

“De-Dollarization”: How Economic Sanctions against Russia are Promoting Bilateral Trade and Finance, Outside the Realm of the US Dollar

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Sanctions are forcing large volumes of trade and finance out of the ambit of traditional networks, weakening western control over such flows.

Western sanctions are having an unintended effect. They are accelerating the birth of a parallel ecosystem where countries not allied to the West are able to operate without the constant threat of sanctions. Free of western control, this alternative platform is gaining traction at a surprisingly fast pace.

It is worth mentioning at the start that western companies have a huge exposure in the Russian market. In contrast, Russia is primarily an exporter of commodities such as oil, gas, metals and minerals which are in [great demand – especially in Asia’s ravenous markets](#). Bottom line: while western consumer and capital goods can be replaced by Asian manufacturers, Russian commodities are the lifeblood of economies in both Asia and Europe.

SWIFT move

[The move towards a non-western world is happening most rapidly in the area of finance](#). This is hardly surprising because financial flows are easier to reroute – and replace – than say, a shipment of coal or an oil tanker.


Among the dozens of sanctions directed against Russia, the most extreme one was proposed by the UK, which pressed European Union leaders to block Russian access to the SWIFT banking transaction system. The Belgium-based SWIFT, which stands for the Society for Worldwide Interbank Financial Telecommunication, is the financial world’s very arteries.

Restricting Russian usage of SWIFT would no doubt disrupt financial and commercial activities in the country, but according to Richard Reid of the University of Dundee in Scotland it may carry a longer-term downside. “Large chunks of Russian international payments flows would move to much less well monitored and measured financial channels and thus be beyond sanctions at any future point,” he told Bloomberg News.

Although German Chancellor Angela Merkel swiftly rejected the British proposal as too extreme, the damage has been done. It is now abundantly clear to Moscow that the US-UK evil twins are not content with symbolic sanctions but are really out to destroy its economy. Anticipating this blow to its financial jugular, Russia had in July drawn up a law that would create [a local equivalent of SWIFT](#).

The sanctions have also highlighted the synergy between Russia and China. Vesti Finance [says](#) sanctions aimed at restricting Russian access to finance will have almost no sense, since Russian companies will find the necessary money in China. And the Chinese are keen to increase the impact of the renminbi and turn it into the world's reserve currency.

De-dollarisation

The move to a parallel payment system is happening in tandem with the ditching of the US dollar on which the entire US economy – and hegemony – pivots. The dollar's status as the reserve currency is due to it being the only currency accepted  in the petroleum market, which is why it's also known as the petrodollar.

That's about to change as Russia and other emerging powers are planning to drop the petrodollar and end the dollar's reserve status. But because the dollar's dominance is so overwhelming in the petroleum trade, it would require someone really big to take it down.

That heavy hitter is Gazprom. [Kommersant reports](#) the Russian oil company has started shipping oil from the Arctic and the tankers will arrive in European ports this month, with payment to be received in rubles. Gazprom will also deliver oil via the [Eastern Siberia-Pacific Ocean pipeline \(ESPO\)](#), accepting payment in Chinese renminbi.

[Finance portal Zero Hedge says](#), "Russia is actively pushing on with plans to put the US dollar in the rearview mirror and replace it with a dollar-free system – or a de-dollarised world."

Citing the Voice of Russia, Zero Hedge says the country's Ministry of Finance is ready to greenlight a plan to radically increase the role of the ruble in export operations while reducing the share of dollar-denominated transactions.


As Zero Hedge says, "The further the west antagonises Russia, and the more economic sanctions it lobs at it, the more Russia will be forced away from a US dollar-denominated trading system and into one which faces China and India."

Worth mentioning is that the Siberia-sized \$400 billion gas contract with China – which Moscow and Beijing had haggled over for a decade – finally got inked in May 2014, after westerns sanctions kicked in.

Military: That sinking feeling

It is a pointer to the paucity of strategic thinking in France and Germany that they are so easily swayed by the US-UK combine to welch on military contracts already inked with Russia. The built-in penalties aside, the breach of contract is guaranteed to alarm other buyers.

If Germany and France are planning to drive away their weapons customers, then they are doing a pretty good job of it. But look at it this way: perhaps that's precisely what the US and UK have been planning all along – to attract disillusioned buyers.

 As part of its military modernisation, Russia had hired Germany's Rheinmetall to build a modern military training facility. But under pressure from the US, Germany cancelled the \$134 million contract. [Strategy Page says](#) Russia may turn to China to get the training

centre built as China has obtained – or rather purloined – the technology and built its own.

“The growing list of sanctions against Russia has hit the Russian arms industry particularly hard because new Russian weapons depend on Western suppliers for some of the high tech components needed,” says Strategy Page. “China is taking advantage of this by pointing out it has become a major producer of high-end electronic and mechanical components, and can probably replace Western suppliers now unavailable because of the sanctions. While Russia does not buy a lot of foreign weapons it does buy a lot of high-tech components (especially electronic ones) from the West. A lot of these items are dual use items that China and other East Asian countries also manufacture. China backs Russian (moves in Ukraine) and is hostile to sanctions (which it has been under for several decades). Beijing believes it can replace enough western suppliers to Russia to create about \$1 billion a year in additional business for Chinese firms.”

Similarly, India is watching – with a mix of amusement and dismay – France kowtow to the US and letting its \$1.6 billion Mistral deal with Russia sink. France has been a reliable supplier of quality combat systems and has never welched on a deal with India. However, that was in the past when France had opted out of NATO. With Paris now syncing its foreign policy with the warlords in Washington, [India’s military should be cagey](#) about ‘Made in France’ technology.

Loss-loss for the West

As the US and EU fumble around in the dark, there is considerable activity in countries allied to Russia. As well as market-led movements (food exporters from Asia rushing in to fill Russian supermarket shelves) there are strategic moves afoot. For instance, the US and EU have a monopoly on wide body aircraft and also dominate the middle categories. The sanctions are just the push required to expedite aviation joint ventures, particularly between Russia and China in [wide body aircraft](#) and Russia and India in [mid-size airliners](#).

The concept of a “World Without the West” was first articulated by American academics Steven Weber, Naazneen Barma and Ely Ratner. “By preferentially deepening their own ties among themselves, and in so doing loosening relatively the ties that bind them to the international system centred in the West, rising powers are building an alternative system of international politics whose endpoint is neither conflict nor assimilation with the West,” they say.

So in effect, by not playing by the rules and systems set by the West they are creating an alternative arrangement in which they neither enter into conflict situations with the West nor enter into subservient alliances (like those offered to South Korea and Japan).

Years from now, westerners will ruefully look back at the sanctions as the tipping point that ushered in a world without the West.

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