China and Russia present financial solutions

By Elisa Barwick

Economic misery accompanied by social and political unrest is spreading across the globe, with Sri Lanka merely the latest example. Even in wealthy Europe, economic growth has been strangled by "neoliberal" economic policies designed to put speculative profiteering ahead of real development. This was enabled by the collapse of the 1944-71 Bretton Woods financial order, which included stable exchange rates linked to gold to grow trade and block speculation. While Western nations bicker over who will remain at the top of this collapsing mess, China, Russia and their allies in the BRICS (Brazil, India and South Africa) are determined to put forward a successful alternative.

One feature of the post-1971 US dollar-dominated financial order is that when the tide goes out in America, the majority of the world's nations are left high and dry. In other words, when the US Federal Reserve (central bank) hikes rates and cuts its "quantitative easing" programs, it decreases dollar liquidity to the world as a whole and induces financial investments to flow into the USA to take advantage of high rates. This means the US dollar will appreciate and the debts of nations holding US dollar-denominated debts will rise, as more local currency is required to repay the same nominal amount.

Anglo-American sanctions add to this imbalance. Not only by the impact on the primary sanction targets, but on those nations' trading partners. The confiscation of central bank reserves impacts not only Russia, Cuba, Iran, Venezuela and Afghanistan, but the many other nations which have noted it warily.

Rather than proposing a solution, the International Monetary Fund (IMF) is telling countries to do whatever it takes to stick to the failed system, by implementing economic austerity programs to pay off their unpayable debts and readying their "bail-in" plans for when banks inevitably collapse. The World Bank is expecting a dozen or so developing countries to default on debts in the coming months.

China, on the other hand, which has been quietly promoting a new financial architecture since the 2007-08 global financial crisis, has another idea. On 26 June the Bank for International Settlements (BIS) announced the establishment of a currency stabilisation fund denominated in Chinese renminbi, evidently forced into action at the initiative of the People's Bank of China along with Indonesia, Thailand, Malaysia, Hong Kong, Singapore and Chile. *China Daily* on 28 June reported that the fund could "help prevent international financial risks triggered by the tightening of monetary policies in Europe and the US". As opposed to previous liquidity support schemes based on "currencies of developed economies such as the US dollar", the Renminbi Liquidity Arrangement is particularly aimed at assisting emerging economies and also "represents the latest progress of the renminbi's internationalisation", said China's official paper.

"Lately, the renminbi has been used more often in trade settlements, international investment and financing, and foreign exchange transactions, more central banks have included it in their foreign exchange reserve pools, and market players have gradually displayed increased willingness to use it", reported the daily. A 1 July *Financial Times* article confirmed that 85 per cent of leading central banks are now investing, or considering investing, their countries' foreign-currency reserves in the Chinese currency.

As *AAS* has reported, the BRICS summit held 23-24 June

A new bridge connecting China and Russia. Photo: AFP/Amur Region Govt. Press

discussed creating a new reserve currency based on a basket of BRICS currencies, which nations can use to settle international trade accounts rather than relying on the US dollar. Already, over recent years, Russia, China and other Eurasian nations have increasingly paid for trade in each other's local currencies; this practice increased in the face of the sanctions imposed against Russia since 2014, when Crimea voted to secede from Ukraine and join the Russian Federation after the Western-backed "Euromaidan" coup in Kiev. ("Steps towards a Eurasia-centred, development-based new financial order", *AAS*, 6 Apr. 2022.)

Since this year's escalation of sanctions in response to its military intervention in Ukraine, Russia is no longer accepting dollars or euros for its oil and gas exports, demanding payment in roubles. In effect, "that means the Russian rouble is now backed by commodities exports, making it a currency backed by something real", noted an article in the South African *Independent Online* on 4 July under the headline, "Putin suggests BRICS looking at new global reserve currency backed by hard assets".

Matteo Giovannini, finance professional at the Industrial and Commercial Bank of China and member of the China Task Force at the Italian Ministry of Economic Development, noted in a 28 June CGTN commentary that the BRICS reserve currency proposal and China's creation of "a yuan reserve pool" at the BIS, indicate rapid developments towards "a new financial world order". (Yuan and renminbi are equivalent; renminbi designating the overall national currency, yuan the unit of account.)

A new BRICS "global reserve currency", wrote Giovannini, would be "similar to the International Monetary Fund's Special Drawing Rights (SDR)", but would allow "the world's leading emerging economies to build their own sphere of influence and related unit of currency." The SDR is an IMF monetary reserve asset created in 1969, which member countries can use to supplement their currency reserves for international payments or currency stabilisation. BRICS is challenging the veto power the USA holds over SDR allocations, said Giovannini. It is of note, he says, that the potential new "SDR equivalent" includes not just BRICS, but nations gravitating towards it. "[I]t is not difficult", he says, "to imagine an SDR equivalent that includes rising South Asian economies such as Vietnam, Indonesia, Thailand or the Philippines and also strategic Middle Eastern economies such as Israel, the United Arab Emirates or Saudi Arabia."

Regarding China's new BIS fund "to guarantee the necessary liquidity to participating economies during times of market volatility", Giovannini said, "I would not be surprised to see Brazil join … [as] Latin America's largest economy and a historically important trade partner of China, but also because its central bank has recently announced to have quadrupled the share of yuan in foreign reserves over the last year."

Concludes Giovannini: "the convergence of decisions toward an alternative financial system demonstrates that we are at the dawn of a new financial order where global priorities will no longer be set by the agenda of a single country's administration, and a more efficient multipolar monetary system is set to become the new paradigm."

In a 30 June interview on a popular French radio program, French economist Jacques Sapir discussed the BRICS alternative. "They are beginning to create the equivalent of an instrument such as the SDR, allowing member countries to borrow from that new fund ... an alternative system that allows countries to borrow outside of the dollar, and of currencies which are presently attached to the dollar: the euro, the pound sterling, and to enable them to use that for their investments, either to solve short-term liquidity crises, or to invest in the long term."

Alexander Losev, a financial expert at Russia's Council on Foreign and Defence Policy, wrote in a 4 July article that through sanctions, "the countries that created and controlled the existing global financial system in the mid-20th century, receiving global rent or seigniorage in the process, have dealt the most devastating blow *to their own system*. The world is gradually entering a new monetary order, and the dollar, ironically, is becoming a victim of geopolitics." (Emphasis added.)

A crisis of existing global financial structures is unfolding, he warned, and "every time the United States weaponises the dollar's leading role ... the rest of the world starts looking for alternatives." Given that "the use of dollars and euros in international transactions is declining, the share of these currencies in the central banks' reserves will steadily decrease as well."

Losev pointed to the move by Russia and India to conduct trade in national currencies and Saudi Arabia-Chinese negotiations to denominate oil sales in the Chinese currency. "Backed by China's manufacturing industry, the yuan is on its way to becoming the New Bretton Woods currency. Not only energy [such as through oil, coal, and gas exports] will back up national currencies like gold once did", writes Losev, "Confidence in the major regional economies' national currencies will rely on the resources and technologies accumulated by the countries, their industrial output and transport infrastructure."

Even Credit Suisse, noted Losev, wrote in a report: "We are witnessing the birth of Bretton Woods 3.0, a new global monetary order based on commodity-backed currencies". The Bretton Woods institutions, the World Bank and IMF, were originally envisioned by US President Franklin Roosevelt as a multilateral framework to fund development, but following FDR's death they were hijacked in the drive for Anglo-American hegemony. ("BRI threatens Anglo-American financial control", *AAS*, 15 June 2022.)

Trade and development

Demonstrating the solid basis for an alternative financial architecture, is the increased trade among Eurasian nations and their emphasis on development. To avoid inflationary financial bubbles, finance must be anchored to real economic growth. Two-way trade between Russia and China in the year 2000 was only US$8 billion; by 2018 it surpassed US$100 billion for the first time. In 2021, it jumped further, to US$146.6 billion, 18.8 times the 2000 level. No other trade between two major countries grew as fast during these two decades.

Russia's exports to China of natural gas, oil, coal and metallurgy products have increased this year, as sanctions took away some of Russia's other markets, and Russia has increasingly relied on imports from China for crucial capital inputs, auto parts and other components not produced locally. More than 60 per cent (expressed in monetary terms) of the physical goods exported to Russia from China in 2021, according to Russian customs agency figures, were machinery, equipment, and transport-related products like railway cars. On 27 June, construction commenced on a large Chinese-Russian base for production and export of auto parts to Russia, in China's northeastern Heilongjiang province.

As Russia reorients its trade away from Europe and towards Asia, it has reprioritised finalisation of the International North-South Transportation Corridor (INSTC), a project which commenced in 2000 but has been beset by delays. Putin raised the "7,200-kilometre-long transport artery from St Petersburg to ports in Iran and India" at the 29 June Sixth Caspian Sea Summit, in Ashgabat, Turkmenistan. In the past month, cargos have travelled south on two branches of the INSTC for the first time (via ship across the Caspian Sea or via rail through Kazakhstan and Turkmenistan), utilising the transport infrastructure of the Caspian Sea "five"—Russia, Kazakhstan, Turkmenistan, Iran and India. India is negotiating a trade agreement with the Eurasian Economic Union (EAEU) countries—Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia—as are a number of other nations that see the benefit of the new trade corridor. Also, on 10 June a cross-border highway link over the Amur/Heilongjiang River was opened, connecting the Chinese city of Heihe with Blagoveshchensk in Russia. The bridge is expected to facilitate delivery of 4 million tons of goods and 2 million passengers annually. In August 2021 a railway bridge further east along the river was completed; it is expected to open later this year once communications and signalling are finalised on the Russian side.

Commenting on Russia-India trade in a 5 July interview with Sputnik, Russia's Ambassador to India Denis Alipov said, "I expect that despite the West's sanctions against Russia, the positive dynamics of trade will continue. ... We are confident that Indian exports to Russia (including science-intensive ones) will gain momentum in the near future. We see good prospects for Indian pharmaceutical products, leather and textiles, agricultural goods, components for machinery and equipment, telecommunications equipment, organic chemistry products." He said the main task at hand is to "adjust our trade and economic relations to the new realities, to synchronise the payment systems of the two countries, giving priority to the increased use of national currencies." Alipov discussed connecting "the banks of the BRICS countries to the Russian System for Transfer of Financial Messages, SPFS (a SWIFT analogue), to integrate national payment systems into a unified network for cross-border clearing settlements."

Indian Prime Minister Narendra Modi spoke with Putin by phone on 1 July. "Global issues, including the state of the international energy and food markets", were discussed, Modi's office reported, and they "exchanged ideas on how bilateral trade in agricultural goods, fertilizers and pharma products could be encouraged further." Both were pleased with "the substantial increase in bilateral trade volumes, including mutual deliveries of agricultural produce".