Gold Trade Between Russia and China – A Step Closer Towards De-Dollarization?

Transcript of Sputnik, Skype Interview, 6 September 2017

By Peter Koenig and Sputnik
Asia-Pacific Research, September 07, 2017

Region: Asia, Russia and FSU
Theme: Global Economy, Oil and Energy

The largest Russian bank Sberbank is planning to increase the supply of gold to China up to 10-15 tons in 2018, the head of Sberbank CIB, the bank's investment department, told Sputnik.

*"In July, our subsidiary bank in Switzerland started trading in gold in the Shanghai stock market. Under the pilot deal, we delivered 200 kilograms [440 pounds] of bars of gold to Chinese financial institutions. This year we are planning to additionally deliver about 3-5 tons of gold to China. Next year we expect the increase in deliveries to China of up to 10-15 tons. Perhaps we will even exceed this figure," **Igor Bulantsev** said ahead of the third Eastern Economic Forum (EEF) in Vladivostok.*

Economic analyst **Peter Koenig** focusses on the significance of these measures and their likely impact on both the energy and currency markets. **Peter Koenig** is frequent contributor to Global Research

Sputnik: Could you, please, enlighten us about what could possibly stand behind Sberbank's plans to increase the supply of gold to China?

Peter Koenig: This is just a continuation of the economic and trade agreements between Russia and China; the first such official deal was the 2014 currency swap agreement of about US$ 25 billion equivalent, or rather 150 billion Yuan.

Let's not forget, both currencies the ruble and the Yuan are 100% covered by gold; actually, the ruble is backed about twice by gold.

Both, the China – Russia economic cooperation and trade agreements, as well as their currencies being covered by gold is part of a larger already fairly advanced scheme of de-dollarization of their economies. In other words, Russia and China as well as the entire Shanghai Cooperation Organization (SCO), are rapidly moving out of the US dollar hegemony.

Let's face it, the entire western monetary system is basically a fraud. It is privately made and privately owned, with the entire international payment system being controlled by the FED – which is totally privately owned – and the BIS (Bank for International Settlement, in Basle, Switzerland – also called the central bank of centrals banks). All international transfers and payments have to transit through Wall Street banks. This is the only reason

why the US can "sanction" countries that do not behave according to Washington's dictate. It is illegal, and would not stand up before any international law.

But since international courts are also controlled by Washington – there is no chance that the US will be called to account for their criminal economic actions around the world – at least not for now; at least not as long as the western dollar-based monetary system has supremacy on the world markets. But this may change rapidly. And China and Russia are moving fast towards complete independence from the western economy.

The BRICS summit that just ended in ***Xiamen***, gave other clear signs that their enhanced economic cooperation among themselves and with the other SCO countries will be a further blow to the western monetary hegemony.

Already now, The SCO and BRICS countries contain about half of the world's population and control one third of the world's GDP. They truly do not need the west for survival. To the contrary. They can easily break this fraudulent dollar based 'monopoly'. But – it has to happen prudently and gradually, because all the emerging economies that would like to join the BRICS and the SCO are still to a large degree dependent on the US-dollar; their reserves are still largely dollar-denominated. And if the western system collapses rapidly, they would tend to lose out dramatically.

Sputnik: *Follow-up: What is the reason behind China's active enlargement of the national gold reserves?*

PK: In my opinion, this may be a temporary measure to protect their currencies – I'm talking specially about China and Russia – from a drastic last minute "dollar-rescue" action by Washington.

For example, I could imagine that as a last-ditch effort, the FED or the US Treasury could instruct the IMF to go back to some kind of a 'gold standard' – which may come in the form of a massive devaluation of the dollar, where all those countries who do not have gold reserves or otherwise gold-convertible currencies would end up paying the enormous US dollar debt – becoming once again slaves to a new dollar-dependence.

By increasing gold reserves, Russia and China would be protected. Also, China and Russia, the world's largest gold producers, accounting for almost a quarter of annual gold production (3,100 tons in 2016), will be instrumental in making the international gold price.

The problem with gold today is that it is completely beholden to the western monetary system – the price of gold on the international market is quoted in US dollars.

In the medium to long run, I believe gold is no viable indicator or back-up for a monetary system. Gold is just a step better than fiat money, because the price of gold is vulnerable and can be manipulated, as we see time and again.

For example, on 25 August, Bloomberg reports a mysterious 2 million-ounce gold trade. It says – *"In a span of one minute, gold futures contracts equaling more than 2 million ounces traded — about 20 minutes before Federal Reserve* ***Chair Janet Yellen*** *was to address a gathering of policy makers in Jackson Hole, Wyoming.*

The episode jolted the market after a measure of 60-day volatility on the metal touched the lowest since 2005. Gold had been in quiet mode even amid political discord in Washington,

concerns about rising U.S. interest rates and tensions between the U.S. and North Korea."

One wonders whether this clear manipulation of the price of gold has anything to do with the increased gold trade between Russia and China.....?

Sputnik: *Now, China is soon expected to launch a crude oil futures contract priced in yuan and convertible into gold. How could this initiative change the rules of the global oil game? How soon do you think this landmark transition would happen? Who will profit from this initiative?*

PK: It will change everything.Already now – since about three to five years – China and Russia and other members of the SCO are trading hydrocarbons no longer in US dollars, but in their local currencies or gold.

An oil futures contract in yuan and gold is about the equivalent of an *'oil bourse'* – or a hydrocarbon exchange in yuan and gold – where every oil producer or trader can deal in hydrocarbons in non-dollar denominated contracts.

This will be an enormous blow to the US dollar hegemony. One of the key reasons the US dollar has maintained its hegemonic nature around the globe, is that according to an unwritten agreement between the US and Saudi Arabia of the early 1970s, Saudi Arabia, the head of OPEC, was to make sure that petrol and gas are traded only in US dollars. In return, the Saudis received "US protection" – lots of US bases, from which the wars in the Middle East are directed and carried out.

Those who wanted to depart from that unwritten and completely unlawful rule had to pay dearly – i.e. **Saddam Hussein**, when he announced that he would trade his oil in euros instead of dollars when the ten-years sanctions regime came to an end in 2000… we know what happened to him. We also know what happened to Gaddafi, who had similar ideas – and Iran was suddenly faced with accusations of having a nuclear weapons program, when they announced in 2007 the *Teheran Oil Bourse* – where all hydrocarbons could be traded in other currencies than the US dollar.

This US imposed 'rule' – totally illegal – allowed the US Treasury to print dollars indiscriminately, because the world needed dollars to pay for their energy.

The other reason for unlimited US Dollar printing was when the Nixon Administration abandoned the gold standard in 1971, and the dollar became *de facto* the world's reserve currency. – It's time that this fraud comes to an end. China and Russia offer an alternative.

Sputnik: *Experts say that China's decision to launch a crude oil futures contract will allow exporters such as Russia to circumvent U.S. sanctions by trading in yuan. What implications would yuan-denominated gold contracts have for Russia, in your view?*

PK: Up to about 5 to 10 years ago, most international trading contracts were denominated in US- dollars, regardless whether they involved the US or not. This was also an unwritten, WTO-imposed rule. This is no longer the case.

Therefore, yes, detaching from the dollar-based western monetary system, and instead trading in Yuan, rubles or gold, or any other local currencies for that matter, will make 'sanctions' completely ineffective. This is already largely the case today, since Russia and China and many of the SCO countries are already trading in other than US-dollar

denominated contracts.

It is through non-dollar international trade contracts that the western dollar-based monetary system will be gradually dethroned and dismantled.

Sputnik: *How would these developments affect the dollar as a global reserve currency? What implications will it have on its hegemony?*

PK: By dealing in other currencies than the US dollar, including in gold, world demand for the dollar will rapidly decline and so will the dollar's significance as a world reserve currency.

Some 20 years ago, about 90% of all reserves were established in US dollar denominated assets. Today, this figure is less than 60% and shrinking. Once dollar-denominated reserves fall below 50%, abandoning the dollar as reserve currency worldwide may progress rapidly. That's when a last-ditch effort by Washington to save the dollar hegemony may come in the form of a new gold-standard – at the cost of the countries that hold dollar reserves.

The western economy today and for the last at least 100 years has been based on a fraudulent, debt-driven privately-owned and manipulated monetary system – on fiat money. When in reality, it should be the economy of a nation or a region that makes and backs the monetary system.

If I may, I predict that in the foreseeable future, it will not be gold or other minerals that back a monetary system, but the economy itself; the strength of a country's – or association of countries' – socioeconomy that determines the monetary system. The strength of an economy will be determined by indicators well beyond the linear GDP; they will include societal values, such as education, health services, and behavioral values, like how a society deals with the environment, natural resources and conflict resolutions.

This is what I believe the new Eastern Economy, based on China and Russia – the Economy of Peace – will offer to the world as an alternative.

Peter Koenig *is an economist and geopolitical analyst. He is also a former World Bank staff and worked extensively around the world in the fields of environment and water resources. He lectures at universities in the US, Europe and South America. He writes regularly for Global Research, ICH, RT, Sputnik, PressTV, The 4th Media (China), TeleSUR, The Vineyard of The Saker Blog, and other internet sites. He is the author of Implosion – An Economic Thriller about War, Environmental Destruction and Corporate Greed – fiction based on facts and on 30 years of World Bank experience around the globe. He is also a co-author of The World Order and Revolution! – Essays from the Resistance.*

Featured image is from EMerging Equity.

The original source of this article is Asia-Pacific Research
Copyright © Peter Koenig and Sputnik, Asia-Pacific Research, 2017

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Peter Koenig**
and **Sputnik**

Disclaimer: The contents of this article are of sole responsibility of the author(s). Asia-Pacific Research will not be responsible for any inaccurate or incorrect statement in this article. Asia-Pacific Research grants permission to cross-post Asia-Pacific Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Asia-Pacific Research article. For publication of Asia-Pacific Research articles in print or other forms including commercial internet sites, contact: editors@asia-pacificresearch.com

www.asia-pacificresearch.com contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: editors@asia-pacificresearch.com