

BRICS, Eurasian Economic Union (EEU), Shanghai Cooperation Organization (SCO): Towards a New Global Financial Architecture?

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The BRICS met in 2013 in Durban, South Africa, to, among other steps, create their own credit rating agency, sidelining the “biased agendas” of the Moody’s/Standard & Poor’s variety. They endorsed plans to create a joint foreign exchange reserves pool. Initially it will include US\$100 billion. It’s called a self-managed contingent reserve arrangement (CRA).

During the July (2014) BRICS Summit in Brazil the five members agreed to directly confront the West’s institutional economic dominance. The BRICS agreed to establish the New Development Bank (NDB) based in Shanghai, pushed especially by India and Brazil, a concrete alternative to the Western-dominated World Bank and the Bretton Woods system. With initial authorized capital of \$100 billion, including \$50 billion of equally shared initial subscribed capital, *it will become one of the largest multilateral financial development institutions*. Importantly, it will be open for other countries to join.

In addition, the creation of the Contingent Reserve Arrangement, or currency reserve pool, initially sized at \$100 billion, will help protect the BRICS countries against short-term liquidity pressures and international financial shocks. Together with the NDB these new instruments will contribute to further co-operation on macroeconomic policies.

According to Conn Hallinan – in his article [Move Over, NATO and IMF: Eurasia Is Coming](#) – *the BRICS’ construction of a Contingent Reserve Arrangement will give its members emergency access to foreign currency, which might eventually dethrone the dollar as the world’s reserve currency*. The creation of a development bank will make it possible to bypass the IMF for balance-of-payment loans, thus avoiding the organization’s onerous austerity requirements.

Also it was agreed MoU’s among BRICS Export Credit and Guarantees Agencies, as well as the Cooperation Agreement on Innovation within the BRICS Interbank Cooperation Mechanism, which will offer new channels of support for trade and financial ties between the five countries.



BRICS will be trading in their own currencies

So in near future BRICS will be trading in their own currencies, including a globally convertible yuan, further away from the US dollar and the petrodollar. All these actions are strengthening financial stability of BRICS – a some kind of safety net precaution, an extra

line of defense.

Emerging economic powers such as China, India and Brazil have long been demanding greater share of votes in multilateral development institutions like the World Bank, International Monetary Fund and the Asian Development Bank (ADP) to reflect their recent phenomenal growth.

China's economy is expected to grow to \$10 trillion this year, yet its share of votes in the Bretton Woods institutions is only 3.72 percent, compared with 17.4 percent for the United States. The signing ceremony of the Memorandum of Understanding on Establishing the Asian Infrastructure Investment Bank (AIIB) took place in Beijing, Oct. 24, 2014 According to ADB, in the 10 years up to 2020, the region requires investments of \$8 trillion in terms of national infrastructure, or \$800 billion a year. The ADB currently lends out only about 1.5 percent of this amount. The AIIB is expected to have an initial capital base of \$100 billion. The AIIB, to begin with, will serve at least five objectives for China. First, it could help China invest part of its foreign exchange reserves of \$3.9 trillion on commercial terms. Second, it will play a vital role in the internationalization of the yuan. And third, the AIIB will boost China's global influence and enhance its soft power.

BRICS could be expanded to include the MINT countries (MINT is an acronym referring to the economies of Mexico, Indonesia, Nigeria, and Turkey.), thus furthering the organization's scope and creating opportunities for a long-term strategic 'flip' of those states from their largely Western orientations.

Being in the same organization does not automatically translate into having the same politics on international questions. *The BRICS and the recent Gaza conflict are a good example. China called for negotiations; Russia was generally neutral, but slightly friendly toward Israel; India was silent (Israel is New Delhi's number-one source of arms); South Africa was critical of Israel, and Brazil withdrew its ambassador.*

As Russia is taking over the position of the BRICS Chair, the next summit will be held in the city of Ufa in the Republic of Bashkortostan, in July 2015.

The SCO

[The Shanghai Cooperation Organization](#) (SCO) is the cradle in which the Russian-Chinese strategic partnership (RCSP) was born and raised. Originally founded as the Shanghai Five in 1996, it was reformed as the SCO in 2001 with the inclusion of Uzbekistan. *Less than a month after the BRICS' declaration of independence from the current structures of world finance, the SCO—which includes China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—approved India, Pakistan, Iran, and Mongolia for membership in the organization.* Also SCO has received applications for the status of observers from Armenia, Azerbaijan, Bangladesh, Belarus, Nepal and Sri Lanka.

It was the single largest expansion of the economic cooperation and security-minded group in its history, and it could end up diluting the impact of sanctions currently plaguing Moscow over the Ukraine crisis and Tehran over its nuclear program. These countries directly fall into the immediate sphere of the RCSP, where either Russia or China can exert some degree or another of important influence to varying degrees. Also, the SCO [sets out](#) the foundations of the RCSP, listing the fight against "terrorism, separatism, and extremism in all their manifestations" (thus including [Color Revolutions](#)) as their foremost foe. It just so happens

that the U.S. engages in all of these activities in its [Eurasian-wide campaign of chaos and control](#), thereby placing it at existential odds with Russia and China, as well as the other official members. Even before the recent additions, SCO represented three-fifths of Eurasia and 25 percent of the world's population.

For Iran, SCO membership may serve as a way to bypass the sanctions currently pounding the Iranian economy. Russia and Iran signed [a memorandum](#) in August (2014) to exchange Russian energy technology and food for Iranian oil, a move that would violate U.S. sanctions. One particular constraint is Russia's important relationship with Israel, which Moscow will not give up unless Jerusalem drops its neutral stance and joins the U.S.-led condemnation of Russia.

Chinese President Xi Jinping has also promoted new regional security initiatives. *In addition to the already existing Shanghai Cooperation Organization, a Chinese-led security institution that includes Russia and four Central Asian states, Xi wants to build a new Asia-Pacific security structure that would exclude the United States.*

As for India and Pakistan energy is a major concern the membership in the oil- and gas-rich SCO is quite reasonable. Whether that will lead to a reduction of tensions between New Delhi and Islamabad over Kashmir remains to see, but at least the two traditional enemies will be in same organization to talk about economic cooperation and regional security on a regular basis.

As joint forum the SCO can ease tensions in Central Asia e.g. between SCO members Uzbekistan and Kyrgyzstan over borders, and both countries, plus Tajikistan, over water rights. Most SCO members are concerned about security, particularly given the imminent departure of the United States and NATO from Afghanistan. That country might well descend into civil war, one that could have a destabilizing effect on its neighbors. *From August 24 -29, SCO members China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan took part in "[Peace Mission 2014](#)," an anti-terrorist exercise to "subdue" a hypothetical Central Asian city that had become a center for terrorist activity.*

The BRICS and the SCO are the two largest independent international organizations to develop over the past decade. There is also other developments to reduce old U.S. global dominance. The newly minted Union of South American Nations (USAN) includes every country in South America, including Cuba, and has largely replaced the Organization of American States (OAS), a Cold War relic that excluded Havana. *While the United States and Canada are part of the OAS, they were not invited to join USAN.*

Eurasian Economic Union (EEU)

Eurasian integration has moved to a higher level, to replace the EurAsEC came a new form of closer Association of the Eurasian Economic Union (EEU) also known as the Eurasian Union (EAU). To him by the old member States (Russia, Kazakhstan, Belarus) was joined by Armenia, the next candidate in the list on the accession of Kyrgyzstan, and later, his desire to join the EAEC expressed and Vietnam. Also the accession of Turkey and Syria are on the way.



Moscow began building a Russian-led community in

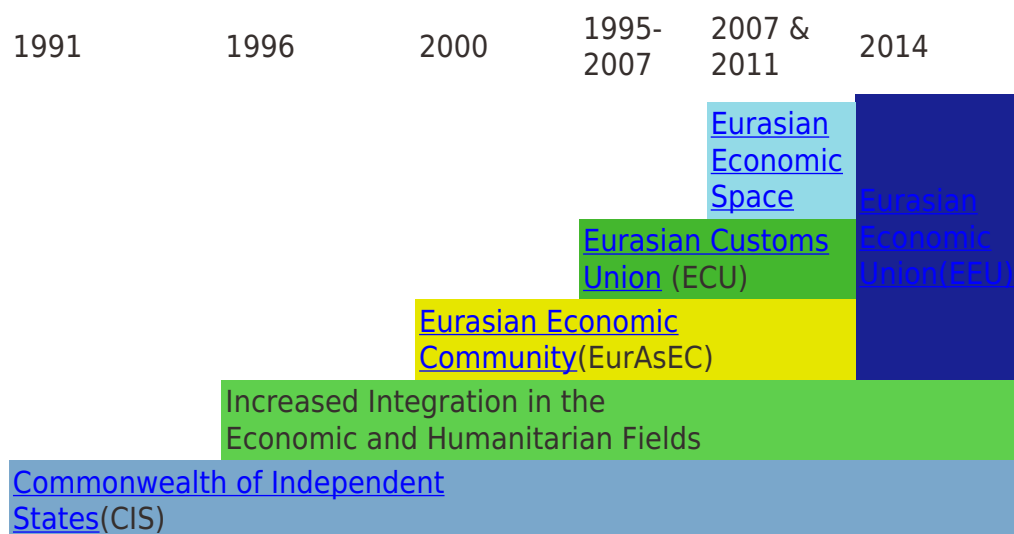
Eurasia that would give Russia certain economic benefits and, no less important, better bargaining positions with regard to the country's big continental neighbors—the EU to the west and China to the east.

Moldova, Ukraine and Georgia have been offered by both the European Union and the Eurasian Economic Union to join their integration unions. All three countries opted for the European Union by signing association agreements on March 21, 2014. However break-away regions of Moldova ([Transnistria](#)), Ukraine ([Republic of Donetsk](#)) and Georgia ([South Ossetia](#) and [Abkhazia](#)) have expressed a desire to join the Eurasian Customs Union and integrate into the Eurasian Economic Union.

Putin is scheduled to visit Japan later in 2014 in an effort to keep Russia's technology and investment channel to the country open. And Moscow is expected to reinvigorate ties with India, particularly in the defense technology sphere, under the leadership of newly elected Prime Minister Narendra Modi.

The Eurasian union may become an add-on to, or even an extension of, China's Silk Road project – a common space for economic and humanitarian cooperation stretching all the way from the Atlantic to the Pacific Ocean

Treaties and development stages of Eurasian Economic Union/Structural evolution



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Other bilateral developments

Russia is in the process of politically and economically integrating with Kazakhstan and soon Kyrgyzstan under the auspices of the Eurasian Union, and it has mutual security commitments with Kazakhstan, Kyrgyzstan, and Tajikistan under the Collective Security Treaty Organization ([CSTO](#)). China, on the other hand, is more of a soft leader in Central Asia, having established lucrative business contacts in recent years and struck extremely strategic [energy deals](#) with most of the region's members, first and foremost [Turkmenistan](#).

A Russian-Iranian strategic partnership would extend beyond Caspian and nuclear energy issues and see implicit cooperation between the two in the Mideast, especially in Syria, Iraq,

and Yemen. It can even carry over into Afghanistan after the NATO drawdown by year's end. This can help to build an alternative non-Western-centric trade network that can bolster Russia's complex economic interdependence with other states. This would give it the opportunity to expand mutual relations beyond the economic sphere and perhaps eventually associate these states into the multilateral webs of BRICS and the SCO.

Russia is also pursuing bilateral relations with Iran with fewer constraints. *This refers to nuclear energy, oil and gas, and arms deals, all based on pragmatic considerations: a Russo-Persian alliance is unlikely in view of many differences between Moscow and Tehran and thick layers of mutual suspicion.*

At the recent summit of the SCO in Dushanbe (11-12 Sep. 2014) the cooperation with SCO-applicant Iran went wider. Some of the projects were following:

- The well-known "Uralvagonzavod", began talks with Iran on the supply of freight cars 40 billion annually.
- Interestingly, Iran is not on the camera, discussing terms of oil supplies in exchange for electricity, in which Russia plans to build in Iran, the network of hydro - and thermal power plants.
- Iran and Russia have made progress towards an oil-for-goods deal sources said would be worth up to \$20 billion, which would enable Tehran to boost vital energy exports in defiance of Western sanctions. In January Reuters reported Moscow and Tehran were discussing a barter deal that would see Moscow buy up to 500,000 barrels a day of Iranian oil in exchange for Russian equipment and goods.

(Source: EN.XPPX.org)

One particular constraint is Russia's important relationship with Israel, which Moscow will not give up unless Jerusalem drops its neutral stance and joins the U.S.-led condemnation of Russia.

✖ Putin is scheduled to visit Japan later in 2014 in an effort to keep Russia's technology and investment channel to the country open. Russia is interested in [restarting talks to build a natural gas pipeline](#) between its Sakhalin Island and Japan's far northern island of Hokkaido, Russia already supplies [9.8 percent of Japan's LNG imports](#). The proposed pipeline would deliver 20 billion cubic meters of natural gas every year, which at full capacity would supply 17 percent of Japan's total natural gas imports. As an additional bonus, using a pipeline does not require the building of expensive regasification plants and natural gas from Russia would probably still be relatively cheap. *This is also part of Moscow's attempt to balance its interests and expand its energy influence eastward.*

Also Moscow is expected to reinvigorate ties with India, particularly in the defense technology sphere, under the leadership of newly elected Prime Minister Narendra Modi.

Russia also hopes that Russian-Serbian trade will reach 2 billion dollars this year. He said that a free trade regime existing between the two countries was contributing to steady development of Russian-Serbian economic ties. "Our reciprocal trade turnover grew by 15% to reach 1.97 billion dollars in 2013. It grew by another 16.5% to reach 1.2 billion dollars in the first half of 2014. We hope to reach the figure of 2 billion dollars this year" Putin

stressed. Positive dynamics can be seen in the sphere of investments. The total volume of Russian capital investments in Serbia has exceeded 3 billion dollars, the bulk of which was channeled into the strategically important energy sector.

While Russia is consolidating its influence over the former Soviet sphere with states which it already has cultivated deep relations with, China is moving in due its strategic interest in Central Asia. For China a top priority is to be able to diversify its natural resource import routes in order to avoid the U.S. dominated Straits of Malacca.

The growing influence of China in Southeast and East Asia and the Indian Ocean is explained with “string of pearls” concept (strategic points such as Hainan Island, the Woody Islands/close to Vietnam, Chittagong/Bangladesh, Sittue and the Coco Islands/Myanmar, Hambantota/Sri Lanka etc.). *The “string of pearls” strategy is aimed at protecting China’s oil flows, affirming the country as a global naval power with diverse interests throughout the world, and overcoming attempts by the USA to cut off access to or from China via the world’s oceans.* Furthermore, an important task lay in minimizing potential threats in the most complex and vulnerable choke point at the junction of two oceans, named the “Malacca Dilemma”. (Source and more in [Second Wind for China’s String of Pearls Strategy](#) by Nina Lebedeva).

Tehran is reaching out to Beijing as well. Iran and China have negotiated a deal to trade Iran’s oil for China’s manufactured goods. Beijing is currently Iran’s number-one customer for oil. *In late September, two Chinese warships paid a first-ever [visit to Iran](#), and the two countries’ navies carried out joint anti-piracy and rescue maneuvers.*

✖ Importing more gas from Russia helps Beijing to gradually escape its Malacca and Hormuz dilemma and industrialize the immense, highly populated and heavily dependent on agriculture interior provinces.

[The Northern East-West Freight Corridor](#)(Eurasian Landbridge) is an idea to link the Far East and Europe by rail takes its origin with the construction of the Trans Siberian railway linking Moscow to Vladivostok, completed in 1916. With a length of 9,200 km it is the longest rail segment in the world. It was initially used solely as an inland rail link, but in the 1960s the Soviet Union started offering a landbridge service from Vladivostok using the Trans Siberian to reach Western Europe.

Energy war

U.S. ally inside OPEC, the kingdom of Saudi Arabia, has been flooding the market with deep discounted oil, triggering a price war within OPEC, with Iran following suit and panic selling short in oil futures markets. The Saudis are targeting sales to Asia for the discounts and in particular, its major Asian customer, China where it is reportedly offering its crude for a mere \$50 to \$60 a barrel rather than the earlier price of around \$100. *When combined with the financial losses of Russian state natural gas sales to Ukraine and prospects of a US-instigated cutoff of the transit of Russian gas to the huge EU market this winter as EU stockpiles become low, the pressure on oil prices hits Moscow doubly.* More than 50% of Russian state revenue comes from its export sales of oil and gas. The US-Saudi oil price manipulation is aimed at destabilizing several strong opponents of U.S. globalist policies. Targets include Iran and Syria, both allies of Russia in opposing a US sole Superpower. In fact the oil weapon is accelerating recent Russian moves to focus its economic power on national interests and lessen dependence on the Dollar system. If the dollar ceases being

the currency of world trade, especially oil trade, the US Treasury faces financial catastrophe.

The shale gas revolution and a greater availability of LNG technologies, EU regulatory initiatives and implementation of the Third Energy Package provisions play a key role in transformations of gas markets.

✖ Now there might be a global oil war underway pitting the United States and Saudi Arabia on one side against Russia and Iran on the other.

In July 2011, the governments of Syria, Iran and Iraq signed an historic gas pipeline energy agreement which went largely unnoticed in the midst of the NATO-Saudi-Qatari war to remove Assad. The pipeline, envisioned to cost \$10 billion and take three years to complete, would run from the Iranian Port Assalouyeh near the South Pars gas field in the Persian Gulf, to Damascus in Syria via Iraq territory. The agreement would make Syria the center of assembly and production in conjunction with the reserves of Lebanon. This is a geopolitically strategic space that geographically opens for the first time, extending from Iran to Iraq, Syria and Lebanon. As Asia Times correspondent Pepe Escobar put it, "The Iran-Iraq-Syria pipeline – if it's ever built – would solidify a predominantly Shi'ite axis through an economic, steel umbilical cord."

In ongoing oil war the U.S. shale oil producers will suffer most. According to experts' estimates, the cost of production is around 80-90 dollars a barrel, 4-5 times more than the traditional oil. It means that the current price – 85 dollars a barrel as of October 17 – makes the companies operate in the red. Some producers will have to suspend operations facing mass bankruptcy in case the oil price falls lower than 80 dollars as shareholders start getting rid of zero profit bonds. The shale oil «soap bubble» will blow like the housing construction industry «bubble» blew in 2008. Of course, as time goes by oil prices will go up but it'll be a different world with some US oil producers non-existent anymore...

Russia insists the South Stream project should be exempt from the effect of the Third Energy Package because it signed bilateral inter-governmental agreements with the EU countries participating in the construction of the gas pipeline on their territory before the EU's new energy legislation came into force. Therefore, Russia says that the European Commission's requirement to adapt these documents to the Third Energy Package contradicts the basic law principle that legislation cannot have retroactive force. The Third Energy Package requires, in particular, that a half of the capacities of the pipeline built with Russian money must be reserved for independent suppliers, i.e. for cheap and free transit of Caspian gas to Europe independently from Russia. Therefore, Russia does not recognize the legitimacy of applying the Third Energy Package to the South Stream gas pipeline project.

Bottom line

Russia has accelerated its building of the Eurasian Bridge: Russia has the geostrategic opportunity of being an air, land, and sea bridge between Europe and East Asia. In line with China's Silk Road and New Eurasian Land Bridge projects, the concept of the Northern Sea Route, and international air routes traversing Siberia, Russia can use its geographic position to reap the resultant dividends of East-West trade and thereby increasing its middleman importance.

The geopolitical situation is now transforming from traditional Sino-U.S. relations to U.S.-China-Russia triangle in which *China, rather than the United States, will be the central*

player.

✖ In addition the EU is worried that Russia will turn east and Europe will lose much of its Russian market share. At a time when the euro area threatens to collapse, where an acute economic crisis has led the U.S. into a debt of up to 14 940 billion, and where their influence is dwindling in the face of the emerging BRICS powers, it becomes clear that the key to economic success and political domination lies mainly in the control of the energy source of the century: gas.

With China signing the natural gas deal with Russia and the president of China publicly stating that it's time to create a new security model for the Asian nations that includes Russia and Iran, it's clear China has chosen Russia over the U.S. Today the US-backed wars in Ukraine and in Syria are but two fronts in the same strategic war to cripple Russia and China and to rupture any Eurasian counter-pole to a U.S.-controlled regions. In each, control of energy pipelines, this time primarily of natural gas pipelines—from Russia to the EU via Ukraine and from Iran and Syria to the EU via Syria—is the strategic goal.

So far U.S. has bullied its way around smaller nations for too long now. It seems to me that finally there is coming to be a coalition of new axis with Eurasia and China. Russia and China are leading of developing a network of “parallel structures” to existing international organizations and institutions. The end goal is to create an alternative reality for international engagement, so that China can expand its own influence while escaping the restrictions of the current U.S.-dominated system.

In my conclusion the era when the IMF, World Bank, and U.S. Treasury could essentially dictate international finances and intimidate or crush opponents with sanctions, pressure and threats are drawing to a close – the BRICS and the Shanghai Cooperation Organization are two nails in that coffin. These independent poles (BRICS, SCO, USAN) are developing fast and it remains to see what their ultimate impact on international politics will be – my scenario is that the impact will be a drastic shift from U.S. dominance to more balanced juxtaposition of U.S. and Eurasia.

Source [Themes of Ari Rusila](#)

This article is a followup See [Part I](#)

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