

# Two summits in Russia: A cautious challenge to the US

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Four emerging economic powers—Brazil, Russia, India and China, collectively known as BRIC—held their first summit in Russian city of Yekaterinburg on June 16. A summit of Shanghai Cooperation Organisation (SCO), which is led by Russia and China and includes Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan, was held in the same city just a day before.

According to Chinese president Hu Jintao, the four BRIC countries account for 42 percent of the world's population and contribute more than half of global economic growth. China and India are the only two major economies still growing at substantial rates amid the global financial crisis, albeit more slowly. Although Russia was hit hard by falling oil prices, it remains the only power with a nuclear arsenal that rivals the US. Brazil is by far the largest economy in Latin America and is rapidly developing trade ties with China.

Russian president Dmitry Medvedev described Yekaterinburg as a new "epicentre of world politics", with the BRIC and SCO summits representing a group of emerging economies seeking to expand their international influence. In 2001, Russia and China established the SCO to counter the US influence and military presence in Central Asia. India, Pakistan, Mongolia and Iran are SCO observers, while Sri Lanka and Belarus have become "dialogue partners" this year like Afghanistan, which is a regular guest.

Indian prime minister Manmohan Singh attended the meetings for the first time, after sending only energy officials previously in order to maintain a distance from the Russo-Chinese grouping. The Bush administration wooed India as a strategic partner and counterweight against China, a policy that has continued under Obama. Russia, however, is attempting to restore the close relations it had with India during the Cold War by offering New Delhi access to Central Asian oil and gas and selling large quantities of weapons. China and India still view each other as regional rivals.

Singh's mere presence raised the question of whether he was going to a "US-bashing forum". Indian foreign secretary Shiv Shankar Menon was compelled to tell the media: "American bashing is an extreme word, there is no reason to categorise BRIC as US-bashing. These are the world's four fast growing economies coming together to play a positive and constructive role. And, it's not directed against anyone."

Nevertheless, the anti-US tenor of the meeting was evident in the

welcome given Iranian president Mahmoud Ahmadinejad, who is confronting a concerned campaign at home challenging the validity of this month's presidential election. While the US and European powers are tacitly backing the Iranian opposition leaders, BRIC and SCO members congratulated Ahmadinejad on his re-election.

Ahmadinejad told the SCO meeting that the US was a declining power: "It is absolutely obvious that the age of empires has ended and its revival will not take place," he said. "Iraq is still occupied. There is no order in Afghanistan. The Palestinian problem is unresolved. America is overwhelmed by economic and political crises and there is no hope in their decisions. The allies of the United States are also not in a position to wrestle with these problems."

Ahmadinejad represents a section of the Iranian bourgeoisie who regard China, Russia and their allies as a useful counterweight to US and Western pressure. China is now Iran's largest export market, buying huge amounts of energy. On June 3, Tehran ditched the French company Total SA in favour of China's CNPC for a \$US5 billion gas field project in the Persian Gulf, effectively thumbing its nose at US-instigated sanctions on investment in Iranian energy resources.

Alexander Dugin, who heads the influential International EurAsian Movement in Russia, told *Christian Science Monitor* on June 16: "The SCO is evolving into a kind of organisation for countries that feel themselves excluded from the global system, who feel victimised by the US-dominated unipolar order. Now this unipolar world is being shaken to its foundations by economic crisis and imperial retreat, and it's time to define a new project of a multi-polar world."

A major theme at the BRIC summit was the replacement of the US dollar as the global reserve currency. Earlier this month, Russia announced its intention to reduce holdings of US Treasury bonds and was joined by China and Brazil. The three have agreed to buy International Monetary Fund (IMF) bonds, instead. Collectively, BRIC holds \$1.711 trillion in US Treasury bonds, or 33 percent of the total foreign ownership of US federal debt. It is unlikely, however, that the BRIC countries, especially China, will abruptly dump their dollar assets, as such a move would potentially crash the US dollar.

Writing in the *Financial Times* on June 14, US economist Michael Hudson commented: "These governments face a hard choice: either recycle the dollars back to America by buying US Treasury bonds or let the 'free market' force up their currencies relative to the dollar—thereby pricing their exports out of world markets, creating

domestic unemployment and business failures. US-style free markets hook them into a system that forces them to accept unlimited dollars. Now they want out.”

The consequences were far reaching for the US, Hudson warned. “The IMF, World Bank, World Trade Organisation and other Washington surrogates are seen as vestiges of a lost American empire no longer able to rule by economic strength, left only with military domination. They see this hegemony cannot continue without adequate revenues and are attempting to hasten the bankruptcy of the US financial-military world order. If China, Russia and their allies have their way, the US will no longer live off the savings of others, nor have the money for unlimited military spending.”

Russia has been raising the need for a “super-national” currency, based on IMF Special Drawing Rights—a basket of currencies that would include the Chinese yuan and those of commodities producers like Russia, Australia and Canada as well as gold. Medvedev told the SCO meeting: “There can be no successful global currency system if the financial instruments that are used are denominated in only one currency. Today this is the case, and that currency is the dollar.”

Russia and China first raised the idea before the G20 summit in Britain in April. However, Beijing has been silent on the subject recently as any weakening of the US dollar would directly impact on its \$1.5 trillion in dollar assets. Interviewed by *truthdig.com*, Hudson explained the explosive consequences if the US dollar lost its position as the international reserve currency. “We will have to finance our own military spending, and the only way to do this will be to sharply cut back wage rates. The class war is back in business. Wall Street understands that. This is why it had Bush and Obama give it \$10 trillion in a huge rip-off so it can have enough money to survive,” he said.

Given the far reaching ramifications of any weakening of the US dollar, the BRIC communiqué was silent on the issue, stating only: “The emerging and developing economies must have greater voice and representation in international financial institutions. There is a strong need for a stable, predictable and more diversified international monetary system”.

China is seeking gradually to reduce its reliance on the dollar. Last month, Brazilian president Luiz Inacio Lula da Silva visited Beijing and proposed a plan to denominate Sino-Brazilian trade in their own currencies. China has struck similar deals with Argentina, Belarus and several Asian countries. This year China overtook the US as Brazil’s largest trading partner. China and Russia have also agreed to use their currencies in trade. China overtook Germany as Russia’s largest trading partner this year. The two countries signed energy deals worth a record \$100 billion this year.

Russia has called for the SCO to establish a single currency initially as a unit of accounting within the group. “Let us recall the ECU [European currency unit], which was not precisely a supernational currency but served as a monetary unit, as a unit of account in European Community countries before the introduction of euro as the main reserve currency,” Medvedev noted.

The two summits at Yekaterinburg are a sign that relations between

the major powers are undergoing a dramatic restructuring, with the US global position undermined by the world financial crisis. The shifting relations are leading to rising tensions between the major powers.

The two groupings—SCO and BRIC—are far from solid, however. Despite a shared desire to weaken US economic and strategic hegemony, China, Russia and India all have conflicting interests. Brazil remains primarily a Latin American regional power with few geopolitical interests in Central Asia. The SCO bloc holds joint military exercises but is far from being a formal military alliance.

China offered \$10 billion in credit to SCO members struggling with the global credit crunch. While it welcomed the money, Russia insisted that the financing must be “transparent” in Central Asia—a veiled warning to Beijing not to undermine Russian influence in the region. To protect its auto industry, Russia has lifted tariffs, causing a sharp fall in Chinese car exports to its largest foreign market. Amid ongoing pricing disputes, Gazporm has postponed two planned pipelines to China.

Russia wants to encourage India into the SCO, but China backs its own ally—India’s rival, Pakistan. Moscow and Beijing encouraged Indian prime minister Singh and Pakistan president Asif Ali Zardari to meet for the first time since the Mumbai terror attack last year. But the meeting ended abruptly after Singh told Zardari: “My mandate is to tell you that the territory of Pakistan must not be used for terrorism against India”.

The US is not going to sit by and watch China and Russia consolidate a rival bloc on the Eurasian landmass. The Obama administration is stepping up the US-led war in Afghanistan and pressing Pakistan to intensify military operations against anti-US insurgents operating inside its territory. At the same time, it is seeking to strengthen strategic ties with India. These growing rivalries are setting the stage for even greater conflicts as the major powers vie for economic and strategic dominance in this key region of the globe.



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