China, Russia move to unseat the dollar as the No.1 currency

China is not slackening its pace in mounting Beijing's challenge to the US dollar as the world's reserve currency. Now that the International Monetary Fund has included the yuan (renminbi) in the Special Drawing Rights (the currency basket that provides additional support to official reserves), China has moved on to targeting commodity pricing. As the *Korea Times* newspaper noted of the IMF decision, "The yuan's status upgrade signifies that the world's most populous country is ready to challenge the U.S. in the economic field as well as in military terms and diplomacy".

However, while a great deal of attention has been given to the yuan-SDR discussion, not so much light has been focused on what Russia and China are doing to cut their dependence on the US dollar as the currency of trade and settlement.

As Bloomberg reports today, China is now proposing that ways should be found to price some commodities in the IMF's special currency, those same Special Drawing Rights. China took over as leader of the G20 from December 1 for the coming year (the other members being Argentina, Australia, Brazil, Canada, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the U.S., Britain and the European Union).

China is moving in the G20 to find new ways to make the global economy more resistant to economic shocks. As Bloomberg notes, Beijing has set up a working group led by South Korea and France to look at this issue, and the use of SDRs for pricing commodities. But it adds: “Notably absent from a senior role so far is the U.S., owner of what is still the world’s dominant currency”.

So far as the IMF’s special drawing rights are concerned, America remains top dog. When the yuan joins next October, the currency basket will be weighted with the U.S. dollar consisting of 41.73%, the euro 30.93%. China’s currency will be the third highest in weighting at 10.92%, followed by the Japan’s yen (8.33%) and Britain’s pound sterling (8.09%).

But there is another strand to this struggle for currency supremacy (although it seems Washington does not have too much stomach for the fight under the present administration). That strand is Russia, which seems to be siding with Beijing. *The Financial Times* reported this week that Russia is to raise the equivalent of $1 billion a year in yuan-denominated sovereign bonds, so proving a new expansionary avenue for the Chinese currency. There is now speculation that Beijing might issue ruble-denominated bonds. As the *FT* said, Russia’s move could further the development of money market instruments whereby trade between China, Russia and developing countries [that both Beijing and Moscow want to enter their orbits] could be conducted without the use of the U.S. dollar as the means of settlement.

What is going on? One clue appeared in a recent article in the Moscow-based *New Eastern Outlook*, which states that both China and the Russian Federation believe the role of the dollar as the world’s reserve currency is their economic Achilles Heel. The role of the greenback in world trade means that Russia and

China have to stockpile U.S. Treasury debt and dollars, a position they believe reduces their economic independence (and control of their own destinies). Moscow and Beijing sees this need to hold U.S. dollar as a unwanted assistance to the economic strength of the U.S.

The journal also forecasts that Russia is heading for a Golden Ruble. Putin advisor Sergei Glazyev has recommended “that the Central Bank of Russia buy every single ounce of Russian mined gold at a guaranteed attractive ruble price to increase state gold holdings, that would do even more avoid the Central Bank having to buy the gold on international markets for dollars”.

So not only are Russia and China seeking to bypass the dollar in trade, but they are both accumulating gold.

And, meanwhile, the West sleeps at the wheel.