Russia Gets Very Serious on "De-dollarizing". The Russia-China "Silk Road" Strategy

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Russia is about to take another major step towards liberating the Ruble from the Dollar System. Its Finance Ministry just revealed it is considering issuing Russian state debt in Chinese Yuan. That would be an elegant way to decouple from the dependence and blackmail pressures from the US Treasury financial terrorism operations while at the same time strengthening the bonds between China and Russia–Washington's worst geopolitical nightmare.

Russian Deputy Minister of Finance, Sergei Storchak, announced that his ministry is making a careful study of what would be required to issue Russian bonds denominated in Chinese Yuan. The latest news is part of a long-term strategy between Russia and China that goes at the heart of American hegemony—the role of the dollar as the leading world central bank reserve currency.

The dollar is used in some 60% of central bank reserves today. The second largest is the Euro. Now clearly China is carefully moving, as the world's largest trading nation, to create its Renminbi or Chinese Yuan as another major reserve currency. That has huge geopolitical implications. So long as the US dollar is the leading reserve currency, the world must de facto buy US dollar Treasury bonds for its reserves. That has allowed Washington to have budget deficits since 1971 when the dollar left the gold exchange standard. In effect, China, Japan, Russia, Germany—all trade surplus countries, finance Washington's deficits that allow her to make wars around the world. It is a paradox that Russia and China at least, are determined to end as soon as possible.

Last year Russia and China signed enormous 30-year energy deals for delivery of Russian oil and gas to China. The payments will be in local currencies not in dollars. Already in 2014 settlement in national currencies between China and Russia in bilateral trade increased nine times over 2013. Lin Zhi, head of the Europe and Central Asia Department of the Chinese Ministry of Economic Development announced last November that, "About 100 Russian commercial banks are now opening corresponding accounts for settlements in yuan. The list of commercial banks where ordinary depositors can open an account in yuan is also growing." Last November 18 Russia's largest bank, Sberbank became the first Russian bank to begin financing letters of credit in Chinese yuan.

Long-term strategy

What all this indicates is that Russia and China are carefully planning a long-term strategy of getting out from dependence on the US currency, something that, as the US sanctions last year revealed, make both countries vulnerable to US currency wars of devastating impact.

China has just been accepted "in principle" by the Group of 7 finance ministers to have its yuan included in the International Monetary Fund basket of currencies making up IMF Special Drawing Rights. Today only US dollar, Euro and Japanese Yen are included in the basket. Including the yuan would be a huge step towards making the yuan a recognized international reserve currency, and at the same time would weaken the dollar share.

China's foreign reserves consist overwhelmingly of US dollar claims, mainly US Treasury bonds, which is a strategic weakness, because in case of war these can be frozen, as Iran knows too well. It is imperative for China to increase the gold content of the reserves and to diversify the rest into other currencies.

China has also agreed with Russia to unify the new Silk Road high-speed rail project with Russia and Russia's Eurasian Economic Union. At the same time Beijing has announced it is creating a huge $16 billion fund to develop gold mines along the rail route linking Russia and China and Central Asia. That suggests plans to greatly build up gold as central bank reserve share. China's central bank has greatly increased its gold holdings in recent years, though whether it is now greater than the alleged Federal Reserve gold holdings of 8000 tons is not yet public. It is expected China must reveal its gold reserves on being formally accepted into the IMF SDR basket perhaps later this year.

Last year, 2014, Song Xin, president of the China Gold Association stated, "We need to establish our gold bank as soon as possible…It can further help us acquire reserves and give us more say and control in the gold market." A gold sector fund involving countries along the Silk Road has been set up in northwest China's Xi'an City this May, led by Shanghai Gold Exchange (SGE), part of China's national bank, PBOC. China is the world's largest gold producer. Among the 65 countries along the routes of the Silk Road Economic Belt, there are numerous Asian countries identified as important reserve bases and consumers of gold. Xinhua reports that 60 countries have invested in the fund, which will facilitate central banks of member states to increase their holdings of gold.

Dr. Diedrick Goedhuys, former economic adviser to the Reserve Bank of South Africa in an interview told me, "I want to emphasize the unique quality of gold, when viewed as a financial asset, of being an asset that is no-one's liability. A treasury bond, for instance, is an asset in my hands, but a liability, or debt to be repaid, in the books of the treasury. Gold is a pure asset. The Chinese gold mining plan is of vast importance. It's a long-term plan; it may take ten years before it has a significant effect."

Now with Washington and Wall Street increasingly frustrated at how to weaken the Ruble and China's Renminbi, those two powers are making giant strides to break free from their dollar chains, a move that could liberate much of mankind if done in a good way.

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