China Reduces its US Dollar Holdings. The Geopolitics of "Forex Reserves Diversification"

By Global Research News

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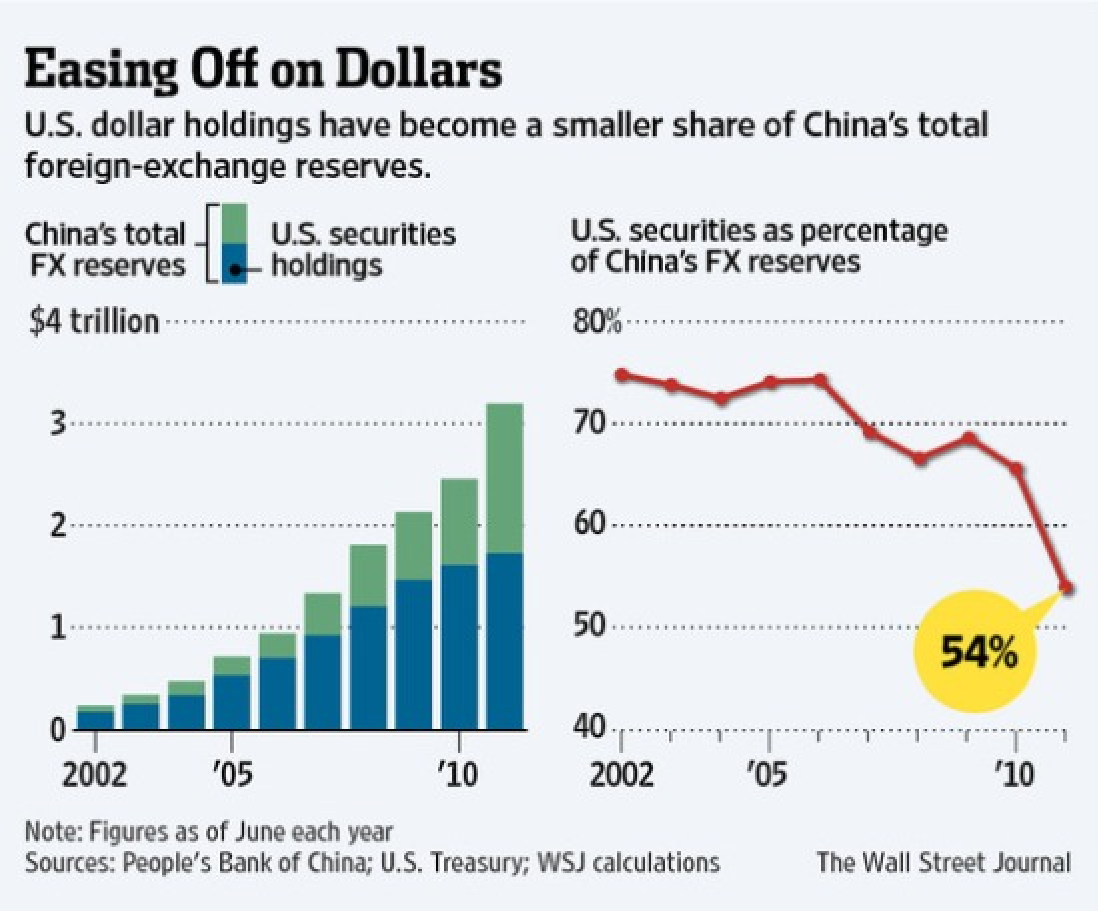
China and Russia are quitting US dollar or at least significantly cutting the dollar share in their forex reserves. Politically correct American analysts call this process "rapid forex reserves diversification". In fact, some economists see this trend as a threshold in the unfolding world crisis because the whole pyramid of global finance is based on one simple fact – financial regulators around the world ***buy the US debt (dollar & treasuries) no matter what****.*

"It's no longer in China's favor to accumulate foreign-exchange reserves," Yi Gang, a deputy governor at the central bank, said in a speech organized by China Economists 50 Forum at Tsinghua University yesterday. The monetary authority will "basically" end normal intervention in the currency market and broaden the yuan's daily trading range, Governor Zhou Xiaochuan wrote in an article in a guidebook explaining reforms outlined last week following a Communist Party meeting.

Neither Yi nor Zhou gave a timeframe for any changes. It is well-known that Chinese authorities as a rule tend to avoid sharp changes in political economy. Such policies are implemented in such a discreet manner that people do not even realise the ongoing transformation. What's interesting, the Central Banks do not announce such things so loudly. For example, over the period from the end of January 2013 to the end of July, **the Bank of Russia reduced its stockpile of US Treasury securities from USD 164.4 billion to USD 131.6 billion**, which means that over the course of six months, it reduced its portfolio of US Treasury obligations by USD 32.8 billion, or by 20 percent. Closer relations between Beijing and Moscow and is not aimed at challenging the dollar, but to protect their domestic economies.

1. "In recent years, China has been incrementally moving away from US financial hegemony. This hegemony is predicated on the US dollar being the world reserve currency and, by convention, the standard means of payment for international trade and in particular trade in oil. That arrangement is obsolete given the bankrupt state of the US economy. But it allows the US to continue bingeing on credit. China – the second biggest economy in the world and a top importer of oil – has or is seeking oil trading arrangements with its major suppliers, including Russia, Saudi Arabia, Iran and Venezuela, which will involve the exchange of national currencies.



That development presents a grave threat to the petrodollar and its global reserve status. The latest move by Beijing on November 20 giving notice that it intends to shift its risky foreign exchange holdings of US Treasury notes for a mixture of other currencies is a harbinger that the American economy's days are numbered, as Paul Craig Roberts noted."

2. Beijing's slow strategy of quitting the dollar harmonizes perfectly with Russia's strategy of balancing its forex reserves, writes Valentin Katasonov of the Strategic Culture Foundation. He notes that Chinese decision is a cautious attempt to challenge US financial hegemony. Beijing's idea is **to stop the creation of an artificially inflated demand for US currency**.

six steps of the Chinese are as follows:

- The decision taken by the People's Bank of China in the summer of 2010 to reinstate a "managed float" of the yuan was the first small step to change its status of this "hermit currency";
- The approval, in 2011, of the latest 12th Five Year Plan for China's socio-economic development;
- Plans to make yuan an "international currency" (no further details available yet);
- The reaching of agreements between China and a number of other countries on a transition to the use of national currencies in mutual trade including trade in natural resources;
- A statement by the central bank of Australia that it is planning on converting 5 percent of its international reserves into Chinese treasury bonds following successful talks with Beijing;
- **The most important one: The agreement reached in October 2013 between Beijing and London that currency trading between the yuan**

and pound sterling will begin at the Royal Exchange, as well as the permission given by the British authorities to Chinese banks, allowing them to open up branches in the City of London.The agreement between Britain and China virtually involves London's transformation into a kind of offshore company for Chinese banks and financial companies.

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