A new world is being born, one without the US dollar greasing the wheels of commerce

BRIC & SCO summits: Reinventing the wheel

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Yekaterinburg, famous tragically as the spot Lenin chose to have the Tsar and his family executed in 1918, and ironically as the fiefdom of Boris Yeltsin, who finished off the Russian revolution itself in 1991, witnessed something no less remarkable last week when leaders of the so-called BRIC nations (Brazil, Russia, India and China) held their first summit, following the yearly meeting of the Shanghai Cooperation Organisation (SCO). The BRIC countries comprise 15 per cent of the world economy, 40 per cent of global currency reserves and half the world's population. Brazil , India and China have also weathered the financial crisis better than the world as a whole.

Holding the two meetings together meant that Indian Prime Minister Manmohan Singh attended the SCO for the first time. The SCO, Russian and China 's Eurasian security organization, has become a key counterweight to US hegemony in the world, and Russia and China are eager to have India upgrade its position of observer to member. This summit appeared to have coaxed India a step closer, as the SCO security agenda has shifted its emphasis to the growing security threat from Afghanistan, which satisfies the more pro-US India .

But the headline-stealer was the BRIC summit. While the US plays its tiresome geopolitical games on Russia 's eastern borders, Russian President Dmitri Medvedev was busy charting a new economic and political reality in the heart of Eurasia . "The artificially maintained unipolar system", he lectured, is based on "one big centre of consumption, financed by a growing deficit and … one formerly strong reserve currency." At the root of the global financial crisis, he concluded, is that the US makes too little and spends too much. Especially upsetting for Russia is its continued military largesse to Georgia , the missile shield in Eastern Europe and its invasions of Iraq and Afghanistan . "The summit must create the conditions for a fairer world order," he read out, as Presidents Hu Jintao of China , Luiz Inacio Lula da Silva of Brazil and the Indian prime minister looked on approvingly.

China backs Russia 's two big gripes with the US : "The security of some states cannot be ensured at the expense of others, including the expansion of military-political alliances or the creation of global or regional missile defense systems," the joint Chinese-Russian statement says. Chinese leader Hu Jintao also joined Medvedev in denouncing US plans to militarise outer space: "Russia and China advocate peaceful uses of outer space and oppose the prospect of it being turned into a new area for deploying weapons … The sides will actively facilitate practical work on a draft treaty on the prevention of the deployment of weapons in outer space, and of the use of force or threats to use force against space facilities."

Iranian President Ahmedinejad, fresh from trouncing his pro-Western rival in presidential elections, dotted the “i”s at the SCO meeting, taking a leaf from Venezuela ’s Hugo Chavez: “The international capitalist order is retreating. It is absolutely obvious that the age of empires has ended and its revival will not take place.”

But there was more than colourful rhetoric in all this, despite the pooh-poohing of Western pundits, who deride the SCO and BRIC as a collection of misfits and wannabes. The BRICs have put the US dollar on notice, and are already finding alternatives as a means of clearing accounts. Medvedev called for the IMF to include the Russian ruble and the Chinese yuan in the basket of currencies used to value its financial products. But that is just for starters. Chinese Central Bank governor Zhou Xiaochuan says the goal is now to create a reserve currency “that is disconnected from individual nations.”

Even more ominous for the threadbare dollar, though perfectly sensible in the computer age, is the revival of stone-age barter on a big scale, which bypasses the need for any reserve currency at all. Brazil ’s biggest trading partner, once the US , is now (surprise) China , and they are using barter deals to settler their accounts, bypassing the dollar altogether. Two weeks ago China reached an agreement with Malaysia to denominate trade between the two countries in yuan.

As dollars are the world’s default reserve currency today, the US government can churn them out at will to paper over its massive foreign debt and budget deficit, effectively letting it steal other countries assets legally and forcing countries everywhere to finance its military spending. China , Russia , Brazil and now India are well aware of this, have had enough, and have the international heft to do something about it. For them, the US is the ultimate rogue nation. How else to characterise a country that insists other countries follow one set of laws – on war, debt repayment and treatment of prisoners – but ignores them itself? The US is now the world’s largest debtor yet has curiously avoided the pain of “structural adjustments” that the IMF imposes on other debtor economies, refusing to cut its bloated military budget or increase taxes meaningfully. “The world economy should not remain entangled, so directly and unnecessarily, in the vicissitudes of a single great world power,” said Roberto Mangabeira Unger, Brazil’s minister for strategic affairs.

The US can never “repay” the $4 trillion debt it owes foreign governments, their central banks and the wealth funds set up precisely to dispose of the global dollar glut. “ America has become a deadbeat – and indeed, a militarily aggressive one,” notes Michael Hudson. The problem is how to contain it. Rumblings are coming not only from fringe peaceniks. Yu Yongding, a former Chinese central bank advisor now with China ’s Academy of Sciences, advises US Treasury Secretary Tim Geithner that the US should save by cutting back on its military spending. “ US tax revenue is not likely to increase in the short term because of low economic growth, inflexible expenditures and the cost of ‘fighting two wars’”.

The BRICs are trying to organise their affairs so that they are no longer the unwilling recipients of dollars. No matter what they think of the US , they hasten to insist they don’t want to see the US dollar collapse, since they hold most of their own reserves in dollars. But they are beginning to withdraw the life-support system the US has been relying on since Nixon completed the transition from a gold-based reserve currency to a purely paper one in 1971.

Just to emphasise how serious the situation is, according to the *Financial Times,* the top 5 financial institutions by market capitalisation in 1999 were, in order, Citigroup (US), Bank of America (US), HSBC (UK), Lloyds TSB (UK), Fannie Mae (US). The top 5 as of 2009 are Industrial & Commercial Bank of China, China Construction Bank, Bank of China, HSBC (UK), and JPMorgan Chase (US). From 0:3 to 3:1 for China, now officially the world's second largest economy after the US – a rout.

Just as countries are beginning to rediscover age-old barter, fixed, pegged and dual exchange rates are also being considered, mechanisms once derided as passe. In the face of continued US overspending, de-dollarisation will force countries to return to nationally determined fixed exchange rates and dual exchange rates – one exchange rate for commodity trade, another for capital movements and investments.

The world is discarding its sixty-year old framework, though the historic meetings in Yekaterinburg elicited only a collective yawn from most media. "Between the BRIC countries, there is really little in common," said Yevgeni Yasin, head of research at the Higher School of Economics in Moscow. "Each of them has its own destiny, its own special character, and it will be much more difficult for them to agree among themselves than separately with Western countries." China depends on manufactured exports to the US and Europe. Russia sells oil, natural gas and other natural resources. Brazil relies on agricultural exports, while India 's growth has been largely based on its domestic market.

However, Jeng Fengin at the Chinese Institute of Modern-Day International Relations is less blase: "The financial crisis has given a much-needed boost to the fledgling partnership between Brazil, Russia, India and China and helped our voice to be heard everywhere." President of the Brazil-Russia Chamber of Commerce, Industry and Tourism Gilberto Ramos warned sceptics that the BRIC countries are all powers of a truly continental scope and have very much in common, both geographically and macroeconomically.

In case Obama hasn't noticed, Eurasia is coalescing, not around littler Georgia and big brother Poland, with their pretensions as forward bases for the mighty US empire, but around China, Russia and India. He would do well to remember Yekaterinburg is not only famous for its Russian past, but for Gary Powers, the US spy shot down in 1960, a fitting metaphor for how Russia and China are taking aim at the US-dominated international financial order.

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Canadian Eric Walberg is known worldwide as a journalist specializing in the Middle East, Central Asia and Russia. A graduate of University of Toronto and Cambridge in economics, he has been writing on East-West relations since the 1980s. He has lived in both the Soviet Union and Russia, and then Uzbekistan, as a UN adviser, writer, translator and lecturer. Presently a writer for the foremost Cairo newspaper, Al Ahram, he is also a regular contributor to Counterpunch, Dissident Voice, Global Research, Al-Jazeerah and Turkish Weekly, and is a commentator on Voice of the Cape radio. Eric Walberg was a moderator and speaker at the Leaders for Change Summit in Istanbul in 2011.