BRICS and the Shanghai Cooperation Organization (SCO) Challenge U.S. Global Dominance

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United States military aggression globally is stimulating the creation of a new international economic order that could serve as a viable alternative to the present Western-dominated version. Washington's surrounding of both Russia and China with military bases and warships, its severe economic sanctions against Russia and Iran (a close Russian ally), and its attacks on Syria (a Russian and Iranian ally) are accelerating the consolidation of the BRICS country alliance (Brazil, Russia, India, China and South Africa), as well as the expansion of the Shanghai Cooperation Organization (SCO) that now includes about half of the world's population.

In May, BRICS members Russia (the world's biggest energy producer) and China (the world's biggest energy consumer) signed a $400 billion energy agreement in which Gazprom, the large Russian state energy company, agreed to supply China National Petroleum Corporation (CNPC) with 3.75 billion cubic feet of liquefied natural gas a day for 30 years. That equals a quarter of Russia's huge gas exports to Europe.

Crucially, the gas deal was sealed in yuan and rubles, which worries the U.S. Most oil and gas trade happens in U.S. dollars and the requirement for countries to stock U.S. currency to pay for energy gives the U.S. enormous economic power. The Russia–China energy deal is a significant—and very intentional—step away from this setup. As Pepe Escobar, correspondent for Asia Times, put it in one article,

> "Russian President Vladimir Putin and [Chinese President Xi Jinping]… are scaring the hell out of the 'Empire of Chaos.' No wonder; their number one shared priority is to dent the hegemony of the U.S. dollar—and especially the petrodollar—in the global financial system."

Escobar remarked the deal creates a "tectonic shift," with Asia's vast pipeline network, "intersecting with a growing Sino-Russian political-economic-energy partnership. Along with it goes the future possibility of a push, led again by China and Russia, toward a new international reserve currency—actually a basket of currencies—that would supersede the dollar."

Peter Koenig, an economist and former employee (of 30 years) of the U.S.-dominated World Bank, told me the Russia–China energy deal is:

> "symbolic, because Russia's total hydrocarbon trading per year alone amounts to about US$1 trillion. It is also a demonstration to the world that Russia and China are morphing into a strong alliance in trade, politics and defence. In that

> sense yes, the gas deal is clearly undermining the dollar."

Koenig explained there is a "massive effort of de-dollarization" happening within the BRICS that is led by China and Russia, which have been swapping sizeable amounts of ruble and yuan since June 2014. (In October, the Chinese and Russian central banks signed a three-year, 150 billion yuan bilateral local currency swap deal.) He pointed out that in July, Elvira Nabiullina, governor of the Russian Central Bank, said she was discussing the idea of similar arrangements with other BRICS countries, and that, in her words, "a part of the currency reserves can be directed to [the new system]."

> "This signals the beginning of a new monetary system which eventually will issue its own currency, possibly a basket of currencies, akin to the Special Drawing Rights (SDR) of the International Monetary Fund (IMF) that could gradually replace the dollar as a reserve currency," said Koenig. "This is in fact already happening. Ten years ago, 90% of the world's reserves were in dollar denominated securities. Today that figure has shrunk to 60%."

The IMF has reported that since 2003, reserves in other currencies in emerging markets have shot up by 400%. In the six months leading up to February 2014, South Korea increased its yuan holdings 25-fold.

> "The chances are good that a BRICS currency will eventually displace the dollar as 'world currency,' in other words as currency of reference and major reserve currency," Koenig told me. "Once the new money is established with a secure exchange and transaction system… it is very likely that many countries that so far do not dare abandon the dollar (for fear of sanctions) might join the new money pool, thereby strengthening it."

This would be a good thing, according to the economist.

> "It is high time that the currency of worldwide theft, abuse and exploitation—the U.S. dollar, financial instrument for endless wars and economic terrorism—be replaced with a currency of peaceful endeavors that respects national sovereignty, a currency that works for the people, not for the elite."

According to Escobar, the BRICS countries want to become a counterforce to the G7 western powers and the global economic architecture established after the Second World War.

"They see themselves as a potential challenge to the exceptionalist and unipolar world that Washington imagines for our future (with itself as the global robocop and NATO as its robo-police force)," he wrote in May. "The BRICS long-term plan involves the creation of an alternative economic system featuring a basket of gold-backed currencies that would bypass the present America-centric global financial system."

In July, the BRICS countries set up a $100 billion development bank that could eventually rival the World Bank and IMF as a source of project financing for the Global South. Koenig suggested the BRICS bank represents a "step away from the Washington Consensus," with its focus on "privatizing public goods and services, like water supply and health and education services."

The BRICS development bank "will likely concentrate on infrastructure development and enhancements [like] transportation, energy distribution, telecommunication and so on, energy exploration and exploitation, including alternative clean energy, and social services," he said, adding it "could temporarily even act as a BRICS Central Bank and when the time comes issue a new BRICS currency." Together the BRICS account for almost 30% of world GDP and for about 45% of the world population.

Conn Hallinan also thinks the BRICS bank will be better for the Global South than the U.S.-dominated system. He is an analyst with Foreign Policy in Focus, a project of the Washington, D.C.-based Institute for Policy Studies.

> "The new BRICS development bank will lend money not only to the BRICS but other countries as well," he told me. "The importance of that is that the money will not come with all the 'free market' Washington Consensus nonsense that has plunged country after country into a debt trap.
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> "The needs of the Global South are for basic infrastructure and poverty reduction. The World Bank accomplishes neither, and its economic policies end up increasing poverty. Also, the creation of a development bank will make it possible to bypass the IMF for balance-of-payment loans, thus avoiding the organization's onerous austerity requirements."

The U.S. system is based on a deeply flawed economic model, Hallinan continued, which can be summed up this way: finance debt through tax cuts and enforced austerity.

> "All austerity does is drive up debt because it causes economies to shrink, and tax cuts translate into deeper government debt," he said. "Even the IMF and many EU members are starting to resist this formula [that] totally destroyed Latin America in the 1990s and early 2000s."

In contrast, Hallinan explained the BRICS system is closer to the kind of "pump priming" used to pull the U.S. out of the Great Depression, and which Japan and South Korea "used so effectively to jump start their manufacturing booms" after the Second World War and Korean War.

> "Because the new system focuses on building up infrastructure it will not only create jobs, it will raise productivity through building transportation systems and the like. This is desperately needed for Brazil and India, not so much for China and Russia. It is very difficult for developing countries to get loans to modernize their economies, and when they do they have many restrictions attached. The BRICS plan is a major step away from that," he said.

Developing countries are also concerned about the ability of the U.S. to manipulate the dollar to its advantage, Hallinan added, and they are fearful of attracting heavy, debilitating sanctions (e.g. against Russia and Iran) imposed by the U.S., European Union and their allies, including Canada.

In September, in another "tectonic" shift, BRICS members China and Russia, and the other four members of the Shanghai Cooperation Organization (SCO)—Tajikistan, Kazakhstan, Uzbekistan and Kyrgyzstan—agreed to add four new members to the group: India, Pakistan, Iran and Mongolia. For Escobar, this is proof the SCO is shaping up to be the most important international organization in Asia.

"It's already clear that one of its key long-term objectives will be to stop trading in U.S. dollars, while advancing the use of the petro-yuan and petro-ruble in the energy trade," he commented.

With this expansion, SCO members now control 20% of the world's oil and half of all global gas reserves. The organization represents about half of the world's population.

> "The expansion is a big deal," said Hallinan. "The U.S. has been trying to isolate Iran and Russia. After this expansion I think it is relevant to ask who is looking more isolated these days?"

Hallinan said a major focus of the SCO is security, with Russia and China wanting to diminish the U.S. and North Atlantic Treaty Organization (NATO) presence in Central Asia to what it was before the 2001 U.S. invasion of Afghanistan. The SCO has pressured countries in the region to close U.S. military bases with some success. The U.S. was evicted from the Karshi-Khanabad base in Uzbekistan in 2005 and from the Manas base in Kyrgyzstan in 2014.

"At present, the SCO has started to counterbalance NATO's role in Asia,"commented Aleksey Maslov, chair of the department of Asian studies at the Higher School of Economics in Moscow, in a recent article.

> "The aggressive nature of Western actions towards Russia has certainly united the SCO members," concurred the London-based political commentator Alexander Clackson in Oriental Review this September. "What links them all—whether members or observers—is the rejection of Western-dominated institutions, such as the World Bank or the International Monetary Fund, which are all U.S.-based. The SCO, like the BRICS with their Development Bank, sees itself as a forum against the Western dominated global order."

Hallinan wrote recently that the days when these Western institutions could, "dictate international finances and intimidate or crush opponents with an avalanche of sanctions are drawing to a close. The BRICS and the Shanghai Cooperation Organization are two nails in that coffin."

"This cannot happen fast enough in order to stop U.S.-led Western aggressions and financial terrorism around the world," said Koenig.

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