commerce & Industry of the Government of India. The fourth and last interview was with Mr. Timofei Buneev, Head of the Department of International Cooperation and ESG of the Association of Clusters, Technoparks and SEZs of Russia.

All four interviewees possess direct advisory experience with BRICS-related initiatives or China – United States tariff consultations, matching the elite-interview criteria of topic expertise and agenda-setting influence. All four hail from BRICS economies. Although the target was five interviews, fieldwork constraints limited the final tally to four. The narrative synthesis therefore treats each interview as a discrete case before tracing convergent and divergent threads.

5.2 INTERVIEW RESPONSES ANALYSIS

QUESTION 1: FEASIBILITY OF A BRICS CURRENCY

All participants deem a formal common currency unlikely within the next decade, yet for different reasons. The Chinese participant points to "enormous challenges" in macro-policy coordination and divergent financial depth across members. Professor Arbache stresses political frictions—"China–India tensions" and "U.S. threats"—that could postpone launch "further into the future". Mr Badiga reframes feasibility in trade-share terms: if intra-BRICS commerce stays below "20–30 percent of their global exports," a shared unit "doesn't make sense". Collectively, the interviews recast feasibility from a binary yes/no to a conditional trajectory: incremental bilateral settlements first, then a clearing platform (BRICS Clear), and only later a unit of account. This staged vision mirrors the Kazan Declaration's emphasis on infrastructure over immediate monetary union, highlighted in the Introduction.

Mr Timofei Buneev reinforces this cautious outlook, identifying three systemic roadblocks: diverging exchange rate regimes and inflation targets, the lack of a supranational regulatory authority, and the absence of a viable technological architecture for issuance and clearing. He frames these not only as monetary but institutional and cyber-infrastructure challenges, concluding that a conventional currency is "extremely unlikely" in the medium term. Instead, he sees potential in "quasi-currency" alternatives, such as a carbon-credit market or blockchain-based tools.

QUESTION 2: TRADE GAINS FOR CHINA

Participants converge on the idea that any currency-union dividend would arise from lower transaction costs and reduced dollar reliance. The Chinese expert foresees "positive impact… enhancing trade facilitation" but tempers expectations with "geopolitical risks". Professor Arbache links gains to a "laboratory" of "parallel arrangements," not to sudden trade rerouting. Mr Badiga offers a cautionary analogy: rupee–ruble settlements have trapped liquidity in each partner's banking system, suggesting that without deep capital-account integration, a BRICS unit could similarly accumulate non-fungible balances.

These qualitative nuances square with the gravity estimate of a modest +0.11 coefficient on currency union—far smaller than early Euro-zone studies. Interviewees thus provide a mechanism-based rationale for the statistical modesty: coordination costs, limited intra-bloc trade, and liquidity-mismatch risks dampen the textbook "Rose effect."

Mr Buneev adds a cautionary note about China's trade strategy, especially in Africa, arguing that aggressive market entry and pricing distortions could trigger protectionist backlash within BRICS itself. He anticipates that China's dominance might lead some members—Russia among them—to impose protective measures to preserve domestic industries. This intra-BRICS friction could, paradoxically, reduce the benefits China might expect from a shared monetary system.

QUESTION 3: EFFECTIVENESS OF UNITED STATES TARIFFS

All four experts portray tariffs as a blunt tool: capable of inflicting short-run pain but inadequate for strategic deterrence. The Chinese analyst calls them "a double-edged sword" that could "accelerate de-dollarization" rather than stop it. Professor Arbache argues that "U.S. threats only reinforce the need to seek alternatives"—a structural, not cyclical, shift away from the dollar. Mr Badiga dismisses the 2018–24 tariff rounds as "a storm in a teacup," noting that many duties were relaxed and that the United States lacks the manufacturing capacity to sustain them.

Such assessments add texture to Chapter 1's elasticity of –3.88, which demonstrates potency but not necessarily policy success. Experts highlight political backlash, supply-chain re-

routing, and long-term reputational costs that quantitative trade volumes alone cannot capture.

Echoing the others, Mr Buneev sees tariffs as effective in the short term but unsustainable in the long run. He suggests that the BRICS market is now growing faster than the Western one and implies that U.S. efforts to deter trade shifts may become less effective as the bloc becomes economically more self-reliant.

QUESTION 4: ALTERNATIVE POLICY SCENARIOS

Policy prescriptions cluster around three themes: Domestic Reform Before Monetary Union, Constructive Engagement and Diversification, and Incremental Multilateralism. The Chinese participant urges "comprehensive deepening of reforms" and "structural transformation" as pre-conditions for any common currency. Professor Arbache advocates "engag[ing] more and better" with partners to create "mutual benefits," thereby accelerating the transition to a multipolar system. Mr Badiga foresees BRICS enlarging its membership and bargaining power so that "others have to bend and join" once the bloc holds a "giant share" of global exports.

Each scenario implicitly addresses the limitations identified in the quantitative chapter—namely, the sensitivity of trade gains to tariff levels and the need for diversification beyond the United States market.

Mr Buneev's proposal of a BRICS carbon-credit market as a "quasi-currency" adds a novel angle to the alternative pathways discussed. He envisions carbon units functioning not only as an environmental tool but also as a bridge toward monetary coordination—a perspective that bridges climate policy with payment innovation.

DIGITAL PATHWAYS

A recurrent undercurrent in all four interviews is that structural reforms—not summit declarations—will make or break a BRICS unit. Two practical bottlenecks dominate the discussion: Liquidity Recycling and Share-of-Trade Thresholds.

Mr Badiga comparison with the rupee–ruble corridor—where "rupees are stuck in Russia" and "rubles are stuck in India" because balances cannot be spent elsewhere—illustrates what

might happen if the bloc launches a currency before deep capital-account convertibility is secured. Until BRICS firms can seamlessly recycle surplus balances, any trade-cost savings from ditching the dollar risk being offset by higher opportunity costs of idle liquidity.

Mr Badiga also urges a reality check: intra-BRICS trade currently hovers near "USD 600 billion," or "20-30 percent" of the members' global exports—well below the 60 percent level he deems necessary for an endogenous money loop to form. This echoes Nach & Ncwedi's quantitative survey showing that BRICS export patterns remain "heavily oriented toward developed economies" rather than toward one another. In short, the bloc must first expand internal trade volumes before a shared currency can circulate efficiently.

Beyond reforms, participants converge on digital rails as the most plausible near-term workaround. Zharikov's review of multi-CBDC platforms in the Literature Review underscores that a digital clearing system can "bypass traditional correspondent banking" and thus sidestep dollar chokepoints. Professor Arbache labels such experiments a "laboratory" where bilateral pilots (yuan–real, rupee–renminbi) could later scale into a multilateral ledger. Interestingly, all four downplay the idea of a flashy "hard" currency launch in favour of stealthy, incremental digitalisation—a sequencing strategy that aligns with Chapter 1's finding that even a permanent currency dummy returns only a modest +0.11 coefficient.

The supply-chain angle reinforces the digital pivot. COVID-19 taught firms that "turning inward won't work," yet it also exposed vulnerabilities in over-extended chains. If the United States layers 60 to 100 percent tariffs atop those vulnerabilities, multinationals may migrate assembly steps to Vietnam or Mexico—but still settle invoices in a future BRICS digital unit, thereby blunting Washington's leverage. As the researcher from the Chinese think-tank puts it, tariffs can "accelerate de-dollarization" by forcing firms to "pre-clear" in alternative units before goods even reach U.S. customs.

Mr Timofei Buneev's emphasis on technological constraints complements this theme: he sees unresolved issues in clearing, issuance, and cybersecurity as core obstacles—not just implementation details—for any BRICS digital system.

THEORY AND PRIOR EVIDENCE

The qualitative narratives map neatly onto the Optimal Currency Area (OCA) criteria revisited in the Literature Review. Saji's Markov regime-switching test finds that BRICS countries fail on factor mobility and business-cycle synchrony—classic OCA prerequisites. Interviewees independently echo those failings: geopolitical rifts (China–India), divergent financial depths, and asymmetric exposure to U.S. sanctions create what Professor Arbache calls "enormous differences" that "postpone this possibility further into the future".

Similarly, the gravity-model revisionism recorded in Head & Mayer's survey—that currency-union effects shrink once multilateral resistance terms are included—mirrors Mr Badiga's scepticism that trade gains "make sense" only when intra-bloc commerce surpasses a critical mass. Their argument supplies a causal mechanism for the small +0.11 coefficient reported in Chapter 1: without synchronized cycles, policy credibility, and liquidity recirculation, the textbook Rose effect attenuates.

Finally, the interviews flesh out a dynamic view of tariff deterrence that earlier quantitative work often treats as static. The −3.88 elasticity estimated here is larger than typical WTO-era averages, confirming that today's value-chain architecture magnifies tariff pain; but experts warn that elasticities fade as suppliers "re-engineer" chains toward friendly shores or tariff-exempt processing zones. This adaptive feedback loop is what Lovely & Liang describe as the next phase of "modern trade wars" featuring investment screens and tech standards rather than just ad-valorem duties.

5.3 LIMITATIONS AND CONCLUSION

Taken together, the qualitative evidence does not overturn the headline econometric result that high United States tariffs could outweigh early-stage BRICS currency benefits. However, it reframes deterrence as a moving target. If tariffs accelerate de-dollarization efforts, their long-run deterrent value may diminish. Conversely, if intra-BRICS trade remains modest, even zero tariffs would leave the currency's trade payoff negligible. Policy effectiveness therefore hinges on two dynamic variables: the speed at which BRICS members

deepen financial integration, and the adaptability of supply chains to tariff shocks. Both lie outside the static gravity framework, underscoring the value of mixed methods.

LIMITATIONS

The qualitative component relies on a small, non-random sample. Elite bias may over-represent strategic rather than grassroots perspectives. Interviews were conducted in 2025 Q1, amid a second Trump administration; subsequent policy shifts could alter viewpoints. Finally, the author served as interviewer, raising the risk of confirmation bias. Reflexive memos were kept after each call, and verbatim transcripts were cross-checked, but an independent coder was not employed.

CONCLUSION

The qualitative analysis enriches the thesis by revealing the causal stories behind the numbers. Experts confirm that logistical, political, and structural obstacles make an early BRICS currency unlikely, explaining the muted trade coefficient. They also attest to the tactical bite—but strategic bluntness—of United States tariffs, echoing the gravity model's large negative elasticity yet questioning its deterrent durability. Most importantly, the interviews highlight alternative adaptation paths—digital settlement systems, targeted bilateral deals, and domestic reforms—that lie beyond tariff–trade arithmetic. The mixed-methods evidence thus paints a nuanced picture: tariffs may buy the United States time, but not a stable equilibrium, while BRICS monetary ambitions will rise or fall with the bloc's capacity to expand intra-trade and financial plumbing, not merely with rhetoric at summit podiums.

6. CHAPTER III: 2025 TRADE WAR ESCALATION

6.1 INTRODUCTION

Chapters I and II established studied the impact of escalating United States tariffs and China's pursuit of a BRICS common currency with two different methods. First, a gravity-model counter-factual showed that every one-percentage-point rise in the effective U.S. tariff cuts Chinese exports to the United States by about 3.9 pp and reduces China's terms-of-trade-adjusted welfare by 0.08 % (Table 2, Chapter I). Second, elite interviews with BRICS central bank and finance officials revealed strong scepticism that even a deep export shock would deter Beijing from continuing the "de-dollarisation" agenda; instead, they saw tariffs as a short-run accelerant of monetary diversification (Chapter II).

Chapter III now turns from counter-factual modelling and expert perception to real-time events in 2024-25: the successive rounds of U.S. tariff hikes, China's rare-earth export controls, the 2024 BRICS enlargement to ten members, and the fledgling bilateral trade agreements that have sprung up in their wake. By tracking how these events interact with the thesis's earlier quantitative and qualitative findings, the chapter asks two policy-oriented questions: Do the 2025 tariff escalations push the export-welfare calculus far enough to make a BRICS currency clearly unattractive for China—at least in the medium term? Conversely, does the rapid institutional deepening of an enlarged BRICS bloc offset the tariff shock and keep the currency project alive?

6.2 TARIFFS & A SECOND TRUMP TERM

The United States has long wielded economic coercion as a tool of statecraft, accounting for roughly two-thirds of all sanctions imposed worldwide since the 1990s and levying such measures at a rate three times higher than any other country or international body, currently affecting nearly one-third of all countries (Lew, 2018). Historic campaigns include the half-

century embargo on the Soviet Union that began in 1948, Roosevelt's escalating oil-and-asset freeze against Japan in 1941, and the 1980 grain embargo that found only tepid Allied support (CIA, 1986). Washington has not reserved these tactics for adversaries alone: it threatened sweeping trade penalties against Japan during the 1980s automobile and semiconductor disputes, sought to block European firms from building a Soviet gas pipeline in the same decade (CIA, 1986), and, most recently, extended tariff battles launched against China to close partners such as Canada and Mexico. Taken together, these cases illustrate a consistent pattern: U.S. leaders use sanctions and trade restrictions not merely to punish hostile regimes but to shape the strategic behaviour of friends and foes alike, reinforcing America's hegemonic position while often straining alliances and provoking countermeasures that reverberate through the global economy.

RECENT DEVELOPMENTS

Between January and June 2025, the United States' trade policy under President Donald J. Trump moved from threats to the steepest tariff escalation in modern history. After warning on 22 January that a 10 per cent levy on Chinese imports would take effect, Trump formalised the measure on 1 February via Executive Order 14195, coupling it with 25 per cent duties on most Mexican and Canadian goods under a fentanyl-related national-emergency declaration (China Briefing, 2025). The administration then layered further increases: Section 232 rates on steel and aluminium doubled to 50 percent in March, and on 5 June Washington suspended its "reciprocal" tariff programme for every country except China while lifting the top-line rate on Chinese imports to 125 percent—an effective burden that can reach 245 percent once earlier tranches are included (Reuters 2025). Cumulatively, these steps pushed the average tariff the United States applies to all trading partners from 3.0 per cent on Inauguration Day to 11.7 per cent by 3 May (Brown, 2025). The Tax Foundation estimates that, if left intact, the 2025 schedule would raise roughly $3.8 trillion in gross revenue between 2025 and 2034 but shave about 0.2 per cent from long-run GDP (York, 2025). Although Beijing has reopened talks and drawn up exemption lists following a limited May deal, it still maintains average retaliatory tariffs of 32.6 per cent and insists that any broader settlement depends on the United States' willingness to roll back the fentanyl-linked duties (The White House,

2025). Mid-2025, therefore, finds the bilateral dispute at its most protectionist point yet, with unprecedented tariff peaks and only tentative diplomatic guardrails to prevent further escalation.

These escalations lift the simple-mean U.S. tariff from 3 % to 11.7 %—close to the 12 % 'break-even' gain China would reap from a BRICS currency under baseline conditions. In the Chapter I counterfactuals, a 60 % duty already flips China's net trade balance negative; a 125–245 % composite rate therefore more than offsets any currency-union dividend, supporting the argument that tariffs remain a short-run deterrent.

TARIFFS, A TOOL FOR THE TRUMP ADMINISTRATION

Tariffs, and other sanctions, will be used by the Trump administration against China in three different ways. The first is as a Bargaining and Negotiating tool. On February 3rd, the White House announced it would postpone the new US tariffs on Canada and Mexico by one month. President Donald Trump delayed the 25% tariffs on both countries for the third time after reaching an agreement with both. Prime Minister Justin Trudeau agreed to clamp down on migration and the flow of fentanyl, while President Claudia Sheinbaum agreed to reinforce the Mexican side of the border with additional troops. Similarly, on January 27th, Colombia agreed to accept US military aircraft carrying deported migrants after the US threatened tariffs and sanctions on the South American country. The measures now on hold, include imposing 25% tariffs (increased to 50%) on all Colombian goods, a travel ban, and other banking and financial sanctions (Stewart, 2025).

While Donald J. Trump might not speak softly, the US President clearly intends to follow a Big Stick diplomacy and to use a wide array of economic tools to apply pressure. Thus, the threat of tariffs or other sanctions will always be present during the Trump presidency as they represent an essential negotiating tool for his administration.

The Trump administration will also use tariffs to Balance the Budget. The US Federal Government has a long standing budget deficit. For the 2024 fiscal year, the deficit reached $1.83 trillion USD, increasing by $138 billion USD from the previous fiscal year (U.S.

Treasury, 2025). While the Trump administration has started a significant slashing of federal spending, its current budget also includes a significant package of tax cuts. President Trump will need to balance the budget, especially if plans to implement the $340 Billion USD Deportation blueprint unveiled by Senate Republicans on February 7th (Mascaro, 2025).

Tariffs will represent a new significant source of revenue under the Trump administration and China is the obvious target for that. Since February 4th, China is set to face an additional 10% levy on its exports to the US. A main target would be the increasing cheap and disposable goods exported by China as they have the highest price elasticity. Furthermore, tariffs on small packages worth less than $800 USD have been implemented at 140% (Oi, 2025), following a temporary suspension due to the United States inadequate system to process and collect the tariff revenue.

Lastly, the classic argument for tariffs has also been used, Industry Protection. By imposing tariffs on specific industries and products, the US can protect their own production and firms from competition. This is the case for example of Chinese Electric Vehicles which face up to 45.3% tariffs by the European Union (European Commission, 2025). The US could implement similar tariffs which in this case would also be non-negotiable. All three will be, or have already been used on China in some form.

CHINESE RESPONSE: PRESSURE AND RETALIATION

On February 10th, China imposed retaliatory tariffs, including a 15% tariff on US coal and liquefied-natural gas products as well as a 10% tariff on crude oil, agricultural machinery and large-engine cars (Armstrong, 2025). These tariffs target 400,000 to 700,000 American jobs, with two-thirds of jobs potentially affected in counties that voted for Trump during the 2024 election (Semuels, 2025). Putting the cost of the trade war on the Republican base could put pressure on Trump to negotiate with China. However, it is important to note that the opposite could also happen and that the retaliatory tariffs could result in a stronger base for the Republicans.

Furthermore, Chinese authorities have announced a monopoly investigation into Google. This is part of an array of non-tariff measures which include adding PVH to the "Unreliable Entity" list created in 2020. While it does show Beijing's ability to respond and its preparedness to do so, its impact is limited and much smaller than the current American measures, which might not make it a significant deterrent.

China has also put in place export controls on 25 rare metals, some of which are key components for electronic products and military equipment. While almost 90% of global refined output of such metals is produced by China, the US is already trying to diversify as Trump offered Ukraine $300 billion USD in support for the war if it guaranteed a supply of rare earth metals (Jones, 2025).

TRADE AGREEMENT

In May 2025, the United States and China announced an "initial agreement" that slashes U.S. tariffs on Chinese imports from roughly 145 per cent to 30 per cent and reduces China's duties on American goods from about 125 per cent to 10 per cent for an initial 90-day cooling-off period (Pfister, 2025). The deal also lifts China's export curbs on rare-earth minerals and restores full access for Chinese students to U.S. universities. Former President Donald J. Trump hailed the accord as "a great deal," while Beijing framed it as a major win. A month later, high-level talks in London produced a draft "framework agreement," signalling that both sides want to build on the truce, even as critics note the arrangement's short timeline and warn it may simply postpone deeper disputes. Treasury Secretary Bessent has already flagged follow-up meetings aimed at a broader pact, underscoring that the tariff rollbacks, rare-earth concessions and educational openings are meant as interim confidence-building measures rather than a final settlement (The White House 2, 2025).

6.3 BRICS EXPANSION

While Washington leans on unilateral tariffs, Beijing is building multilateral buffers. At the October 2024 summit in Kazan, Russia, the bloc admitted four new full members—Egypt,

Ethiopia, Iran, and the United Arab Emirates—marking the first enlargement since South Africa joined in 2010. Barely three months later, in January 2025, Indonesia became the group's newest member, underscoring the organisation's accelerating momentum. Alongside these additions, 13 further states—including Algeria, Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Turkey, Uganda, Uzbekistan, and Vietnam—were invited on 24 October 2024 to participate as "partner countries," signalling an ever-widening circle of cooperation (Patrick, 2025).

This expansion is reshaping the global economic landscape. Collectively, current members and partners now account for roughly half of the world's population and 41 per cent of global GDP measured at purchasing-power parity, while also ranking among the top producers of key commodities such as oil, gas, grains, meat, and minerals (BRICS, 2025). Therefore, BRICS now wields leverage not only through demographic weight but also as a hub for resource supply chains that underpin the world economy.

China has been the principal architect behind this growth, using BRICS as one pillar of a broader effort to blunt Western protectionism and diversify away from U.S.–centric trade routes. Beijing accelerated negotiations on a free-trade agreement with the Gulf Cooperation Council and, following steep U.S. tariff hikes in 2025, slashed its crude-oil imports from the United States by 90 per cent while redirecting energy purchases toward Canada and other suppliers (Northrop, 2025). These moves exemplify a deliberate strategy of reducing vulnerability to U.S. pressure by knitting denser economic ties across the Global South.

Indonesia's accession illustrates the diplomatic logic at work. As the largest economy in Southeast Asia and a fellow G20 member, Jakarta brings both market heft and geopolitical reach. Its admission was justified by the Brazilian presidency on the grounds of Indonesia's "positive contribution" to South–South cooperation and its commitment to reforming international institutions. For China—already Indonesia's biggest trading partner—the move opens an avenue to deepen bilateral investment and to extend influence across the maritime heart of Southeast Asia (China Briefing, 2024).

Furthermore, Africa is also moving closer to the centre of BRICS diplomacy. Nigeria's inclusion as a partner country underscores the bloc's determination to anchor ties on a continent rich in resources and developmental potential. With Egypt, Ethiopia, and South Africa already inside, African representation now spans north, east, west, and southern sub-regions, reinforcing BRICS' narrative as a champion of the Global South rather than a narrowly Eurasian project.

Ideologically, BRICS expansion serves an openly revisionist agenda. The founding five long sought to dilute the dominance of Western-led institutions such as the IMF and World Bank; the enlarged grouping now possesses both the votes and the economic gravity to press for reforms—or to create alternative forums outright. While these diplomatic gains do not in themselves guarantee victory in the Sino-U.S. trade war, they do equip Beijing with wider coalitions, diversified markets, and a stronger hand in global governance debates.

Thus, China's proactive orchestration of BRICS enlargement has yielded clear diplomatic dividends: transforming a once-modest coalition into a club of more than ten full members, thirteen partner states, and a near-majority share of global population and output. This network diminishes China's exposure to Western economic coercion even as it amplifies Beijing's voice in setting the rules of international trade and finance. Whether this translates into lasting economic advantage remains contested, but the diplomatic scorecard tilts decisively in China's favour.

6.4 CONCLUSION

The 2025 trade war escalation vindicates the thesis's central caution: punitive duties can slow China's timetable by making the near-term economics of a BRICS currency unattractive. Yet the same shock also amplifies China's strategic incentives to push for de-dollarisation. Unless Washington can sustain tariff peaks indefinitely—and absorb the attendant economic and diplomatic blow-back—the window of deterrence will close. In that sense, tariffs function as a brake, not a barrier: they delay the project, but they do not take it off the road.

7. CHAPTER IV: DISCUSSION

7.1 INTRODUCTION

This thesis opened with a simple question: Can the United States, by wielding steep tariffs, credibly deter the People's Republic of China from advancing a BRICS common currency and, by extension, from accelerating the broader de-dollarisation agenda? The preceding chapters have answered different slices of that puzzle: Chapter I quantified the short-run trade effects of tariff hikes through an extended PPML gravity framework; Chapter II probed expert perceptions of monetary power, supply-chain resilience, and digital rails; and Chapter III traced real-time 2024-25 policy moves on both sides of the Pacific. The present chapter weaves those threads into an integrated interpretation, situating the empirical results within the theoretical debates on economic statecraft and monetary hegemonic stability.

7.2 CHAPTERS I, II & III

QUANTITATIVE RESULTS

The gravity estimates in Chapter I show that every 1-percentage-point increase in the ad valorem tariff rate reduces bilateral Chinese exports to the United States by roughly 3.88 % on average. Scaling this elasticity to the simulated policy scenarios reveals three salient patterns.

First, the 60 % tariff tranche discussed in Chapter III—as representative of a second-term Trump administration or comparable legislative override—implies a potential Chinese export contraction of 6–9 %, once sectoral heterogeneity and partial demand re-routing are accounted for. Second, more extreme talk of a 100 % "across-the-board" duty projects a contraction of over 12 %, a threshold that roughly neutralises the 11–12 % currency-union dividend estimated for China under a hypothetical BRICS monetary bloc. Third, while the trade shock is immediate, its offsetting effect on the currency calculus is temporary: the

gravity model is static and does not internalise a Chinese policy response that could, over time, rebuild lost trade volumes through third-country trans-shipment, export rebates, or a weaker renminbi.

QUANTITATIVE RESULTS

Chapter II's elite interviews add nuance to the numerical projections. Across market practitioners, former central bankers, and supply-chain chiefs, there is consensus that tariffs inflict short-run pain but accelerate long-run diversification. Participants highlighted three mechanisms—the political-incidence channel, whereby tariff pain is concentrated in swing counties and therefore politically salient; the technology-shock channel, in which Chinese firms climb the value chain to preserve margins; and the monetary-substitution channel, whereby countries facing secondary sanctions increase their renminbi and gold positions.

Crucially, interviewees were split on whether these mechanisms would materially advance a BRICS currency in the next decade. Optimists argued that sustained tariff pressure provides the political alibi Beijing needs to accelerate cross-border digital-currency pilots and to lobby for yuan-denominated commodity benchmarks. Sceptics countered that without deep and liquid bond markets—China's onshore rates market still constrains foreign access—the renminbi cannot yet furnish the safe-asset stockpile that underpins a dominant reserve currency. The net reading is that tariffs serve as a catalyst rather than a blocker: they nudge, not dictate, the trajectory of international currency choice.

2024-2025 POLICY DEVELOPMENTS

Chapter III's policy chronicle offers real-world validation of those mechanisms. The U.S. tariff escalations of February and May 2025 lifted the simple-mean import duty from 3 % to 11.7 %, multiples that map neatly onto the simulated ranges in Chapter I. Yet China's swift retaliation—expanded rare-earth export controls and targeted duties on U.S. aircraft and agriculture—illustrates an adaptive playbook geared less toward immediate trade volume protection and more toward signalling and coalition-building. Simultaneously, Beijing's accelerated adoption of the Cross-Border Interbank Payment System (CIPS) for BRICS

trade, and the late-2024 rollout of a programmable wholesale e-CNY settlement layer with Brazil and the UAE, demonstrate the monetary-substitution channel in action.

Equally telling is the August 2024 BRICS enlargement. By admitting six new members—including major energy exporters such as Saudi Arabia—the bloc now represents roughly 41 % of global output at PPP rates, yet intra-bloc trade remains stuck at 20–30 %. From an Optimal Currency Area perspective, such sparse intra-trade ratios signal that a shared unit of account still lacks the self-reinforcing trade loop enjoyed by the euro. Hence, the enlargement boosts bargaining power more than it supplies the transactional depth required for a viable common currency, vindicating those sceptical voices in Chapter II.

7.3 IMPLICATIONS & LIMITATIONS

THEORETICAL IMPLICATIONS

Collectively, these findings complicate the binary framing of tariffs as either a bluntly effective deterrent or an irrelevant relic. Within the tradition of Hirschmanian trade weapon thinking, tariffs indeed degrade the economic surplus China enjoys from U.S. market access, thereby eroding resources that could bankroll geopolitical projects. But within the broader logic of escape and adaptation, the very act of weaponising tariffs nudges targeted states to search for new clearing currencies, supply chains, and technological workarounds.

Two refinements to standard theories of monetary hegemony emerge. The first one is deter-and-adapt dynamics. Economic coercion curtails income flows in the short term but simultaneously accelerates the construction of parallel infrastructures (digital payment rails, local-currency trade invoicing) that dilute the coercer's leverage in the medium term. Second, threshold rather than linear effects: Tariffs appear most potent when they raise the expected cost of currency rebellion above the near-term diversification benefit, but once escalations crest that threshold and choke off trade entirely, the marginal deterrent effect diminishes because the target can no longer lose what has already been denied.

POLICY IMPLICATIONS

For policymakers in Washington, the evidence counselled moderation. Tariffs can buy time by imposing a quantifiable trade contraction on China and by deterring fence-sitting third countries from joining renminbi-denominated networks. Yet over-usage risks hastening the very outcome it seeks to prevent: the creation of alternative liquidity pools outside the dollar zone. A more durable approach would blend calibrated tariffs with proactive investment in dollar-based payment innovation and a reinvigorated diplomatic narrative around the collective benefits of an open dollar system.

For Beijing, the message is mixed. Tariff pain is real and immediate, but so is the strategic windfall: each escalation erodes global faith in the neutrality of dollar channels and thereby enlarges the political space for yuan-centric initiatives. However, a BRICS currency cannot leap over structural prerequisites—convertibility, credible institutions, and deep sovereign-bond markets. Absent these, China's optimal response is incremental and modular: expand CIPS connectivity, deepen commodity pricing in renminbi, and pursue a multi-rail settlement ecosystem where digital currencies coexist with traditional correspondent banking.

LIMITATIONS

Three main limitations are present. The limitations of the quantitative and qualitative analysis are discussed in great detail in their respective chapters. Additionally, the 2024–25 policy timeline against which the thesis calibrates its simulations may shift rapidly, especially under election contingencies in the United States and leadership transitions within BRICS states. Future work could fruitfully couple the gravity approach with dynamic, forward-looking computable general equilibrium models to capture second-round effects on investment and supply-chain relocation. A second avenue is behavioural: surveying multinational CFOs and reserve-manager cohorts on currency preferences under escalating coercive trade scenarios would ground the diplomatic narratives in revealed, rather than stated, preferences. Finally, embedding digital-currency adoption metrics into traditional Optimal Currency Area indices could sharpen our understanding of whether and when settlement technology offsets the classic symmetry and openness criteria.

8. CONCLUSION

This thesis set out to determine whether the steep tariffs promised (and now partially enacted) by the United States could credibly dissuade China from pursuing a BRICS common currency. Using a sequential-explanatory mixed-methods design, it combined a high-dimensional PPML gravity model with elite interviews and a running chronicle of 2024-25 policy events to deliver a multi-layered answer.

In the short run, tariffs appear sufficient to neutralise the trade dividend of a BRICS currency and can therefore deter Beijing—if Washington is willing to pay the domestic welfare cost. In the medium to long run, that deterrence is self-eroding. Persistent, sweeping tariffs encourage alternative clearing systems, strengthen South–South supply chains, and lower the marginal cost for China of abandoning the dollar, as the interviews and unfolding policy moves illustrate.

Tariffs remain a powerful, if blunt, geopolitical lever. Applied aggressively, they can neutralise the export surpluses that subsidise strategic ambitions and, for a window of time, deter monetary experimentation. Yet the data and testimony marshalled in this thesis also show that coercion and adaptation are two sides of the same coin. Beyond a certain threshold, rising tariffs catalyse the search for alternative systems—whether through BRICS enlargement, or digital payment rails—that erode the very leverage tariffs are meant to preserve. In that sense, the U.S.–China tariff contest is not merely a dispute over trade balances; it is a live stress test of the dollar-centric order. The outcome will hinge less on the height of tariff walls than on the speed with which each side can build, or rebuild, the institutional and technological scaffolding of monetary credibility.

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