INTRODUCING A COMMON CURRENCY ON THE NEW SILK ROAD*

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Abstract: The article deals with the decline of the U.S. dollar as the world's currency for payments and reserve accumulation. We propose a model for using an alternative common currency for a geographically and economically connected group of countries along the New Silk Road – China, Russia, Kazakhstan, Azerbaijan, Georgia, Turkey, and Belarus. The model assumes a common currency parallel to national currencies, backed by highly liquid commodities that most countries in this community have in surplus – crude oil, natural gas, gold, iron ore, coal. The collateral is sufficient for a large increase in the volume of mutual trade. The use of a backed currency requires governance based on political consensus among several countries. This model allows to test the abandonment of fiat currencies in world trade.

Keywords: New Silk Road; trade; common currency; collateral

Introduction

Criticism of the US dollar in its role as the world's reserve currency is not news, nor are the attempts to replace it. The economic considerations are inseparable from the political ones – the decline of the US as the world hegemon is obvious. The dollar as the main currency for accumulating reserves and making trade payments is an expression of that hegemony and a means of maintaining it. The world currency allows the US to maintain a high standard of living by borrowing and to finance its debts by printing unsecured (fiat) money. Omar Osman estimates their so-called imperial rent at ~7.5 Trillion US Dollars (Osman 2021).

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To be successful, a world currency must be backed by the largest economy capable of guaranteeing its value with a large quantity of goods and at the same time a market capable of absorbing all the imports. Because supporting the dollar as the world's reserve currency requires the United States to run ever-growing trade deficits. This is the Triffin dilemma (named after Robert Triffin) – its essence is that cheap sources of capital and positive trade balances can't happen at the same time. This leads to the deindustrialization of the national economy and a shift to the stage of finance capitalism, where the leading activity becomes the extraction of rents on a global scale through financial speculation – through the channels of transnational banks, transnational companies, investment funds, etc. (Smith 2022).

But deindustrialization undermines the national economy's ability to guarantee with real assets the value of the world currency. Behind it must stand Armed forces with a global deployment capable of suppressing any doubts about its actual collateral and preventing attempts to slip out of the financial order thus imposed.

1. Signs that the US can no longer hold the dollar as a world currency

After World War II, the size of the U.S. economy (1/2 of world GDP by 1945) and its gold reserves (2/3 of world reserves) allowed the U.S. to impose the dollar as the world currency (Timothy 1999). The dollar was then backed (with conditions) by gold in the US Federal Reserve.

This was the period of the rise of the so-called Bretton Woods system, in the construction of whose institutions and rules the US played a leading role. The decline in the US share of the world economy and trade in the late 1960s made it impossible to underpin the world gold trade – the quantity in the Federal Reserve lagged behind the rapidly growing trade volume. This led to The Nixon Shock. But suggestions that the Bretton Woods system collapsed in 1971 are inaccurate. Its institutions, the IMF, the World Bank and the WTO, continue today to operate and enforce the rules of the "Washington Consensus" (the rules of financial globalization) despite their declining effectiveness.

After 1971, the gold-backed dollar became fiat, but thanks to the US agreement with Saudi Arabia, its main informal cover became oil (petrodollar), and the main guarantor of the new cover remained the US Navy: suspicions were widespread that Saddam Hussein's main transgression was his intentions to sell oil for alternative currencies. So too is Muammar Gaddafi's demise explained by his intentions to create a common African currency based on Libya's oil and gold reserves.

But nothing could stop the deindustrialization of the US after services (mainly financial) overtook its material production for the first time in the mid-1980s. And oil is a shaky cover for the dollar because of its too-close link to geopolitics, as evidenced by the repeated energy crises since 1973.

Particularly after 2008, the fiat dollar never ceases to raise doubts about its collateral. For the first time, the international S&P Global agency downgraded the US credit rating 12 years ago. In 2023, another rating agency, Fitch, did the same. The third member of the 'big three', Moody's Investors Service, also has hesitations about the US rating. As of the fall of 2023, the US government budget deficit exceeds 5.7 % of GDP, and debt is hovering around 120 %, well above the healthy threshold of 3 %, respectively 60 %.

Indeed, the US dollar is still the most traded currency and serves more than a Half of the global trade. Besides the dollar accounts for nearly 60 % of global currency reserves. But the trend over the past 24 years has been downward, contrary to the concerns of the countries with the largest dollar-denominated reserves. Along with the economic difficulties go the US military failures in Iraq, Afghanistan and Syria, which also undermine confidence in the dollar.

The search for short-term solutions after 2008 provokes the temptation to abuse the currency (Remember John Connally: "*The dollar is our currency, but it's your problem.*") and disrupt the hegemon's self-imposed order. Following a series of unilateral violations of WTO rules, the US has in recent years imposed trade and financial restrictions (de facto economic war) on countries that contribute to 20 % of nominal world GDP. In parallel, they are making suggestions that "quantitative easing" is not printing money.

Within the US itself, the post-2016 split in society is visible: representatives of industrial capital are trying to reindustrialize and renationalize the economy. They are even prepared to sacrifice the dollar as the world currency for the sake of levelling the trade balance, increasing jobs and reinvesting capital at home. Their opponents are trying to hold on to the existing system in favour of globalized finance capital. It uses the US state primarily as a military-political bulwark in defending its economic interests globally. The irreconcilability between the two social groups, epitomized by the struggle between Donald Trump and his opponents in the Democratic Party, shows that no compromise solution is emerging. Both groups have difficult tasks to solve. The industrial capital is suffering from the deterioration of the human capital in the US – a loss of knowledge, work habits and skills in high-tech industries. Globalized finance capital, for its part, is suffering from the shrinking US sphere of influence – it is losing control in Central Asia and the Middle East, while in Europe Russia is successfully fending off the economic and military pressure from NATO. The history of the movement of productive capital (from Italy to the Netherlands, from the Netherlands to

England, etc.) does not provide examples of reversal and successful reindustrialization. If the U.S. were to make a serious attempt nonetheless, it would indeed require abandoning the dollar as the world currency.

But the post-1945 order can no longer be sustained anyway, and larger economies affected or threatened by US sanctions are already considering schemes in international trade using alternative currencies. Making the Renminbi the world currency is not on the agenda, and future plans are largely associated with Mikhail Khazin's prediction of the collapse of the world economy into several currency zones around new power centers encompassing at least 500 million consumers, the critical mass enabling the profitable production of microchips (Shkolnikov 2021).

2. A regional currency zone along the New Silk Road

The new schemes should first of all reject the model of fiat currencies because of the absence of clear collateral and the possible abuse of their issues. What is needed is a currency for reserve accumulation and commercial payments backed by real assets. The model proposed here relies on some of the most widely traded commodities, with the additional guarantee of the industrial potential of the possible participating countries. (It ensures the high liquidity of collateral within the trading community.) The selected countries are geographically and economically interconnected and can be involved in a common economic development project. These are China, Russia, Kazakhstan, Azerbaijan, Georgia, Turkey and Belarus – located along two sections of the Belt and Road (Trans-Caspian International Transport Route and The Eurasian Land Bridges – Northern and Central Corridors). These sections can compete with- but also complement each other. Because they are overland, the United States has almost no control over them. With one exception (Turkey), the countries are participants or observers in the SCO and without exception participate in The Asian Infrastructure Investment Bank (AIIB), i.e. there is a common platform on which an institutional framework for the regional currency area can be built.

The model excludes the introduction of a single national currency, as well as a common currency replacing national ones. The negative experience of the euro area shows what could happen – imbalances accumulate over time in the euro area in favor of the economic core at the expense of the economic periphery. It is better to keep national currencies together with a common currency of account. Fluctuations of national currencies against it, together with fluctuations against currencies external to the community, should be managed politically by a consensus, while respecting the national interests of the participants. Consen-

sus is easier with a smaller number of participants. What is needed, however, is sufficient population, sufficient size of the economy and greater state control over it and over the assets needed as collateral. China's trade of goods with countries along the Belt and Road is approaching $2 trillion[2] and the country seems the natural driver for such a project within the BRI. The aggregate population of countries in the proposed model far exceeds the 500 million threshold. The trade linkage between them is high and is indicated as follows, in bill. $:

Table 1: Trade among the selected countries

China with	Russia – 190	Kazakhstan – 33	Turkey – 40
Kazakhstan with	Russia – 26	Turkey – 6,3	
Russia with	Turkey – 62	Belarus – 43,5	
Belarus with	Kazakhstan – 1	China – 4,5	
Azerbaijan with	Turkey – 6	Russia – 4	China – 1,4
Georgia with all together	6,5		

Source: OECD data, https://oec.world/en/profile/country/, some for 2021. There is some divergence in the different sources, and also events after 2022 distort the picture because of the "grey" trade. The figures can therefore be considered as indicative. But this approximation is sufficient.

The total volume of trade between these countries by 2022 was around $425 billion with an upward trend. Such a volume (nearly 2 % of the world trade) needs appropriate coverage. Since 1971, there have been economists pushing for a return to a limited "gold standard". Since the 2008 financial crisis, these voices have been heard more frequently. It is possible to reintroduce gold backing for the region we are considering. But to avoid the risk of a time mismatch between gold stocks and trading volumes, it is better to add other commodities traded on world exchanges as collateral for the common currency.

The list of most traded commodities includes crude oil, coffee, natural gas, gold, wheat, cotton, corn, sugar, silver, copper, iron ore, coal. To the commodities with a guaranteed market, we could add wood, wheat, cotton, etc., even fresh water, taking into account the difference between inventories and actual production. A basket of Commodities could be a strong guarantee of a common currency, and the larger the basket, the weaker the fluctuations of that currency caused by stock market shocks will be.

In this case we choose crude oil, natural gas, gold, copper, iron ore and coal.

[2] https://www.shio.gov.cn/TrueCMS/shxwbgs/voices/content/20231023193846256.htm, [Accessed 10 October 2023]

We take bank collateral as an example – minimum bank reserves are around 8%. (Basel 3 agreement) Given the uncertainty in international trade at present, a 15% coverage of possible common currency gives much more certainty.

We assume that a total trade volume of $450 billion requires a collateral coverage of 15 %, i.e. $67.5 billion

= 1130 tons of gold;

= 4.7 billion tons of coal;

= 1.2 trillion m^3 gas;

= 0.45 billion t. of iron ore (63 % iron content);

= 0.75 billion barrels of oil, at exchange prices as of mid-October, 2023.

Each of these 5 items independently gives a 15 % coverage of a turnover of 450 billion. In a basket of collateral, the above quantities decrease by a factor of 5, respectively.

The advantage of these Commodities is that they are easily comparable in quantity (of the same quality). There is a constant demand for them, the mechanisms for trading them have been worked out. And their use widens the circle of possible users of a common currency with its own, at least partial, collateral. The production capacity of the countries of the regional currency area guarantees the liquidity of the collateral. This guarantee is secondary, as the quality of the processed goods is less comparable. Production capacity actually guarantees that Commodities can be used in production inside the zone. (In the absence of such a guarantee, they can always be traded in other markets.) In reviewing the list, we take into account that the Commodities available to countries must be in surplus relative to their own needs, as evidenced by their exports.

The review of the list shows that the countries of the community have large gold reserves – 5096 tons. Reserves of other commodities also warrant a volume many times larger than the $450 billion mentioned above – together these countries possess 14 % of the world's oil reserves, 25 % of the world's gas and iron ore reserves, 14 % of the world's copper reserves, 35 % of the world's copper reserves and 52 % of the world's rare metal reserves.[3] Reserves overall are largest in Russia – oil, gas, iron ore, copper, coal. (Don't bet on giving up coal anytime soon!) China has the world's largest rare metal reserves, also large coal and copper reserves. Kazakhstan has a substantial share in coal and copper and, along with Azerbaijan, in oil and gas. Turkey has significant quantities of coal. China's large consumption exceeds the community's exports in copper, iron ore and pig iron, and gas. This is due to the large industrial production (about $5 trillion) and in some cases the price advantage of external sources. The

[3] https://www.statista.com/statistics, [Accessed 10 October 2023]

industrial capacity of Russia and Turkey – nearly $500 billion – is also not to be underestimated. But the total reserves can easily cover the aggregate demand. (Even China's own iron ore reserves cover ten years of the country's consumption.) In addition – wheat production exceeds consumption appreciably and implies reserve accumulation. In case of need, Russia's timber and fresh water can also supplement the provision.

Of the countries examined, only Belarus and Georgia do not have at least one type of commodity for collateral. Belarus, however, has gold-currency reserves of about $12 billion. Georgia has reserves of $5 billion.[4] In both cases, the reserves cover more than 15 % of trade with the other countries of the community, which are their main trading partners. These two countries should not be excluded because of their position as transit links along the New Silk Road.

The solution in this case is to set up a common currency guarantee fund, whereby the participating countries set aside in their state reserve a sum of the above goods which can be made available to holders of the currency under certain conditions. The allocation of specific quantities is subject to negotiation and agreement, taking into account national interests and the weight of individual economies. In the case of Belarus and Georgia, the issue is the conversion of part of their reserves into highly liquid assets of the kind mentioned and also national ones – e.g. Belarus can also offer potash fertilizers as collateral.

A Council composed of the central banks should decide on the following issues:

– maintaining the exchange rates of individual currencies against the common currency in order to maintain balanced trade;

– management of stocks in response to market fluctuations;

– maintaining a favorable exchange rate of the common currency against other world currencies;

– establishing a common payment system (possibly based on CIPS/SPFS).

The issuance of the common currency by the Council should take into account both the growth of mutual trade (the stocks of guarantee goods are such that they can ensure a large growth in the foreseeable future) and the possibility of accumulating the common currency on reserves with the trading partners of the Community. For the currency thus secured, if successful, it will create a desire for other countries, mainly in the same region, to join. The imposition of one or more major commodity exchanges in the region is also imperative.

[4] https://tradingeconomics.com/, [Accessed 10 October 2023]

Conclusion

Finding a meaningful alternative to the US dollar as a world currency seems perfectly possible. The countries examined here along the land-based New Silk Road have sufficient resources and productive capacity to introduce a regional common currency for maintaining reserves and making foreign trade payments. The success of such an endeavor may attract more partners with large productive capacity and/or rich resources. Consideration could be given to Iran, Turkmenistan, India, etc., including by building and/or completing more sections of the New Silk Road. One can also speculate on the inclusion of other commodities in the basket. But an irrevocably important condition for success is a political cooperation in order to settle regional conflicts and contradictions (in Ukraine, the Caucasus, Central Asia), often provoked by hostile external powers. And this success may encourage the formation of similar currency zones in other parts of the world, thus bringing more security and equality to international trade.

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