

China, Russia, Belarus renounce the US Dollar?

By [Anatoly Gorev](#)

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The recent meeting between Russian Prime Minister Vladimir Putin and his Chinese counterpart, Wen Jiabao, created a financial sensation. Wen said that the two nations could withstand the global financial crisis if they joined forces; Putin urged him to go farther and stop using U.S. dollars in Russian-Chinese settlements.

This idea is nothing new. Russia and China reached a “framework” agreement in November 2007, which was followed by China’s similar agreement with Belarus.

Earlier this year, Iranian President Mahmoud Ahmadinejad and Venezuelan leader Hugo Chavez turned against the dollar as well when they asked their OPEC partners to stop using the dollar for oil settlements. They argued that the “green” currency was no longer reliable and it was high time they look for a more stable and predictable alternative.

Curiously, unlike the Ahmadinejad and Chavez appeal, Putin’s proposal came as the dollar was on the rebound and even began pushing the euro. Economists even started talking in terms of a reversal of the global currency trends, rather than the temporary appreciation of the dollar.

Analysts predict that the dollar will regain its value in the next few months. They do not see anything which could hinder its steady growth.

Yet, Putin proposed that Russia and China stop using it as a settlement instrument. What is it – lack of confidence in the dollar’s prospects or a political move?

Experts differ on this count. Igor Nikolayev, chief strategic analyst at FBK private auditing firm, sounded skeptical: “I think it was a political statement rather than an economic decision. There is a dominant public sentiment that the United States is the source of all evil, so let’s stop using the dollar,” he explained.

One has to bear in mind, though, that some other currency will need to be found to replace the dollar for international settlements. China is unlikely to use the ruble, and Russia would be equally reluctant to accept the yuan.

“They could opt for the euro, but its future is uncertain, especially considering current developments on global financial markets. It is also unclear whether China would be happy to start using the euro while most of its international reserves are held in dollars,” he added.

There are more questions than answers here, Nikolayev concluded.

To be objective, one has to admit that other analysts are not as skeptical about the

possibility of using other currency units between Russian and Chinese companies.

Andrei Marinchenko, director general of the Kalita-Finance company, said the idea was quite realistic. Moreover, he thinks that the ruble stands a good chance of being selected as a reserve currency, primarily because the Chinese are disappointed in the dollar but aren't yet accustomed to the euro.

Only time will show who is right. But to stop using the dollar in Russian-Chinese settlements is too important a decision to make for purely political reasons – that much is obvious.

Suppose we do it; what will be the implications for Russian businesses, how will the new financial and political reality affect their incomes and savings?

Marinchenko is convinced of a beneficial impact. According to Marinchenko, once the ruble is recognized as a settlement unit, it will enjoy growing demand with Chinese companies and individuals. The Russian currency will consequently grow stronger and more influential globally.

Russia will also become immune to many shocks from stock market meltdowns and won't have to fear future devaluation or revaluation of the ruble. It will happen because the role of the U.S. dollar, which has earned a reputation as an unstable and unreliable currency lately, will be much less important.

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