CONFERENCE SPEECH


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# De-Dollarization of the World Economy*


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**“Paradoxical as it may seem, the world economic order behaves (as a rule) only as net exporters of capital. When we look at the ratio of external debt to GDP, we see that in the developed countries, the core of the world economic system, this ratio is expressed in three-digit percentages. In developing countries, on the other hand, the ratio of external debt to GDP is expressed in double digits. This is based on the following de facto situation: an unbalanced exchange of value between the countries that form the core of the world economy and the countries that are the periphery of this economy.”**

HISTORICALLY, RUSSIA JOINED THE DOLLAR-centered world financial architecture 30 years ago. The experience of the past 30 years allows us to comprehensively assess what is happening in the Russian and world economy. The most important trend over these 30 years has been the continuous flow of money out of Russia. According to Bloomberg, between 1994 and 2018, about 1 trillion US dollars moved out of the Russian Federation. The exception was only two years (2006-2007) when the inflow of money was higher.

It is clear enough that there is a consensus among politicians and experts that the economic model established in Russia is based on raw materials and that this model has exhausted itself. Given this consensus, it is impossible to expect any inflow of capital into the Russian Federation. In this context, the flow of over 80 billion US dollars from Russia to the Virgin Islands in 2014, for example, is significant enough. This is more than 70 times the total economy of these islands. In July last year, the Russian Central Bank raised its expectations for the outflow of $35 billion from our country to $50 billion this year.

At this point, it is important to note the following: On the one hand, there is a total lack of investment in our economy and an enormous need for investment resources. On the other hand, this most important issue is dominated by the outflow of money in enormous sums.

## Capital Transfer from the Periphery to the Centre

It should also be added that this is not unique to the Russian developing economy. It is a world economy-wide problem; it is a problem for all developing economies. Paradoxical as it may seem, the world economic order behaves (as a rule) only as net exporters of capital. When we look at the ratio of external debt to GDP, we see that in developed countries, the core of the world economic system, this ratio is expressed in three-digit percentages (100 percent or more). In developing countries, on the other hand, the ratio of external debt to GDP is expressed in double digits (10 percent and above). This is based on the following de facto situation: an unbalanced exchange of value between the countries that form the core of the world economy and the countries that are the periphery of this economy.

Given that the Russian economy is essentially a peripheral raw material economy within the world economic system, there is no chance of money flowing towards Russia from the global architecture under the current model.

At the heart of this situation is the global income gap: Developing countries that have built up their own reserves do so from assigned, certain, risk-free assets with low rates of return. An objective assessment of these low-return, risk-free assets shows a low return on reserves. On the other hand, the returns on external financial resources have higher rates of return than those in Russia's reserves. Such a global income gap is one of the most serious foundations of this unbalanced exchange in the global economy and the constant movement of capital from the periphery to the core countries.

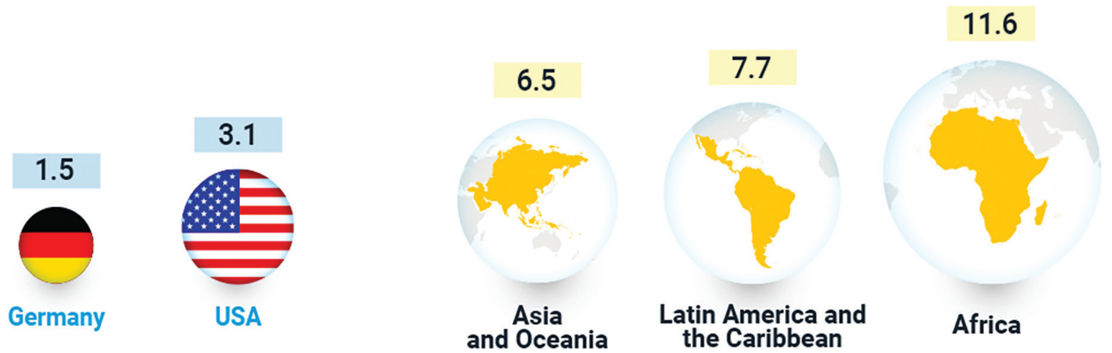
It is clearly visible that this has been the case for decades. This contradiction, this de facto situation, is also evident when we look at economies' size, purchasing power, and GDPs as measured by currency parity. In fact, we can see this trend between 1991 and 2019, which speaks volumes. This gap between purchasing power and the exchange rate in the world economy increased 6-fold, from 7 trillion to 46 trillion in US dollars. As a rule, this deficit has been more pronounced in the peripheral economies of the world economic system, in developing economies, and one of them—Russia.

The world is experiencing the pressure of politics on the economy, trade wars, threats of freezing accounts, limiting payments, and using the dollar infrastructure of SWIFT as part of sanctions. The country that produces the world's reserve currency, the United States of America, may unexpectedly apply all these measures against different countries. The target country could be Western European countries or Asian countries. Almost all countries have experienced or felt this reality in recent years.

## Structural Conflict

In terms of the methodology of shaping the world financial architecture, there is nothing new in principle in the theoretical dimension of this issue, in other words, in the methodology of this problem. This has all been known for a long time and is the structural, fundamental point. The fact that the national currency of a country (and it doesn't matter which country it is, I want to emphasize that) suddenly becomes the reserve currency of the whole world is an environment of conflict of interests, and this conflict is structural. This situation was described a long time ago, exactly

**Figure 1. Developing countries pay much more for their borrowing Bond Yields (2022-2023)**




Illustrative comparison of the average JPM EMBI Global Diversified USD bond yields per region with the 10-year bond yields of Germany, and the United States from January 2022 to May 2023. UN Global Crisis Response Group calculations based on (April 2023) IMF World Economic Outlook (Photo: UNCTAD, 2023).
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50 years ago, as the Triffin Paradox. That description identified a continuous, structural, permanent and essentially insoluble conflict of interests. This is because a certain party has its own monetary interests in line with its national interests, and its currency is accepted as a reserve instrument. Meanwhile, the world economy has different interests and priorities.

Again, from the point of view of world economic thought, there is not only an identification of this problem but also an alternative solution. This alternative was proposed as early as the beginning of the 20th century by the great Russian economist Mikhail Tugan-Baranovsky. These ideas were also echoed in the thoughts of John M. Keynes, a prominent figure in world economic thought. At a conference in 1944, Keynes proposed not the adoption of the US dollar as the world reserve currency but the creation of a World Payments Union and adopting a special, transnational, cashless form of currency, which he called the "Bancor".

As for the possibility of realizing such a practical idea, there will be a successful experience in Eastern Europe. Between 1964 and 1990, a cashless currency was created to service foreign economic activity: The transferable ruble. These transferable roubles were used not only in the framework of the economic relations of Eastern European countries (at that time, it was a planned economy) but also in their trade with countries with market economies (e.g. Finland, Mexico, Iraq). In 1979, 15 years later than in Eastern Europe, this kind of transnational, cashless "European Currency Unity (ECU)" was introduced on a large scale in Western Europe. This currency later evolved into the "euro", reflecting the further monetary integration of the countries of the European Union.

The IMF mentioned here has used cashless, transnational currencies since 1969 as a form of special borrowing rights. As is known, not so long ago, the IMF doubled the issuance of these special borrowing rights.

At the level of the symptoms of what is happening in the world economy, it is clear that this approach is a reaction to the problems that have been accumulating for years and decades and are now particularly intensifying. And the doubling of the volume of this transnational currency in the world economy is related to this.

**This step involves the formation of international clearing payments in addition to bilateral clearing and establishing an International Clearing Union that can deal with this problem based on platforms such as the Eurasian Union and the SCO.**

If one listens to the views of the heads of the central banks of different countries, it becomes clear that they urge that the world financial architecture has exhausted itself and that the US dollar should be abandoned as the world's reserve currency. Many people can be cited here, but it is important to note that the Governor of the Bank of England, Mark Carney, said that the dollar as a reserve currency has exhausted its potential and that new solutions must be found. The Governors of the People's Bank of China said the same thing.

The first is the diagnosis of the situation, the second is the theory and practice of different solutions, and the third is the increasing relevance of the practice of different solutions. Today, it is very important that we discuss these issues within the scope of our panel. It is much better to discuss these issues in advance and with a preventive approach than to be late (and there is actually no such thing as "being late", but it can be much more difficult when it is late).

## Algorithm of the New Financial Architecture

While discussing the theoretical side of the issue, the best solutions, the next strategic steps, and the algorithm for building a new financial architecture are on the agenda. Today, when we look at the balance of trade of Russia with many countries (countries of the Eurasian Union, China, India, and many European countries), the volume of goods we send there and the volume of goods we receive there are large enough—they coincide. But why do we mainly use dollars and not, for example, clearing? To make payments without using the currency of third countries, world economic thought has created this instrument, the institution of clearing. It would be wise to start with bilateral clearing with countries with which we have a large trade volume. Moreover, modern digital technologies can make this process much simpler. As a matter of fact, it is much simpler to do this today than it was after World War II when clearing became widespread.

This is the first step, and the second step logically follows. This step involves the formation of international clearing payments in addition to bilateral clearing and establishing an International Clearing Union that can deal with this problem based on platforms such as the Eurasian Union and the Shanghai Cooperation Organization. Logically and naturally, the next step, the next stage of establishing such a financial architecture in the world, is the transition to a payments union; more clearly, the transition from clearing to a payments union. This system, which ensures international trade, international payments, and the functioning of international economic relations, can be established based on a very rich experience, an understandable theory, a transnational currency.

I want to emphasize that there is nothing fundamentally new here. And I want to emphasize that modern technologies have made this much easier. But I think it is important to clearly assess the problem, make a correct diagnosis, and prioritize strategy over tactics. In this way, this path will be understandable enough. Yes, it will take work, it will take effort, but we are not going to reinvent the wheel.

Lastly, I want to make one final point. In this situation, it is important not to get away from the fire of one currency and get caught in the fire of another. This would happen if we substitute one country's currency, which is a reserve currency today, with another country's currency. In this case, neither the Triffin Paradox nor the conflict of interests arising from problems of a permanent and structural nature would disappear.

Nevertheless, we must always remember that human civilization will never lose its ability for creative development. Not much time has passed since the ideas of a hundred years ago; ideas are born, realized and successfully implemented. We need to be aware of all of this in principle and, in our opinion, move toward a logical and efficient clearing system.

## New Financial System in the Developing World for a Fair World

*Aleksandr Galushka was also a speaker at the online workshop titled "The New World in the Context of Russia's Operation in Ukraine", organized on May 7, 2022, by the New International Order (NINTO) Initiative, which was established in 2021 on the initiative of the Vatan Party (Türkiye) International Relations Bureau. Dr. Doğu Perinçek, Chairman of the Vatan Party, was the first speaker at the event, where 21 representatives of institutions and intellectuals from six continents and 19 countries made presentations. Aleksandr Galushka spoke second after Dr. Perinçek at the workshop and said the following:*

After Russia launched a special military operation in February 2022, the United States imposed unprecedented sanctions and froze Russian reserves—sovereign reserves. Over time, the need to de-ideologize the world economy has steadily increased. Essentially, the dollar has become a weapon, a militarized world reserve currency. Most importantly, it has become impossible for the dollar to be seen as a risk-free asset in the world economic system, a risk-free means of meeting reserves. This situation demands a more strategic approach, historicity and creativity from countries concerned with real prosperity, sustainable development and real sovereignty in the world's new financial system. This system will ensure fair and participatory relations between all countries, serving the prosperity and development of all countries without allowing any country to become a parasite in the future.