The Shattering Dominance of the US Dollar and the Establishment of a New Financial System

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ABSTRACT

After the financial crisis in 2008, developed Western countries entered a protracted period of stagnation. The economies of the over-financialized Western countries had difficulty compensating for the damages caused by this financialization. During and after the crisis, countries that emphasized production, such as China, overcame the crisis by growing and strengthening. The international institutions of the West have worked hard to compensate for the damage caused by the international financial system established at the behest of the United States. However, priority was given to the US and Western countries. In the post-2008 period, the US dollar and the financial system dominated by it suffered a major loss of confidence. Some organizations started to work as an alternative to this system. Organizations such as the SCO (Shanghai Cooperation Organization) and BRICS, composed of members of independent developing countries, have taken a series of concrete steps and created the basis for a new financial system. The aim of the new financial system is to minimize dollarization, establish alternative international financial institutions, and eliminate the financial hegemony of the US. There are four main components for the breakdown of US financial dominance: the utilization of national currencies in bilateral and multilateral trade agreements, the establishment of new international investment banks, the establishment of national credit card systems on the consumption side, and the widespread usage of currencies alternative to dollar and gold in central bank reserves. The subject of this article are the steps taken by the BRICS in the processes of the decline of the US financial hegemony and the establishment of the new financial system, the importance of SWAP agreements in bilateral and multilateral trade relations, and the course of the financial groundwork established by China and Russia starting from the mid-2010s. All these topics represent the cornerstones of the New Financial System.

Keywords: BRICS, digitalization, dollarization, 5R, New Financial System.

THE MOVES THAT THE US MADE RIGHT after 1945 and in the following process enabled it to dominate the world financial system. In economic terms, US financial domination is characterized by serving the interests of international monopolies and enabling them to achieve high profitability. Four main sources feed US financial dominance:

1. Profits are made on the speculation of the US dollar.

The US dollar is the world's most important barter, payment, and reserve currency. The monetary systems of most countries are heavily dependent on the US dollar. High profits are generated, and the continuous manipulation of the US dollar dominates financial markets.

2. The US exports its economic crisis through the dollar hegemony.

The US debt crisis gets deeper every day. By adjusting the dollar supply through the Fed, the US exports its debt and other financial problems to countries dependent on it. The Fed's ultra-expansionary policies before the COVID-19 pandemic reduced dollar assets and caused many countries to import inflation.

3. It provides control of international trade and access to economic intelligence.

CHIPS (Clearing House Interbank Payment System) monitors the traffic of US dollars on an international scale. The SWIFT (Society for International Interbank Financial Telecommunications) system, established in 1973, ensures the security of US dollar transactions. The SWIFT system, which connects more than 11,000 financial institutions in more than 200 countries, transmits about 1.8 billion messages annually and sends payment orders worth about $6 trillion daily, is the world's largest monopoly (SWIFT, 2023). The US has strong control over the SWIFT system. Therefore, SWIFT can process transaction information quickly and make it suitable for the "long-arm jurisdiction" policy of the United States. Most of the world's international exchanges and payments in US dollars are made through SWIFT and CHIPS. The US, therefore, has control over the flow of US dollars and gains important economic intelligence from them.

US can isolate sanctioned countries from the international dollar system, thereby severely damaging their international financing and trade.

4. The US can impose financial sanctions through its financial hegemony.

Most of the financial institutions worldwide are frequently discouraged by the US. They are compelled to comply with the US policy of "extraterritorial jurisdiction" and freeze the assets of sanctioned countries according to US instructions. By imposing specific sanctions on financial information transmission systems, the US can isolate sanctioned countries from the international dollar system, thereby severely damaging their international financing and trade. The US Treasury Department's Office of Foreign Assets Control (OFAC) maintains three types of financial sanctions lists: Specially Designated Nationals and Blocked Persons List (SDNs), Consolidated Sanctions List, and additional OFAC Sanctions List. US companies must freeze the assets of, and not engage in any transactions with, individuals and entities on the Specially Designated Nationals List without OFAC approval (OFAC, 2023). After 2000, the US imposed "smart sanctions" in the financial sector that hurt Iran, the Democratic People's Republic of Korea, and other countries. In September 2014, the European Parliament passed a resolution prohibiting SWIFT's software provider Finastra from suspending its services to two Russian banks in September 2017. In November 2018, the US Treasury Department announced that SWIFT would be subject to US sanctions if it provided services to Iran. SWIFT was forced to cut its interface with Iranian financial institutions. In December 2020, the United States announced sanctions against 14 vice-chairmen of the Standing Committee of the National People's Congress (China) in an attempt to intervene in the Hong Kong issue, and the Chief Executive of Hong Kong became the target of US financial sanctions. After taking office, the Biden administration pushed for new Western sanctions against Russia, citing the Navalny case as the reason for placing many senior Russian officials on the financial sanctions list. This list has grown longer and wider against Russia since the start of Russia's operation in Ukraine in 2022. The sanctions against Russia have reached a point that threatens the stability of the world economy.

The Process of De-dollarization Accelerates in the world

The US abuse of its financial hegemony seriously threatens the stability of the world monetary system and leads to escalating international frictions. High dollarization and the problems it causes have led many countries to expand the use of national currencies internationally. More than 40 countries, including China, Russia, Türkiye, Japan, and some EU countries, have started the process of "de-dollarization". The post-World War II status quo favored "petrodollars". Since the US was the world's largest oil importer, exporting countries supported the dollar's dominant status. But now that the US is an oil exporter, the petrodollar has lost its meaning for other oil-exporting countries. Therefore, oil exporters like Saudi Arabia and the Gulf States will be important for ending dollarization. Indeed, in 2022, Saudi Arabia announced that it would accept the yuan as payment for its exports to China. However, the world's "de-dollarization" process presents itself in three ways:

1. US dollar reserves and US dollar debt are being reduced.

The share of the US dollar in central bank reserves has fallen to historic lows. Türkiye, China, France, Germany, Russia, India, and Iran have reduced their dollar reserves in the last decade. The Fed's SWAPs with the central banks of these countries have fallen significantly (Perks, Rao, Shin & Tokuoka, 2021). Consequently, international investors' demand for US bonds has also declined.

2. The role of the US dollar in international economic cooperation is declining.

The agreement between China and Russia to reduce the use of the US dollar and its implementation are typical examples. In 2015, nearly 90 percent of Russia-China trade was conducted in US dollars. By the end of 2020, this ratio had fallen to 46 percent (Global Times, 2021).

3. The role of the US dollar in international monetary traffic is being diminished.

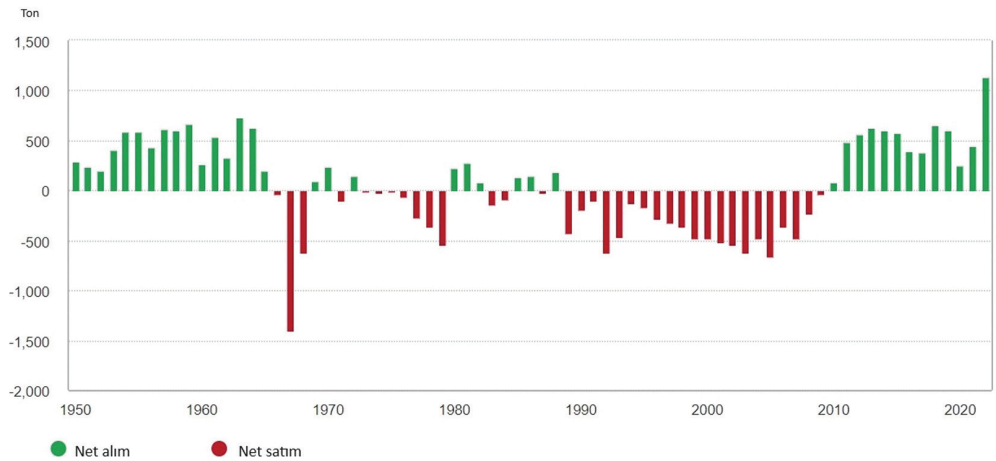
Getting rid of SWIFT, an important instrument of US financial hegemony, is at the top of many countries' agendas. In 2012, Russia started using its SPFS (Financial Message Transfer System) as an alternative to SWIFT. In early 2018, SPFS was extended to the Eurasian Economic Union member states. At the time of writing, it is actively used by 52 international organizations and hundreds of financial institutions in 12 different countries. CIPS (Cross-Border Payment System), officially launched by China in October 2015, is used for cross-border yuan settlement by financial institutions inside and outside China, enabling real-time funds transfer. Another feature of CIPS is that it also provides cross-border settlement custody services. As of June 2022, 1341 institutions were using CIPS, including 76 "direct members" and 1265 "indirect members". Among indirect members, 965 are from Asia (547 from China), 185 from Europe, 46 from Africa, 29 from North America, 23 from the Pacific Ocean, and 17 from South America, covering 106 countries and territories worldwide (CIPS, 2022). The China Foreign Exchange Trade System (CFETS) has launched a PVP payment system between the yuan and the ruble. It plans to expand PVP systems with other foreign currencies within the Belt and Road Initiative's framework (Reuters, 2017). Another money transfer system is the EU-developed INSTEX (Instrument in Support of Trade Exchanges).

INTEX, established by Germany, France, and the UK for oil and commodity trade with Iran, is a system of collecting clearing documents that allows Iran to supply oil and other products to Europe. But instead of being remitted to Iranian banks, payments are remitted to European companies that supply industrial products, pharmaceuticals, and foodstuffs to Iran. Commodities flow to and from Iran, but all the money stays in the EU. In addition, Russia, China, and India are working on a project to maintain emergency electronic communications in the event of a SWIFT link failure. The central banks of the three countries have developed a system to transfer financial information transfer systems and transaction information (Chaudhury, 2019).

The Distribution of Reserves in Central Banks Are Evolving

After the crisis in 2008, central banks began to change their reserve policies in two main directions: reducing the dollar's weight and shifting to alternative currencies, particularly the yuan, and increasing the share of gold in reserves. After the crisis, the sum of the US dollar's reserves in emerging markets began to decline slowly. 25 years ago, the US dollar accounted for 71 percent of the total reserves of the world's central banks. By June 2022, it had fallen to 58.8 percent. In 2022, central banks' net gold purchases amounted to 1135 tons. The central banks that made the purchases were those of developing countries such as Türkiye, China, and Russia. As of January 2023, central banks purchased the largest amount of gold in 55 years. In 1999, central banks held about 27,780 tons of gold, but their gold reserves had fallen to 24,380 in 2008. By 2022, the total gold reserves of central banks have reached 29,770 tons (World Gold Council, 2023). In 2022, after the arbitrary freezing and virtual looting of the reserves of the Central Bank of Russia and the assets of Russian businessmen, the tendency of central banks to increase their gold reserves strengthened. This trend will continue until a more secure financial system is established.

Figure 1. Net change in gold buying/selling by world central banks.



In 2022, central bank purchases were the highest in history (Graph: Goldhub, 2023).

A Key Actor in the New Financial System: BRICS

BRICS, which accounts for at least 25 percent of the global GDP, pioneers alternative reserve currencies. The organization is simultaneously the world's largest producer power, consumer market, and source of raw materials. This economic power is also visible in the reserves of their central banks. Collectively, the central banks of the BRICS countries hold close to 4.5 trillion dollars in foreign exchange reserves (World Bank, 2023). In other words, BRICS has the world's largest foreign exchange reserves. The gold reserves of BRICS members stand at 5,288 tons. As of December 2022, Russia holds 2,299 tons of gold reserves, China holds 1,949 tons, India holds 785 tons, Brazil holds 130 tons and South Africa holds 125 tons. The BRICS members' overall gold reserves represent the world's second-largest reserves (World Gold Council, 2023). By increasing the diversity of their reserves and gold positions, BRICS central banks will increase their weight as the world's largest reserve power. They will be the biggest driving force in ending the dominance of the US dollar.

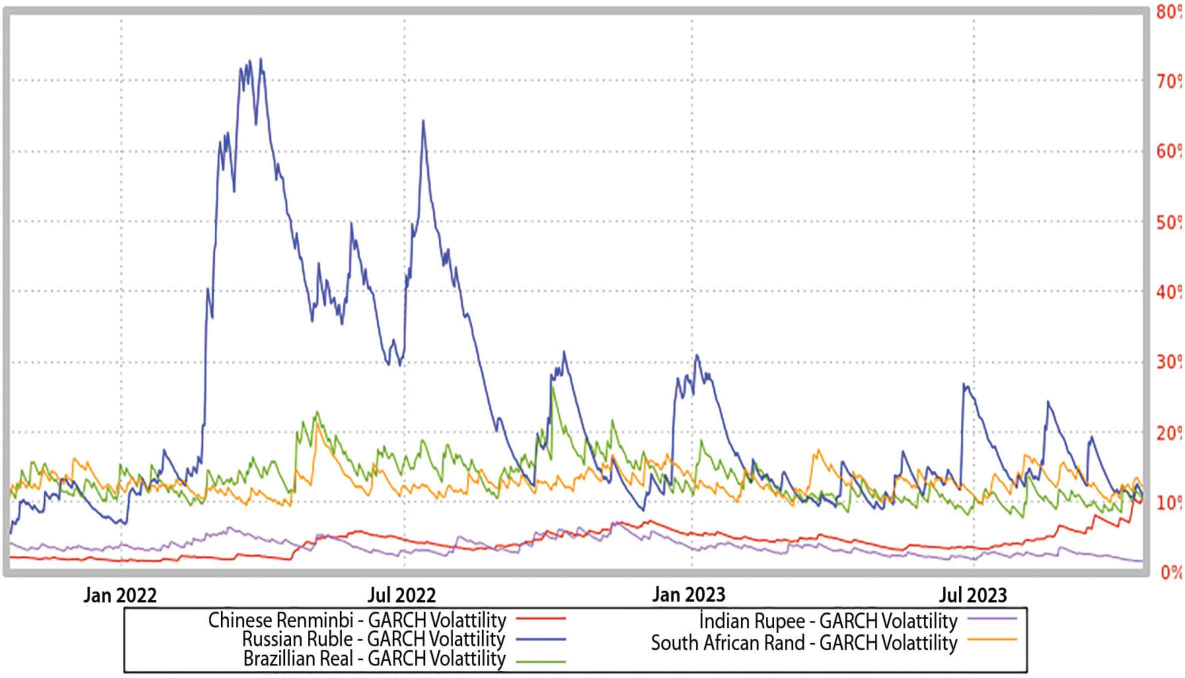
5R: Reserve Currency of the Alternative Financial System

The New Development Bank (NDB), established by the BRICS, is the institution that will design the new reserve currency and export it to the international financial system. For now, the new reserve currency is called the 5R. 5R stands for the initials of the currencies of the BRICS countries: real, ruble, rupee, renminbi, rand. The 5R is expected to be a basket containing the currencies of these countries. According to the design, the 5R will not be a currency that replaces national currencies (like the euro). Rather, the 5R will complement national currencies and support the position of the currencies of developing countries as reserve currencies. In the first phase, the 5R will be used as an accounting unit to facilitate transactions between national currencies. In the medium and long term, the main expectation from the 5R is that it will be used in the central banks of the BRICS and neighboring countries for settlement transactions, payments, and reserves.

The 5R is strengthened by the fact that BRICS is the world's largest economic union. In the first phase, 5R use will start with foreign trade transactions. Over time, 5R will be used for investments in both BRICS members and non-BRICS neighbors. BRICS members, spread across Eurasia, Latin America, and Africa, have a great advantage in being active in regional development banks. In particular, the AIIB (Asian Infrastructure Investment Bank) is an investment bank that will greatly support the NEB in Eurasia. This bank has a positive development pace and has reached great potential. The practices that 5R will launch on the investment scale are expected to make great progress with the influence of the AIIB. These regional development and investment banks will play a major role in implementing the 5Rs and developing joint projects on a regional scale.

The currencies in the 5R basket have separate volatilities. Currently, the yuan has the lowest volatility. In addition, the yuan's share in the 5R basket will initially be high due to China's large foreign exchange reserves. Over time, as other BRICS members and BRICS candidate countries join, the diversity of currencies in the basket will increase.

Figure 2. 2021-2023 yuan GARCH volatility.



The currencies in the 5R basket have separate volatilities (Graph: V-Lab, 2023).

Slow and Steady Rise of the Yuan

China's economy is currently the leader of the world economy. It is the world's largest economy by PPP (purchasing power parity) and second-largest by nominal GDP (Trading Economics, 2023). China is the world's largest trading nation and the world's largest consumer market. However, the yuan is not widely used at a scale commensurate with China's economic power. Given the development potential of China and its neighboring countries, it is inevitable that the international use of the yuan will grow rapidly in the coming years.

After launching a pilot cross-border trade scheme in China in 2009, the yuan's cross-border use has gradually expanded, and its pricing function in international markets has steadily improved. In October 2016, the yuan was included in the IMF's SDR. The yuan has become the third largest currency in the weight ranking of the SDR, and its weight continues to increase. Data published by SWIFT in December 2022 showed that the yuan rose to fourth place in the ranking of global payment currencies based on monetary statistics, with a share of 2.7% (SWIFT, 2023). Russia announced that yuan bonds have been issued, and the yuan has been included as a reserve currency. The yuan's share in Russia's foreign exchange reserves rose from 2.8% in 2018 to 13.8% in 2021 (The Wall Street Journal, 2023). The gradual rise of the yuan is obvious from the data, and this steady rise further increases the chances of success of the 5R as an alternative reserve currency.

Swaps as an Instrument of the New Financial System

SWAP agreements made by central banks greatly contribute to the widespread use of the yuan and national currencies. In this context, the People's Bank of China used SWAP agreements widely after 2008. By the end of 2021, China's central bank had signed SWAP agreements with 41 countries (Atlantic Council, 2022). Türkiye, Pakistan, Russia, Nigeria, Algeria, and Iran use the yuan as a swap currency. Countries with SWAP agreements based on national currencies include Russia, Japan, South Korea, Argentina, the United Kingdom, Switzerland, and Brazil (The People's Bank of China, 2023).

The History of Swaps

In the international financial system, SWAP transactions at the central bank level have been conducted since the 1880s. Until the 1920s, SWAP transactions were gold-based transactions. Central banks needing gold temporarily exchanged their gold reserves through SWAP agreements. SWAP transactions based on today's fiat currency or foreign exchange began after the 1960s. The central banks of the United Kingdom, Canada, and the United States pioneered foreign currency-based SWAP transactions (McCauley & Schenk, 2020: p.4).

On February 28, 1962, the central banks of the United States and France signed a SWAP agreement. At that time, 50 million US dollars were exchanged for 500 million francs. The duration of the SWAP transaction was three months. However, the swap was extended since the US dollar could not be stabilized. When the US dollar crisis spread across Europe, SWAP agreements were signed with European countries such as the UK, Switzerland, the Netherlands, Germany, Italy, Austria, Belgium, and Canada. The size of the successive deals reached 900 million dollars. When the Bretton Woods system was in place, SWAP agreements were made to stabilize the US dollar due to rapidly rising inflation in the US. As a final measure against rising inflation, the US unilaterally exited the Bretton Woods system, which it had built itself. Thus, the link between the US dollar and gold was broken. After August 1971, SWAP agreements continued unabated. In the mid-1970s, deals reached \$20 billion (Bordo et al., 2015).

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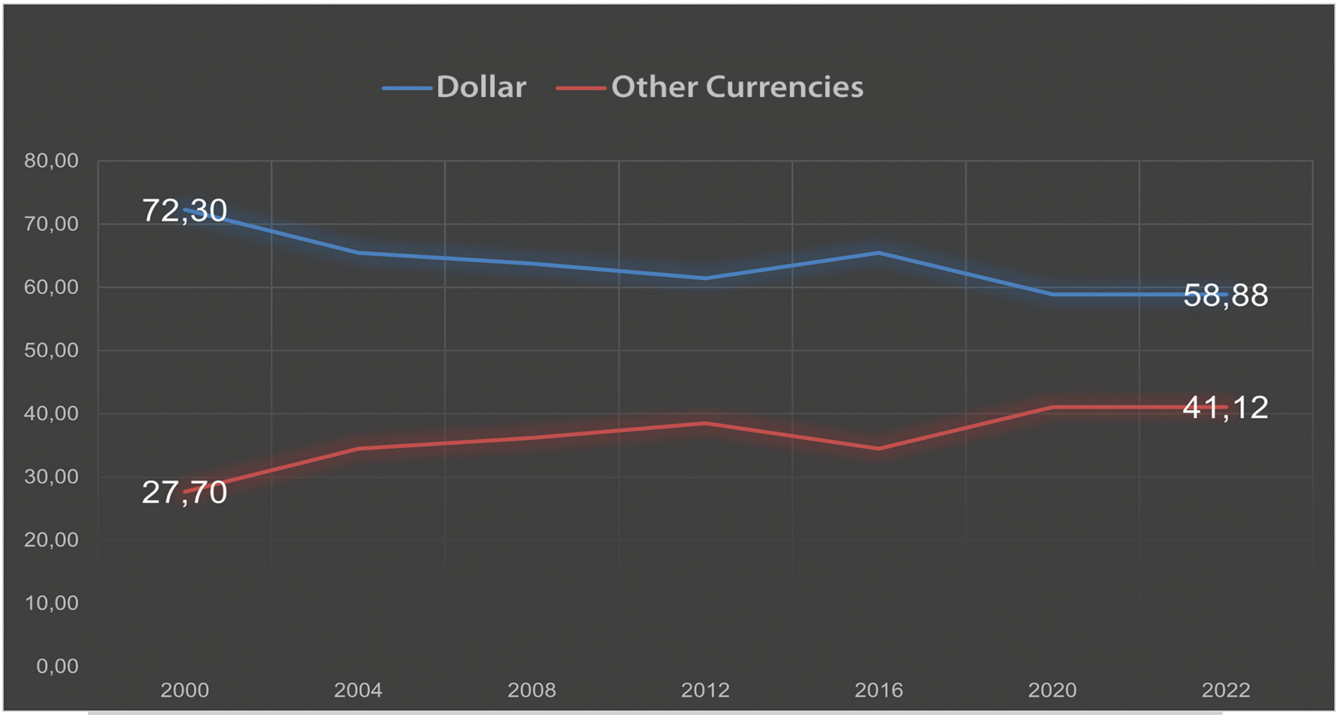
After the collapse of the Bretton Woods system, demand for strong currencies increased in international markets. This was because the unilateral decision of the US had pushed the markets into a new crisis. The support provided by the IMF did not meet the demand in the markets. In this process, SWAP agreements made by central banks came to the rescue of countries demanding foreign currency. SWAP agreements had two main characteristics: the volume of the agreements was small, and their maturities were short (McCauley & Schenk, 2020: p.3).

Figure 3. World Foreign Exchange Reserves



IMF data were used for the graphic (Graph: BRIQ, 2023).

Swaps After the 2008 Crisis

The 2008 crisis led to a new era in SWAP agreements. Immediately after the 2008 crisis, the Fed (US Federal Reserve) signed $20 billion in SWAPs with the ECB (European Central Bank) and $4 billion with the Swiss National Bank. By September 2008, seven more SWAPs were signed with the ECB and the Swiss National Bank. In a short period, the size of SWAPs with these central banks reached USD 240 billion. The Fed's SWAPs with Canada ($30 billion), Japan ($120 billion), the UK ($80 billion), Denmark ($150 billion), Norway ($15 billion), Australia ($30 billion), and Sweden ($10 billion) reached a total of $620 billion. The SWAPs matured in February 2010 and have not been renewed since the crisis ended (IMF, 2021).

However, after the maturity, due to the debt crisis in the EU, new SWAP agreements were signed in May 2010 with the central banks of Canada, the UK, the ECB, Japan, and Switzerland. The maturity of the SWAPs was until November 2013. After these SWAPs, the nature of the transactions started to change because central banks started to prefer to hold their foreign exchange reserves by making SWAPs with certain maturities rather than holding them. After 2013, the ECB, Switzerland, Japan, Canada, and the UK changed their SWAP agreements with the Fed to 'indefinite and unlimited amounts' and were used as needed (IMF, 2021).

Since the US dollar is a reserve currency widely used in foreign trade, SWAPs are mostly used to meet the demand for US dollars. However, this trend started to change after the 2008 crisis. When the 2008 crisis shook confidence in the US dollar and the EU debt crisis hit the euro, central banks focused on alternative currencies. The tendency to spread risk by holding different currencies as reserves has continued until today. In addition, the tendency of central banks to make SWAPs by exchanging their currencies for the currencies of other countries has strengthened. One of the first examples of this practice in Western countries was the Swiss National Bank's SWAP agreement with the Central Bank of Poland in June 2012. The agreement was for the Swiss franc against the Polish zloty. Similarly, in December 2012, India and Japan concluded a 3-year SWAP transaction of $15 billion in national currencies (Wiggins et al., 2023: s.40-88). Simultaneously, China's bilateral SWAP deals within the Belt and Road Initiative framework began to spread.

The Great Transformation of Swaps

The chart on page 15 of the IMF report "The Evolution of Bilateral SWAP Agreements" provides a dramatic picture of the course of SWAPs. At the end of 2009, SWAPs clustered in three main focal points: the US, the EU, and Japan. At the end of 2020, this picture changed dramatically. The distribution of SWAPs according to their size is as follows: US, China, EU, and Japan. In other words, the People's Bank of China has become a powerful player in the international financial system with its widespread SWAP agreements.

In the debate on SWAPs, neoliberal economists argue that SWAP transactions among Western central banks ensure international stability (Rosalsky, 2020). What should not be overlooked here is the following: For these central banks, maintaining the existing financial system and preserving the hegemony of the US dollar is the priority. Therefore, it is a common practice for them to denigrate and try to undermine the emerging alternative financial system and instruments. In fact, they also implicitly or indirectly admit that the consequences of the West's methods of solving internal problems are the main source of instability in the world economy. The problems created by the West's SWAP transactions are the following:

The 2008 crisis led to a new era in SWAP agreements.

1. The US dollar always follows a course that suits the needs and interests of the US economy. The over-financialized US economy is frequently in crisis. It is, therefore, impossible to avoid possible crises and shocks.
2. Since exchange rates follow a course in line with the interest rates set by the Fed, they cause liquidity problems and instability in international financial markets.
3. There are still no clear standards for the international balance of payments. These problems create a structure that exclusively ties the international financial system to the West.

By 2022, the yuan was the 5th most traded currency in foreign exchange markets.

Figure 4. Swap Cycle at the End of 2009

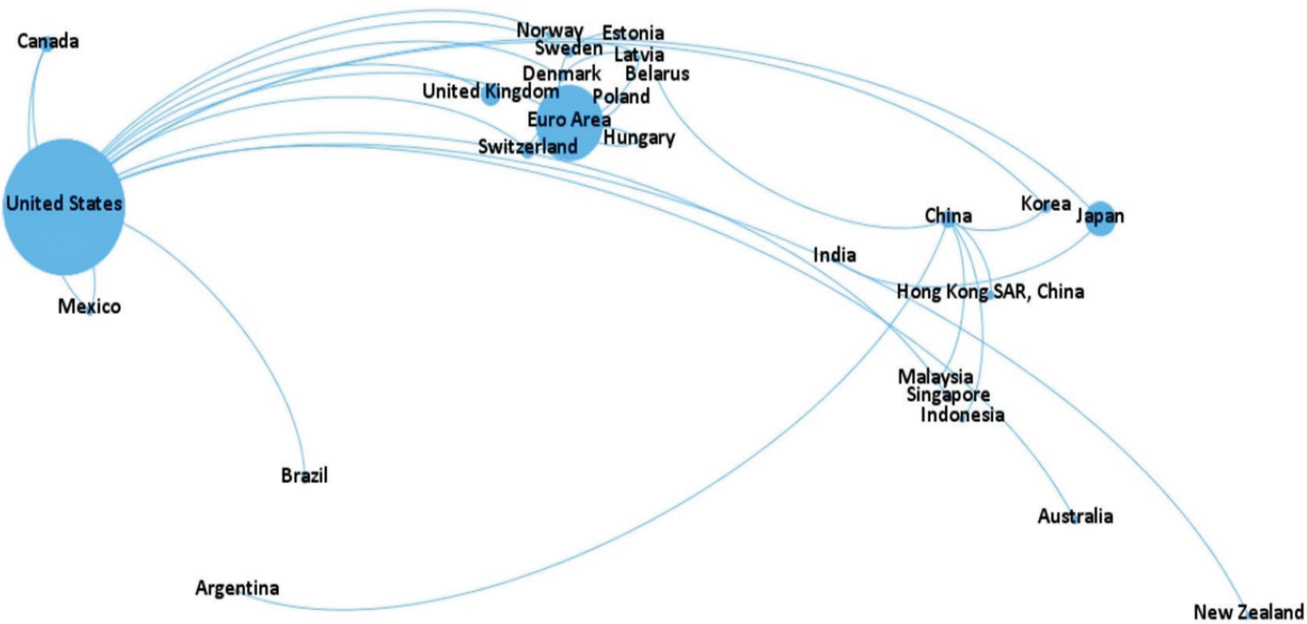


Chart showing end-2009 bilateral swap agreements
(Graph: Perks et.al., 2021).

China accounts for more than 15 percent of world trade and is the most important trading partner of the world's largest economies, yet the proportion of trade transactions in yuan is close to 2 percent of total trade volume. The yuan is now held in reserve by 70 central banks, although its share in foreign trade transactions remains low (SCIO, 2022). The disadvantage arising from the problems related to convertibility in international financial markets is covered by the SWAP transactions of the Central Bank of China. Since SWAP transactions do not have long maturities, such as 5 to 10 years, it is possible to avoid risks such as possible extreme fluctuations and the risk of non-repayment.

One of the methods used by central banks to buy yuan is bond issues. Bonds issued in Hong Kong and other offshore locations are more laborious and costly than SWAPs. SWAP transactions with China have contributed to the wider than expected use of the yuan in international financial markets. China started implementing SWAP agreements in 2009, right after the crisis. The first SWAP agreement was made with the Central Bank of South Korea. T he People's Bank of China has concluded SWAP agreements worth 3.5 trillion yuan ($554 billion) with 41 countries (Atlantic Council, 2022).

Figure 5. Swap Cycle at the End of 2020

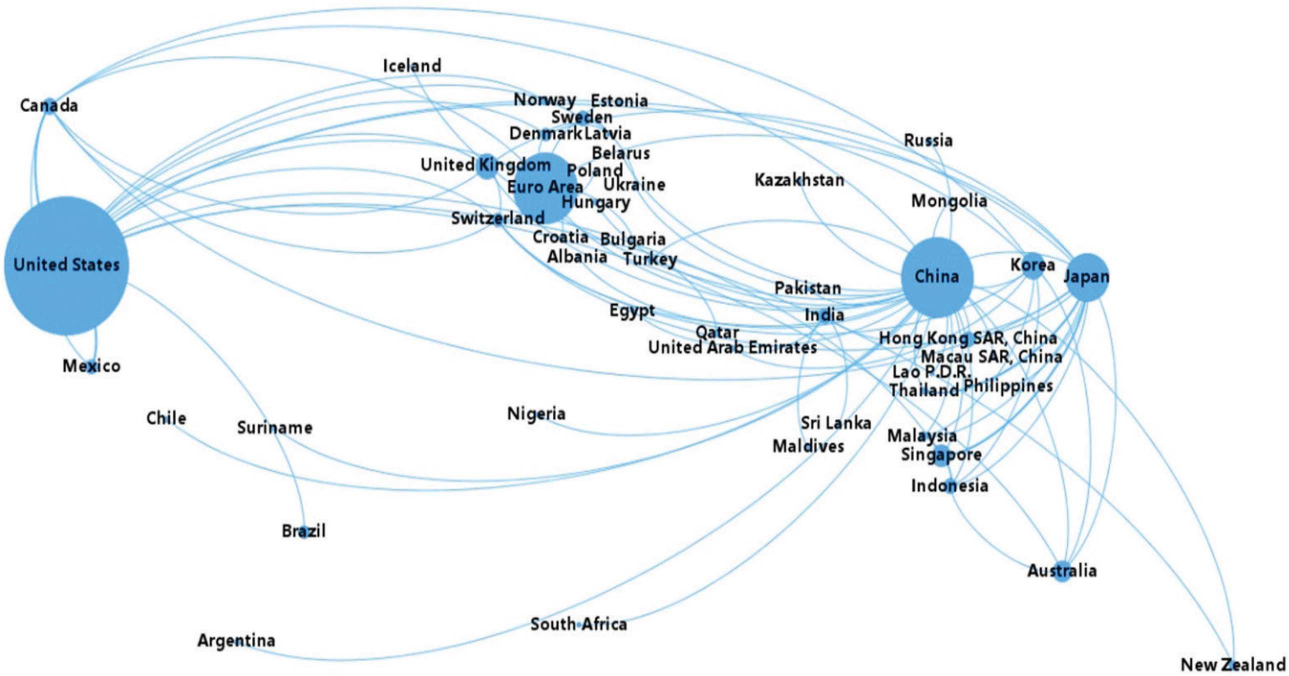


Chart showing end-2020 bilateral swap agreements
(Graph: Perks et.al., 2021).

The Quality of China's Swap Deals

Neoclassical (neoliberal) or mainstream economists have highlighted some drawbacks of the Fed's SWAPs. If SWAP agreements are extended for an unlimited amount and duration, we may observe the following problems:

1. The central bank's independent monetary policy will be jeopardized.

2. Suspicions may arise about the financial institutions of countries using SWAPs.

3. A few Western central banks will become the sole arbiters of lender of last resort on the international scale.

When we look at the characteristics of China's SWAP agreements, we see that the agreements meet certain standards. Economic, political, and institutional features play a role in these agreements. SWAP agreements are made primarily with countries that have strategic partnership agreements and free trade agreements. Factors such as the size and volume of the trade with the country with which the agreement will be made and the trade agreement affect the size and form conditions of SWAP agreements. It is observed that agreements are mostly made with a maturity of 3 years (IMF, 2021).

China's agreements with other central banks have numerous positive effects on international financial markets. Most importantly, it contributes to breaking the dominance of the US dollar. Especially in times of crisis, when countries with high US dollar debt and demand experience balance of payments problems, the demand for the US dollar increases. Since SWAP agreements made by Western central banks and institutions are insufficient in crises, SWAP agreements in national currencies relieve developing countries.

The crises that have taken place so far have shown that Western central banks and institutions (especially the IMF) solve their problems primarily in times of liquidity crises.

There is a fundamental difference between the SWAP agreements made by the Fed and those made by China and other developing countries. While the Fed makes deals to maintain and preserve the existing dollar dominance, Chinese and emerging market central banks make SWAPs to strengthen their national currencies and mutual trade relations. This is where the second important contribution of these SWAPs comes in: improving trust between central banks and enhancing the international credibility of the currency they use.

The SWAPs provided by the People's Bank of China promote trade in national currencies and finance infrastructure investments in BRI countries. In this context, SWAPs are an important source of financing for possible loan payments and postponements. SWAP agreements support China's EPC-F (engineering, procurement, construction, finance) loans with BRI countries (Silk Road Briefing, 2022).

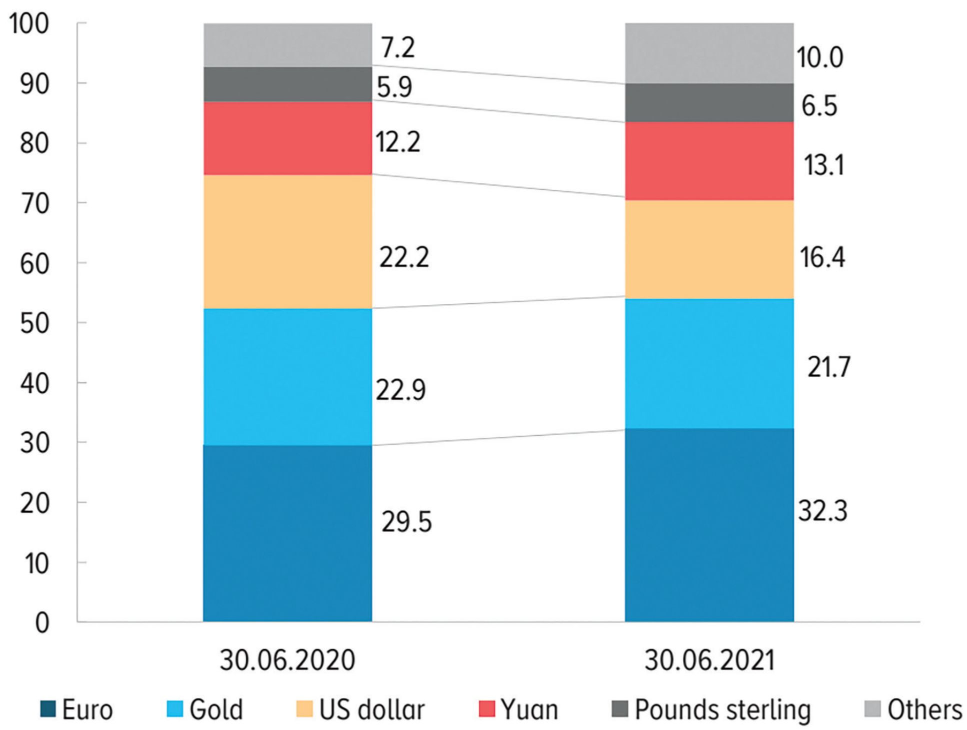
Swaps in the New Financial System

Western central banks, particularly the US, started to raise interest rates rapidly in 2022, leaving developing countries with high levels of external debt in a difficult situation. In previous years, the Fed's interest rate increases and the crises caused liquidity problems in the US dollar. SWAPs provided by the IMF and the Fed were not enough to overcome the liquidity crunch in developing countries. Therefore, countries that borrowed mainly in dollars started looking for ways to eliminate dollarization. Central banks of developing countries are reducing dollarization through SWAPs among themselves. China's SWAPs and yuan-based borrowing are another alternative for these countries. Factors such as the fact that China does not impose political conditions in SWAP and loan agreements, the absence of liquidity problems related to the yuan, and the price stability of the yuan make SWAPs with China widespread in developing countries. Another effect of this trend is to pave the way for the yuan to spread internationally. As a result, central banks are reducing the US dollars in their reserves and increasing the yuan. (Global Times, 2022).

China has proven to be a reliable partner in recent years, providing liquidity to countries in need during crises. The China-Pakistan SWAP agreement increased from 10 billion yuan (US$1.42 billion) in 2014 to 20 billion yuan (US$3.1 billion) in 2022. Similarly, Argentina increased its 70-billion-yuan SWAP agreement with China in 2009 to 130 billion yuan (USD 18.47 billion) in 2019. This SWAP agreement is still in force. China has continued to be a strong and reliable financial partner through its SWAPs and has greatly improved its trade relations with both countries (Global Times, 2021).

The new pursuits of China, some advanced economies, and the central banks of emerging

Figure 6. Distribution of foreign exchange reserves of the Bank of Russia in 2021



The chart showing the distribution of the Central Bank of Russia's foreign exchange reserves in 2021 (Graph: Bank of Russia, 2022).

economies show that the ground under the Fed's and the US dollar's feet is starting to shift. Russia's operation in Ukraine at the beginning of 2022 and the subsequent embargo imposed on Russia further accelerated this process. The West, and the US in particular, has now begun to think about preserving the system and adapting to the new system established against its will. The IMF's promotion of the SDR as the new reserve currency indicates this.

The crises that have taken place so far have shown that Western central banks and institutions (especially the IMF) solve their problems primarily in times of liquidity crises. The rest of the countries, especially developing ones, are "sacrificed" in this process. Having learned from past experiences, central banks of developing countries (and even some developed countries) have started diversifying their reserves and using SWAP agreements more frequently.

After the 2008 crisis, China-led transformation of SWAP agreements triggered similar SWAP agreements among developed and developing countries. These agreements support the exchange of deficient currencies and trade in national currencies. In the new financial system established in the coming years, this characteristic of SWAP agreements will predominate and continue to be the biggest supporter of developing countries in crises. SWAPs will be an important tool in the new financial system.

China-Russia Financial Cooperation and Yuan

At this stage, the concrete steps taken bilaterally by China and Russia parallel to the ongoing search in BRICS give hope to the world for the establishment of an alternative financial system. The joint steps started in 2015 have become largely effective after the comprehensive embargo imposed on Russia in 2022. As the cooperation channels between the two sides have further developed, significant experience has been gained in using mutual national currencies in extraordinary circumstances and other applications of the new financial system.

Demand for the yuan in the Sino-Russian clearing and settlement system is growing rapidly due to the following reasons:

1. The yuan's strength lies in its low volatility.

Exchange rate stability is one of the important factors influencing the decision to choose a payment currency. The yuan is relatively stable against the US dollar, the euro, and other major world currencies. The yuan against the ruble is more volatile than against other major currencies. Most Chinese enterprises and financial institutions are unwilling to bear the exchange rate risk caused by the volatile ruble exchange rate and prefer to use the yuan for local currency swaps. It is expected that derivatives will be used to insure foreign exchange in the coming period.

On November 22, 2010, and December 15, 2010, the ruble and yuan entered the Chinese Interbank Foreign Exchange Market and the Moscow Foreign Exchange Trade Center, opening up spot interbank foreign exchange transactions between the two countries (The Economic Times, 2010). The yuan's trading volume on the Moscow Foreign Exchange surpassed the volume of the US dollar for the first time in October 2022, reaching $1.17 billion. Before the operation in Ukraine, the average trading volume was $200 million per day (Global Times, 2022). More than 170 banks and brokerage houses are trading yuan on Russia's Moscow Stock Exchange. Bank of China, ICBC, and China Construction Bank also trade in yuan in Russian financial markets.

2. The yuan accounts for a significant portion of Russia's foreign exchange reserves and state-owned wealth funds.

In 2016, the Bank of Russia included the yuan in the country's foreign exchange reserves. In July 2021, the yuan became Russia's third largest foreign exchange reserve, accounting for 13.1% of the Bank of Russia's foreign exchange reserves. By the end of 2022, according to the decision of the Russian Ministry of Finance, the distribution of assets in the NWF's portfolio will be as follows: 60% yuan and 40% gold. As of February 1, 2023, 19.6% of the cash reserve is held in euros and 79.2% in yuan. The NWF has 557.2 tons of gold in its non-cash portfolio (Global Times, 2023a).

3. There is rapidly developing Sino-Russian trade and rising yuan demand.

Before COVID-19, China and Russia had set a goal of increasing bilateral trade volume to US$200 billion by 2024. In 2020, the bilateral trade volume between China and Russia amounted to 107.77 billion US dollars, exceeding 100 billion US dollars for the third consecutive time. In 2022, with the decline in imports from the EU after the operation in Ukraine and the redirection to China, the trade volume between China and Russia reached 195 billion dollars. With the increasing trade volume, Russian President

In 2015, 90 percent of Sino-Russiantrade was conducted in US dollars, while in 2022, it had fallen to 30 percent (Photo: CGTN, 2023).

Vladimir Putin announced that the new bilateral trade target was renewed to 250 billion dollars. In 2020, Sino-Russian trade and economic cooperation withstood the pandemic and showed strong resilience, strengthening the foundations of cooperation between the two sides. China's share in Russia's foreign trade has increased, steadily becoming Russia's largest trading partner for the 13th consecutive year (Reuters, 2023).

In addition to the traditional energy and mining sectors, which still have great potential for cooperation, agriculture, investment, contracting, and science and technology cooperations are developing rapidly. Cooperation in science and technology innovation has deepened comprehensively: the Sino-Russian Joint Science and Technology Innovation Fund, totaling USD 1 billion, has been put into operation, and the two sides have made positive progress in cooperation in emerging high-tech fields such as 5G and cloud services (Russia Briefing, 2019).

Developing Sino-Russian economic and trade cooperation has led to a major improvement in Sino-Russian payment and settlement transactions. In 2015, 90 percent of Sino-Russian trade was conducted in US dollars, while in 2022, before the operation, it had fallen to 30 percent. These data show that Russia and China are steadily reducing "dollarization" (Global Times, 2023b).

4. Demand for Chinese yuan-based investments is growing in Russia.

Due to Western economic sanctions, Russian companies cannot obtain financing from the West. China has become a key country for international financing in Russia, and the scale of yuan financing to Russia is expanding.

5. There is significant progress in using national currencies in Russia and China.

In 2017, ICBC launched yuan clearing bank operations in Moscow. Several Russian banks have joined the Yuan Cross-Border Payment System (CIPS) launched by the People's Bank of China (SWIFT, 2017). Russian and Chinese gas, oil, and gold transactions can be settled in yuan as the settlement currency.

Digital currencies can accelerate the settlement of national currencies, provide a partial replacement for SWIFT, and enable the globalization of payment systems.

In 2014, at the 16th meeting of the China-Russia Subcommittee on Financial Cooperation, it was decided that the yuan would be paid for by matching ruble transactions to implement the proposed "One Belt, One Road" strategy. The Committee formally established the mechanism of simultaneous settlement of the yuan into foreign currencies, thereby eliminating settlement risks arising from the time difference between the two currencies in the settlement of foreign exchange transactions and improving the timeliness of funds flows in the national currency between Russia and China (Bank of Russia, 2014).

Chinese and Russian financial institutions are strengthening cooperation in issuing and accepting UnionPay cards. In 2009, the Agricultural Bank of China cooperated with the Russian side to issue a debit card that allows users to withdraw cash in yuan and rubles from Russian ATMs. In 2014, China UnionPay cooperated with the Russian side to issue ruble and yuan UnionPay cards. By the end of April 2019, Russian card issuers had issued more than 2.5 million UnionPay cards. More than 100,000 ATMs of major banks, such as Sberbank and VTB Bank, can accept UnionPay cards (Yurou, 2019).

Technological Dimension of China-Russian Financial Cooperation

The China Foreign Exchange Trade System (CFETS) has established a new payment system (PVP) for the settlement of roubles and yuan, which reduces settlement risks and the risk of trading in different time zones and improves foreign exchange efficiency (CFETS, 2010). This system allows China and Russia to avoid using SWIFT, ensure privacy of information, and, as a result, avoid US financial sanctions when trading in national currencies between China and Russia.

Harbin Bank's practices have been good examples of Sino-Russian cross-border e-commerce online platform practices. With the China-Russia cross-border e-commerce online payment platform, the bank has established a simple and efficient integrated online gateway system and multi-channel platform to solve the difficult, protracted, and costly problems of exports (Shen & Westbrook, 2023). The Harbin Bank example is expected to extend to other Chinese and Russian banks.

The rapid development of digital technology opens up alternative channels. Digital currencies can accelerate the settlement of national currencies, provide a partial replacement for SWIFT, and enable the globalization of payment systems. China's advanced stage in implementing CBDCs (central bank digital currency) provides an important advantage for further Sino-Russian financial cooperation. China and Russia have a broad field of cooperation in researching and implementing digital currencies.

Blockchain technology is already used in finance, lending, smart manufacturing, and logistics in China. According to CAICT (China Academy of Information and Communications Technology) data, there are around 1,400 blockchain companies in China. According to MIIT (China's Ministry of Industry and Information Technology), approximately 84 percent of global blockchain patents belong to companies in China. China and other countries accelerate research on decentralized systems based on blockchain technology, which could be an alternative to SWIFT. Compared to centralized systems such as SWIFT, decentralized blockchain systems can increase the pace of real-time transactions and avoid third-party interception of international payments (CAICT, 2022).

Suggestions for Deepening China-Russia Financial Cooperation

The success of the Sino-Russian experience is crucial for establishing the new financial system. The Sino-Russian clearing and settlement systems' efforts to reduce dollarisation and promote the use of the yuan and the ruble are a move to enhance the security and facilitation of bilateral trade and economic cooperation between China and Russia. The cooperation is also important for encouraging and developing the internationalization of the ruble and yuan. The internationalization of national currencies, such as the ruble and the yuan, will be a factor in developing an alternative reserve currency and realizing an alternative, such as the 5Rs, in a shorter period. We can summarise the problems encountered in the financial cooperation that has intensified since the early 2010s and the solution recommendations under the following headings:

1. The strengthening of alternative payment channels should be accelerated.

The integration and development of SPFS, CIPS, and PVP should be accelerated. The integration of SPFS and CIPS should be continuously updated and improved in prevalence and efficiency. These systems are still the strongest alternative payment systems to SWIFT.

2. Sino-Russian financial cooperation should be expanded geographically.

It is expected that China will expand its commercial activities inside Russia, and Russia will expand its commercial activities inside China. Currently, both sides' direct investment and commercial activities are concentrated at the borders and are not widespread in big cities. Sino-Russian commercial activities, which are stuck in the borders, need to move to big cities on a larger scale. The status of Hong Kong is an important candidate for this process. Regional Chinese banks are suitable for financing and financial infrastructure of border trade. In Russia, Russian banks should be encouraged to increase the number of corresponding bank accounts, expand the geographical coverage of corresponding bank accounts, encourage Chinese banks to open additional offices, and focus on planning settlements in regions where more Chinese enterprises are investing.

3. The Sino-Russian governments should deepen their cooperation.

To take more rapid steps to overcome the practical problems in the merger of CIPS and SPFS, technological compatibility, and problems related to settlement services, both countries should implement incentive policies and make arrangements to overcome bureaucratic obstacles encountered in implementation. Mutual acquisitions or mergers of financial institutions and companies may also be encouraged. Another dimension of the work is accelerating the digitalization processes of these companies and harmonizing the digital platforms of both sides.

4. Commercial bank cooperation should be deepened.

The commercial banks of both countries should strengthen investment and financing cooperation, promote new cooperation models such as private investment funds and investment-credit links, and establish comprehensive corresponding bank relationships. More efforts should be made to resolve technical problems encountered in trade in national currencies. More emphasis should be placed on the diversification of the products provided by banks and the development of new products in line with financial cooperation. The use of new instruments such as letters of indemnity, bank cards, and foreign trade factoring should be strengthened. Using China UnionPay cards in Russia and MIR cards in China should be encouraged. Infrastructure should be developed for the use of these cards in commercial transactions.

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