

“De-Dollarization” and the China-Russia Bank Deal: The Beginning of the End of the Dollar?

By [Alexander Clackson](#)

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At the moment, most global trade is conducted in U.S. dollars and more than 60 percent of all global foreign exchange reserves are held in U.S. dollars. This gives the United States an enormous built-in advantage, but thanks to decades of incredibly bad decisions by America, this advantage is starting to erode.

Discussions and rumours about “de-dollarization” have been circulating for some years now, but finally, the Eurasian anti-U.S. Dollar axis is rapidly taking shape, with recent events catalysed and certainly accelerated by U.S. foreign policy in Ukraine, which has merely succeeded in pushing Russia that much closer, and faster, to China.

The heads of three Russian banks said recently that Russian companies will make bypassing the U.S. dollar in international transactions a top priority, in the latest sign that Russia is turning its back on the West and moving toward Asia. The head of Deutsche Bank in Russia, Pavel Teplukhin, said: “Over the last few weeks there has been a significant interest in the market from large Russian corporations to start using various products in [Chinese] renminbi and other Asian currencies and to set up accounts in Asian locations.” These developments follow Russia’s state VTB bank deal with Bank of China to pay each other in domestic currencies. Furthermore, Alexei Miller, the head of Russian state-owned Gazprom, which supplies Europe with 30 percent of its natural gas supply, announced that the oil company would shift “nine out of 10” payment contracts from dollars to euros, with the ultimate goal of transitioning those contracts to roubles of renminbi.

Russia is not the only country that aims to de-dollarize. The Chinese are now accelerating their long-term plan to dethrone the U.S. dollar. It is important to note that China currently owns about 1.3 trillion dollars of U.S. debt, and this enormous exposure to U.S. debt is starting to become a major political issue within China. The country is also the largest producer of gold in the world, and it has also been importing massive amount of gold from other nations. But instead of slowing down, the Chinese appear to be accelerating their gold buying. Many are convinced that China eventually plans to back the yuan with gold and try to make it the number one alternative to the U.S. dollar.

The aggressive policy of Washington over the last few years has created a sense of urgency for countries such as Russia and China to act fast to protect their interests. The financial crisis of 2008 was also a reminder that the neo-liberal world order created by America is not stable and is not beneficial to the global economic system. Though complete de-dollarization is still a long way away, the process has begun and is unlikely to reverse.

Alexander Clackson is the founder of Global Political Insight, a political media and research organisation. He has a Master’s degree in International Relations. Alexander works as a

political consultant and frequently contributes to think-tank and media outlets.

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