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Gold Oil Dollars Russia and China

We Should Take the Latest China-Russia Challenge to the Dollar Seriously

Wall Street and Washington are not amused, but they are powerless to stop it.

By F. William ENGDAHL

William Engdahl is one of the best in the world on this subject. He has been writing about the world monetary system for decades, and few writers have the wealth of insight and experience in the subject that he has. What Engdahl says, matters.

Intro:

The 1944 Bretton Woods international monetary system as it has developed to the present is become, honestly said, the greatest hindrance to world peace and prosperity.

Now China, increasingly backed by Russia—the two great Eurasian nations—are taking decisive steps to create a very viable alternative to the tyranny of the US dollar over the world trade and finance.

Wall Street and Washington are not amused, but they are powerless to stop it.

Shortly before the end of the Second World War, the US Government, advised by the major international banks of Wall Street, drafted what many mistakenly believe was a new gold standard. In truth, it was a dollar standard in which every other member currency of the International Monetary Fund countries fixed the value of their currency to the dollar. In turn, the US dollar was fixed then to gold at a value equal to 1/35th of an ounce of gold. At the time Washington and Wall Street could impose such a system as the Federal Reserve held some 75% of all world monetary gold as a consequence of the war and related developments. Bretton Woods established the dollar which then became the reserve currency of world trade held by central banks.

Death Agony of a Defective Dollar Standard

By the end of the 1960's with soaring US Federal budget deficits from costs of the Vietnam War and other foolish spending, the dollar standard began to show its deep structural flaws. A recovered Western Europe and Japan no longer needed billions of US dollars for financing reconstruction. Germany and Japan had become world class export economies with higher efficiency than US manufacturing owing to a growing obsolescence of US basic industry from steel to autos and basic infrastructure. Washington should then have significantly devalued the dollar against gold in order to correct the growing world trade imbalance. Such a dollar devaluation would have boosted US manufacturing export earnings and reduced the trade imbalances. It would have been a huge pus for the real US economy. However for Wall Street banks it spelled huge losses. So instead, the Johnson and then Nixon administrations printed more dollars and in effect exported inflation to the world.

The central banks of especially France and Germany reacted to the deafness in Washington by demanding US Federal Reserve gold for their US dollar reserves at $35 per unce s in the Bretton Woods 1944 agreement. By August 1971 the redemption of gold for inflated US dollars had reached a crisis point where Nixon was advised by a senior Treasury official, Paul Volcker, to rip up the Bretton Woods system.

By 1973 gold was allowed by Washington to trade freely and was no longer the backing of a sound US dollar. Instead, an engineered oil price shock in October 1973 that sent the dollar price of oil higher by 400% in a matter of months, created what Henry Kissinger then called the petrodollar.

The world needed oil for the economy. Washington, in a 1975 deal with the Saudi monarchy, insured that Arab OPEC would refuse to sell one drop of their oil to the world for any currency other than US dollars. The value of the dollar soared against other currencies such as the German Mark or Japanese Yen. Wall Street banks were awash in petrodollar deposits. The dollar casino was open and running, and the rest of the world was being fleeced by it.

In my book, *Gods of Money: Wall Street and the Death of the American Century*, I detail how the major New York international banks such as Chase, Citibank and Bank of America used the petrodollars then to recycle Arab oil profits to oil-importing countries in the developing world during the 1970's, laying the seeds for the so-called Third World Debt Crisis. Curiously, it was the same Paul Volcker, a protégé of David Rockefeller and Rockefeller's Chase Manhattan Bank, who this time, in October, 1979 as Chairman of the Fed, triggered the 1980s debt crisis by pushing Fed interest rates through the roof. He lied and claimed it was to nip inflation. It was to save the dollar and the Wall Street banks.

Today, the dollar is a strange phenomenon to put it mildly. The United States since 1971 has gone from being a premier industrial nation to a giant debt-bloated casino of speculation.

With Fed Funds interest rates between zero and one percent the past nine years—unprecedented in modern history—the major banks of Wall Street, the ones whose financial malfeasance and murderous greed created the 2007 Subprime crisis and its 2008 global financial Tsunami, set about to build a new speculative bubble. Rather than lend to debt-bloated cities for urgently-needed infrastructure or other productive avenues of the real economy, instead they created another colossal bubble in the stock market. Major companies used cheap credit to buy their own stocks back, thereby spurring the stock prices on Wall Street exchanges, a rise fed by hype and myths about "economic recovery." The S&P-500 stock index rose by 320% since the end of 2008. I can assure you those paper stock rises are not because the real US economy has grown 320%.

American households earn less in real terms each year over decades. Since 1988 median household income has been stagnant amid steadily rising inflation, a declining real income. They must borrow more than ever in history. Federal

Government debt is at an unmanageable $20 trillion with no end in sight. American industry has been closed and production shipped offshore, “outsourced” is the euphemism. Left behind is a high-debt, rotted out “service economy” where millions work two even three part-time jobs just to keep afloat.

The only factor keeping the dollar from total collapse is the US military and Washington’s deployment of deceptive NGOs around the world to facilitate plundering of the world economy.

So long as Washington dirty tricks and Wall Street machinations were able to create a crisis such as they did in the Eurozone in 2010 through Greece, world trading surplus countries like China, Japan and then Russia, had no practical alternative but to buy more US Government debt—Treasury securities—with the bulk of their surplus trade dollars. Washington and Wall Street smiled. They could print endless volumes of dollars backed by nothing more valuable than F-16s and Abrams tanks. China, Russia and other dollar bond holders in truth financed the US wars that were aimed at them, by buying US debt. Then they had few viable alternative options.

Viable Alternative Emerges

Now, ironically, two of the foreign economies that allowed the dollar an artificial life extension beyond 1989—Russia and China—are carefully unveiling that most feared alternative, a viable, gold-backed international currency and potentially, several similar currencies that can displace the unjust hegemonic role of the dollar today.

For several years both the Russian Federation and the Peoples’ Republic of China have been buying huge volumes of gold, largely to add to their central bank currency reserves which otherwise are typically in dollars or euro currencies. Until recently it was not clear quite why.

For several years it’s been known in gold markets that the largest buyers of physical gold were the central banks of China and of Russia. What was not so clear was how deep a strategy they had beyond simply creating trust in the currencies amid increasing economic sanctions and bellicose words of trade war out of Washington.

Now it’s clear why.

China and Russia, joined most likely by their major trading partner countries in the BRICS (Brazil, Russia, India, China, South Africa), as well as by their Eurasian partner countries of the Shanghai Cooperation Organization (SCO) are about to complete the working architecture of a new monetary alternative to a dollar world.

Currently, in addition to founding members China and Russia, the SCO full members include Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and most recently India and Pakistan. This is a population of well over 3 billion people, some 42% of the entire world population, coming together in a coherent, planned, peaceful economic and political cooperation.

If we add to the SCO member countries the official Observer States—Afghanistan, Belarus, Iran and Mongolia, states with expressed wish to formally join as full members, a glance at the world map will show the impressive potentials of the emerging SCO. Turkey is a formal Dialogue Partner exploring possible SCO membership application, as are Sri Lanka, Armenia, Azerbaijan, Cambodia and Nepal. This, simply said, is enormous.

BRI and a Gold-Backed Silk Road

Until recently Washington think tanks and the Government have sneered at the emerging Eurasian institutions such as SCO. Unlike BRICS which is not made up of contiguous countries in a vast land-mass, the SCO group forms a geographic entity called Eurasia. When Chinese President Xi Jinping proposed the creation of what then was called the New Economic Silk Road at a meeting in Kazakhstan in 2013, few in the West took it seriously. The name officially today is the Belt, Road Initiative (BRI). Today, the world is beginning to take serious note of the scope of the BRI.

It's clear that the economic diplomacy of China, as of Russia and her Eurasian Economic Union group of countries, is very much about realization of advanced high-speed rail, ports, energy infrastructure weaving together a vast new market that, within less than a decade at present pace, will overshadow any economic potentials in the debt-bloated economically stagnant OECD countries of the EU and North America.

What until now was vitally needed, but not clear, was a strategy to get the nations of Eurasia free from the dollar and from their vulnerability to further US Treasury sanctions and financial warfare based on their dollar dependence. This is now about to happen.

At the September 5 annual BRICS Summit in Xiamen, China Russian President Putin made a simple and very clear statement of the Russian view of the present economic world. He stated, "Russia shares the BRICS countries' concerns over the unfairness of the global financial and economic architecture, which does not give due regard to the growing weight of the emerging economies. We are ready to work together with our partners to promote international financial regulation reforms and to overcome the excessive domination of the limited number of reserve currencies." To my knowledge he has never been so explicit about currencies. Put this in context of the latest financial architecture unveiled by Beijing, and it becomes clear the world is about to enjoy new degrees of economic freedom.

China Yuan Oil Futures

According to a report in the Japan Nikkei Asian Review, China is about to launch a crude oil futures contract denominated in Chinese yuan that will be convertible into gold. This, when coupled with other moves over the past two years by China to become a viable alternative to London and New York to Shanghai, becomes really interesting.

China is the world's largest importer of oil, the vast majority of it still paid in US dollars. If the new Yuan oil futures contract gains wide acceptance, it could become the most important Asia-based crude oil benchmark, given that China is the world's biggest oil importer. That would challenge the two Wall Street-dominated oil benchmark contracts in North Sea Brent and West Texas Intermediate oil futures that until now has given Wall Street huge hidden advantages.

That would be one more huge manipulation lever eliminated by China and its oil partners, including very specially Russia. Introduction of an oil futures contract traded in Shanghai in Yuan, which recently gained membership in the select IMF SDR group of currencies, oil futures especially when convertible into gold, could change the geopolitical balance of power dramatically away from the Atlantic world to Eurasia.

In April 2016 China made a major move to become the new center for gold exchange and the world center of gold trade, physical gold. China today is the world's largest gold producer, far ahead of fellow BRICS member South Africa, with Russia number two.

China has now established a vast storage center in the Chinese Qianhai Free Trade Zone next to Shenzhen, the city of some 18 million immediately north of Hong Kong on the Pearl River Delta. Now China is completing construction of a permanent gold vault facility, including a bonded warehouse, trading floor and related offices areas. The 105-year-old Hong Kong-based Chinese Gold and Silver Exchange Society is in a joint project with ICBC, China's largest state bank and its largest gold importing bank, to create the Qianhai Storage Center. It begins to become clear why Washington deceptive NGOs such as the National Endowment for Democracy tried, unsuccessfully, to create an anti-Beijing Color Revolution, the Umbrella Revolution in Hong Kong in late 2014.

Now to add the new oil futures contract traded in China in Yuan with the gold backing will lead to a dramatic shift by key OPEC members, even in the Middle East, to prefer gold-backed Yuan for their oil over inflated US dollars that carry a geopolitical risk as Qatar experienced following the Trump visit to Riyadh some months ago. Notably, Russian state oil giant, Rosneft just announced that Chinese state oil company, CEFC China Energy Company Ltd. Just bought a 14% share of Rosneft from Qatar. It's all beginning to fit together into a very coherent strategy.

The dollar imperium is in its painful death agony and its patriarchs are in reality denial otherwise known as the Trump presidency. Meanwhile the saner elements of this world are about building constructive, peaceful alternatives. They are even open to admit Washington, under honest rules, to join them. That's remarkably generous isn't it?