



## China-Saudi agreements a marker of new economic system

By Elisa Barwick

As 2022 draws to a close, the leaders of China, India and Russia have affirmed a future animated by cooperation rather than competition and conflict. Assuming leadership of the Group of Twenty major economies, India's President Modi announced plans to shift the mindset governing the world direction to one that benefits *all* mankind; Russian leaders continue to map out a new multipolar world order; and China is making historic advances to the Arab world that can change the economic outlook for the entire planet.

Chinese President Xi Jinping was in Saudi Arabia for a state visit 7-9 December. He also participated in the Gulf-China Summit for Cooperation and Development, which included 14 leaders of the Gulf Cooperation Council (GCC), and the first ever Arab-China Summit for Cooperation and Development. The president's plane was escorted into the Riyadh airport by six jets of the Saudi Royal Air Force and Xi was greeted with lavish ceremony, in stark contrast with US President Joe Biden on his July visit.

In addition to a comprehensive strategic partnership agreement, heralding close coordination and biennial heads of state meetings, an estimated US\$30 billion worth of agreements were signed between the two countries. This is in addition to existing Belt and Road Initiative cooperation agreements with 20 Arab states and the Arab League, encompassing more than 200 large-scale projects.

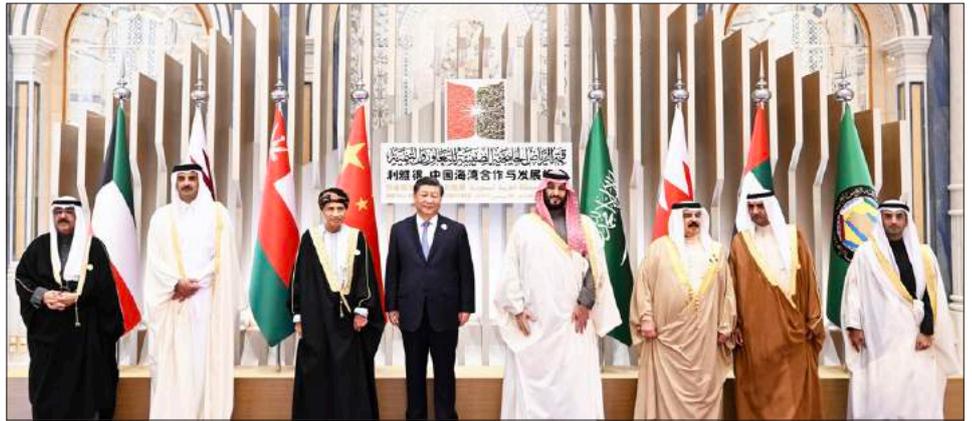
Included are agreements on energy (including for oil price stability); electricity production; hydrogen energy and industrial processes; petrochemicals, including new conversion technologies; photovoltaic cells and wind power systems; and communications, in which Huawei will provide 5G and subsequent communications systems to the Kingdom.

During his speech at the First China-Arab States Summit, Xi underlined the need for peace and security in the region. He told the China-Gulf Cooperation Council Summit that the two regions complemented each other: "China has a vast consumer market and a complete industrial system, while the GCC, with rich energy and resources, is embracing diversified economic development. This makes the two sides natural partners of cooperation." Xi described five areas of advancing cooperation, in energy, investment, technology, aerospace and culture. He noted that the "Shanghai Petroleum and Natural Gas Exchange platform will be fully utilised for RMB [renminbi] settlement in oil and gas trade", and that "China will provide 300 training opportunities to GCC countries on peaceful use of nuclear energy and technology."

Xi also met dozens of Arab leaders, including from Egypt, Kuwait, Somalia, Qatar, Palestine, Algeria, Tunisia and Sudan. Iraq's new Prime Minister Muhammad Shia al-Sudani used his appearance with Xi to speak for the first time of Iraq's participation in the BRI.

### Summits show optimistic pathway

Assuming the rotating presidency of the G20 on 1



Xi with leaders of Saudi Arabia, Qatar, Bahrain, Kuwait, Oman, UAE and the GCC in Riyadh. Photo: AFP/Xinhua/Xie Huanchi

December, India made clear it aims to broker a pathway out of crisis for all nations. Indian President Narendra Modi wrote an article published on his blog and in the Indian press that day, announcing that India intends to "catalyse a fundamental mindset shift, to benefit humanity as a whole".

Humanity has lived under conditions of scarcity, fighting over limited resources, he said, and remains "trapped in the same zero-sum mindset". That can now change, because "today, we have the means to produce enough to meet the basic needs of all people in the world. ... Today's technology also gives us the means to address problems on a humanity-wide scale."

"Some may argue that confrontation and greed are just human nature. I disagree. If humans were inherently selfish, what would explain the lasting appeal of so many spiritual traditions that advocate the fundamental one-ness of us all? ... India's G20 Presidency will work to promote this universal sense of one-ness."

Modi specified that India will give a greater voice to others in the Global South developing countries; depoliticise food, fertilisers and medicine supply; and encourage an "honest conversation" to enhance global security. India's "G20 priorities will be shaped in consultation with not just our G20 partners, but also our fellow-travellers in the global South, whose voice often goes unheard." India has invited nine guests to participate—the UAE, Bangladesh, Mauritius, Egypt, Nigeria, Oman, Singapore, the Netherlands, and Spain—making it sort of a "G20+". The series of some 200 planned meetings leading into the September 2023 leaders' summit in New Delhi has already commenced, with representatives of 40 nations attending a four-day agenda discussion.

In Russian efforts to the same end, President Vladimir Putin sent greetings to the 8th Primakov Readings International Scientific and Expert Forum, held in Russia 6-7 December. Yevgeny Primakov was Russia's foreign minister and then prime minister in the mid to late 1990s. Among his most important initiatives was the concept of the "strategic triangle" among Russia, India and China (the RIC) which inspired the formation of BRICS (Brazil, Russia, India, China, South Africa).

"The ideas of Yevgeny Primakov, an outstanding statesman and thinker, regarding the future world order based on a profound analysis of objective processes and a scientific forecast, have now become more popular than ever before",

Putin's message said. The theme of the forum was "World Order in Transit: Eurasian Dimension". "It is Eurasia", the Russian leader continued, "that is the main driving force of global economic development. This is where integration processes are picking up momentum, and effective mechanisms of multilateral cooperation that play a key role in asserting a multipolar world order system, based on genuine equality, mutual respect and consideration for the legitimate interests of each other, evolve."

Foreign Minister Sergey Lavrov addressed the gathering, highlighting Primakov's "revolutionary concept of multipolarity" which he put into action with the RIC forum. Currently, several states are lined up for full membership, and the five could expand to 15-17 countries, he said. The "unwillingness of the Western minority to abandon its hegemonistic aspirations", is a factor that must be contended with, said Lavrov. He discussed the expansion of NATO to the "Indo-Pacific", "setting India against China", and new military blocs such as AUKUS. Regarding Russia, "they are acting on Brzezinski's premise", he said, referring to the promoter of geopolitical "Grand Chessboard" games that play one nation off against the other, speaking at length about the set-up for the current conflict in Ukraine.

At a combined meeting of defence ministers of the Commonwealth of Independent States and the Shanghai Cooperation Organisation on 9 December, Russian President Putin confirmed that "The outlines of a truly multipolar world order are appearing before our eyes: New development centres are being formed in Asia, Africa and Latin America, which are increasingly defending their national

interests, protecting their sovereignty, and the right to choose their own development trajectory. It is simply impossible to resist these objective historic processes." Those changes are accompanied by great danger, he added, with "certain Western elites" prepared to go to any lengths to preserve their "political, economic, financial, military and ideological dominance".

The same day, Belarus President Aleksandr Lukashenko told the Eurasian Economic Union's Supreme Eurasian Economic Council, which met in Bishkek, Kyrgyzstan, that "we are considering the issue of vesting the EAEU bodies with the authority to provide financial assistance for industrial cooperation from the EAEU budget." He also proposed a summit of the EAEU, SCO, and BRICS. Putin noted that: "The EAEU is carrying out a number of integration infrastructure projects aimed at creating and effectively using the East-West and North-South international transport corridors", mentioning the potential for integration with other projects including the China-Kyrgyzstan-Uzbekistan Railway Corridor and the Trans-Afghan Railroad Corridor.

Chinese Premier Li Keqiang and Russian Prime Minister Mikhail Mishustin, in a 30 November video conference, reviewed trade and investment cooperation, including an extensive discussion of using national currencies for mutual trade. Mishustin declared: "The global world order is undergoing a serious transformation. Some Western states have decided that using illegitimate economic sanctions, restrictions and political pressure, they can impose their own rules, regardless of the interests of others. Such attempts are doomed to failure", he said.

## The unravelling dollar: BIS rings the alarm

By Elisa Barwick

Head of the Monetary and Economic Department at the Bank for International Settlements Claudio Borio, with Robert McCauley and Patrick McGuire, issued a report on 5 December ([Quarterly Review](#)), "Dollar Debt in FX Swaps and Forwards: Huge, Missing and Growing", referring to off-balance-sheet derivatives exposure that does not appear on bank balance sheets. The report estimates the "hidden" exposure that major overseas banks have to foreign exchange (FX) derivatives based on the US dollar at US\$39 trillion. "Much of this debt is very short-term and the resulting rollover needs make for dollar funding squeezes", says the report. Such squeezes have necessitated "bank swap lines that are set in a fog, with little information about the geographic distribution of the missing debt." (Emphasis added.)

This US\$39 trillion off-balance-sheet debt of the banks, alone, is over ten times the value of their capital. There is a further US\$26 trillion worth of swaps held off-balance sheet by offshore *non-bank* financial outfits, which is double the size of their on-balance-sheet dollar obligations. The exclusion of trillions of dollars of obligations from standard debt statistics, amounts to "huge, unseen dollar borrowing", forming a "blind spot" in global markets and a danger point for the USA itself. In fact, the US dollar value of foreign exchange swaps, forwards and currency swaps "exceeds the stocks of dollar Treasury bills, repo and commercial paper combined", states the BIS report. Swaps were a flash point in both the 2008 and the March 2020 crises, it recounts, with a crunch on dollar borrowing resulting in central bank swap lines being set up to funnel dollars to offshore banks.

The BIS describes the total volume of swaps and forwards, in all currencies, as a "staggering" US\$97 trillion and the US dollar, it adds, is on one side of 88 per cent of those

outstanding positions.

The hidden leverage will likely be ignored until the next time liquidity is squeezed, said the BIS, when it could affect the portfolios of pension funds and insurance companies utilising such instruments. After the recent UK bond crisis, this risk is palpable.

Additionally, as much as 90 per cent of developing country debt is denominated in US dollars and euros. A 3 December *New York Times* article noted that developing countries owe some US\$200 billion to rich nations, the IMF, World Bank or private creditors, which as the US dollar rises becomes harder to pay. The World Bank is projecting that a dozen countries could face default in 2023 and the IMF has warned that 60 per cent of developing countries are either in debt distress or close to it.

There aren't enough dollars in the world to cover the liabilities of nations, or bank's derivatives, nor would the Fed be able to print them.

Additional warnings have been sounded: Writing for *Project Syndicate* on 2 December, prominent New York University economist Nouriel Roubini warned of "The Unavoidable Crash" of a "massive mountain of public- and private-sector debt" now that ultra-loose monetary policy has turned to tightening. Total debt as a share of GDP has risen from 200 per cent in 1999 to 350 per cent in 2021; 420 per cent in the USA. He forecasts a "deep, protracted recession—on top of a severe financial crisis" that will "feed on each other".

Economist and former Pimco CEO Mohamed El-Erian has warned that crises such as the UK gilt crunch, the Sri Lankan debt crisis and collapse of crypto platform FTX are canaries in the coal mine—signals of a broader crisis. Worse, "financial accidents", he said, can "spill back into the real economy".