

Repositioning for the Future: New Opportunities

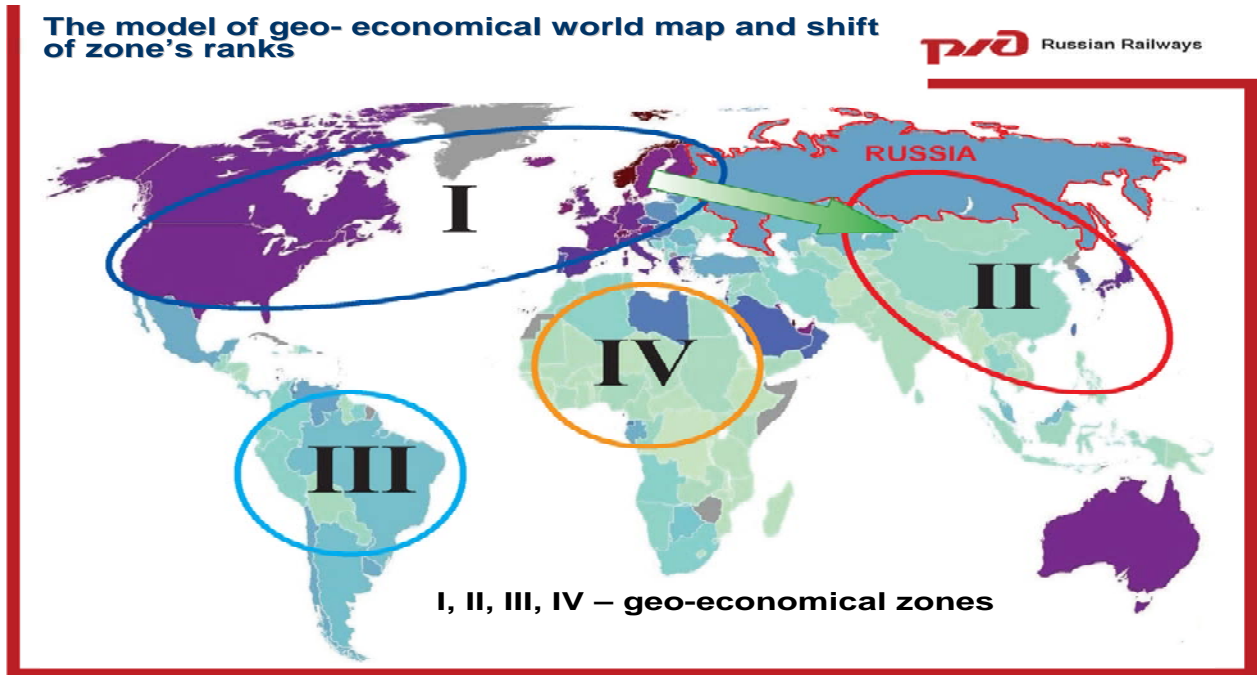
Ladies and gentlemen,

Our discussion is focused on analysing the current crisis and forecasting the post-crisis world.

The explanatory model which lies at the heart of our analysis is a global world history and civilisation approach. It does not reject other explanatory models. The world develops in a very complex manner, with a huge number of contradictory and competing processes, and at each level of analysis there are particular models, discoveries and explanations. It seems to us that the approach we are using is also legitimate and offers a particular understanding of what is happening, as well as enabling us to develop recommendations for practical action.

The current financial and economic crisis is global in nature. To move towards understanding the processes which led to the crisis, the mechanisms enabling it to come about and to continue, and the likely scenarios for the near future let's take a look at the geo-economic map of the world. (Slide 1)

1. The economic world is changing



Slide 1. A model of the contemporary geo-economic map of the world

Why do we see the world divided into these zones? Because this view enables us to understand certain important processes which explain and predict the development of the crisis.

Some people might object that in the modern world the globalisation of contacts, the conversion of finance into electronic transactions, the shrinking of distances due to telecommunications and the transnationalization of various countries' major companies render this map unimportant and the world is absolutely homogeneous. But we do not believe this is the case.

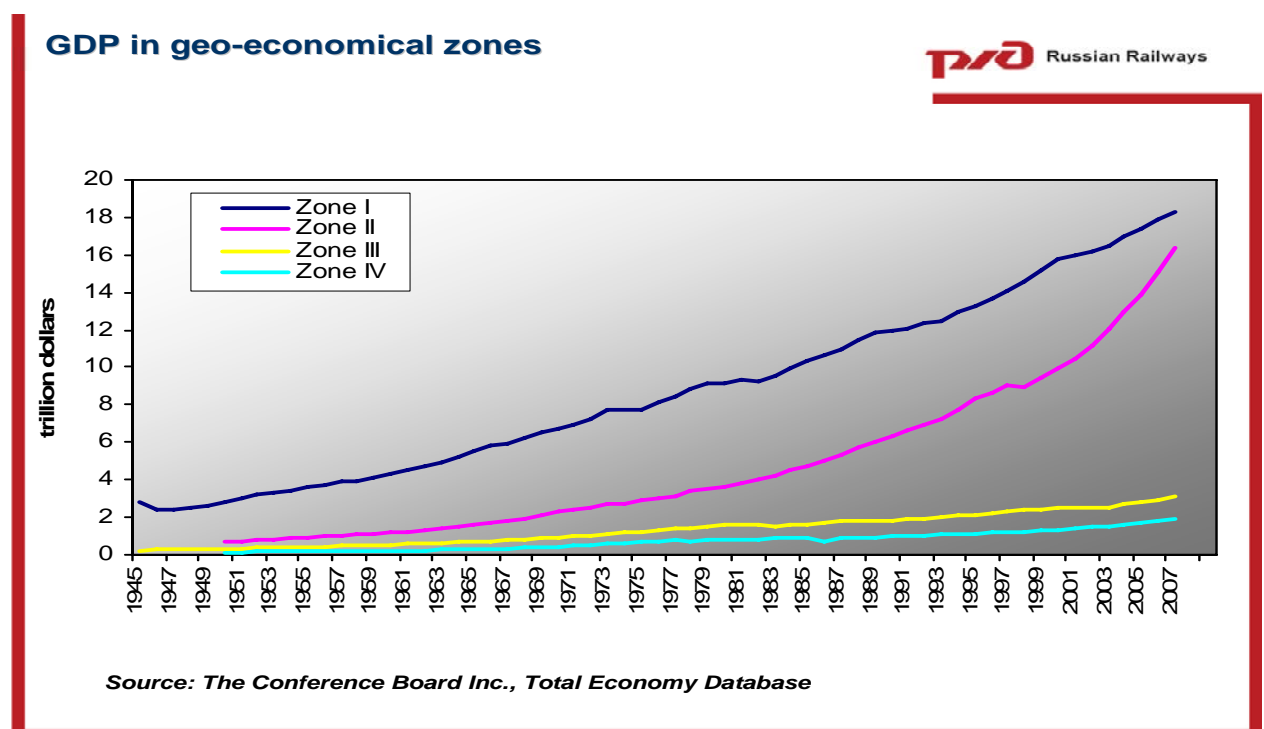
Yes, funds and finances are becoming transnational and the role of communications is growing, with the effect of integrating the world and removing distinctions. However, the distinctions between INTERESTS do not disappear. Unfortunately the fault-lines between civilisations remain significant and we do not always see them being evened out: more often than not the opposite is the case. To explain my thinking as reflected in slide 1, where we introduce the concept of global geo-economic zones, we can see that the boundaries between them coincide to a significant degree with the boundaries between different civilisations.

In terms of civilisation Russia is a particular entity with characteristic features which have developed over a thousand years of history and which only in part synthesise the features of the opposing Western and Eastern civilisations. But Russia is not a hybrid. I emphasise this: Russia is an independent civilisation.

We proceed from the fact that the fundamental cause of global crises is not some accidental malfunction in the self-regulatory systems of the world market or in the mortgage capital set-up in the USA, but lies in the imbalance of INTERESTS.

Let's look at the dynamic of restructuring the world's geo-economic and financial configuration, revealing the main conflicting agents and seeking reliable trends which enable us to make proposals for a post-crisis system.

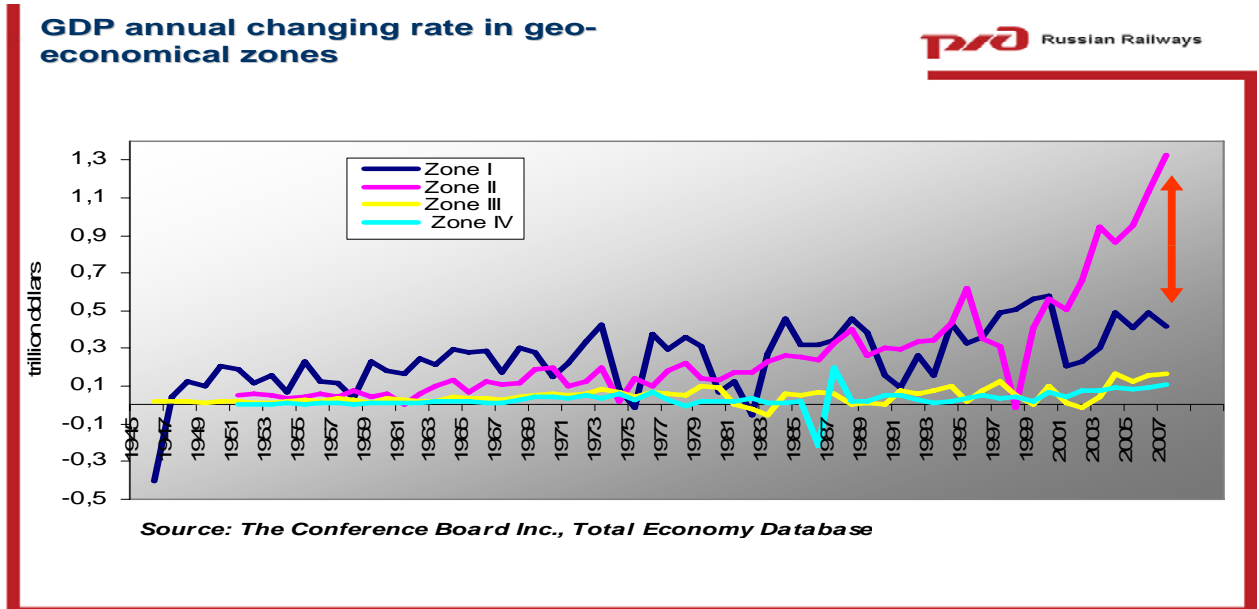
So, let's take a look at the dynamics of Gross Domestic Product for the zones we've indicated. Slide 2.



Slide 2. Dynamics of gross regional product for selected geo-economic zones

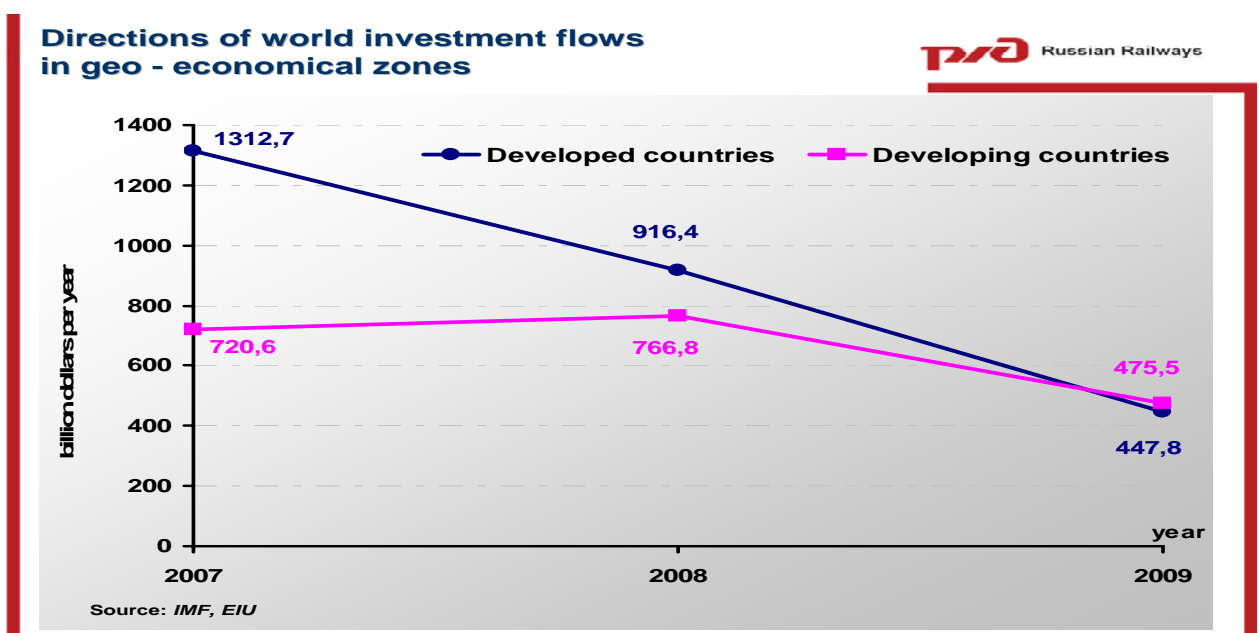
We can see that the historical trend is expressed in Zone 2, which is developing the fastest. The disparity in rates of gross growth between economies is increasing (Slide 3). We should notice that at a time of crisis the relative slow-down in the rate of growth of gross regional product in Zone 1 is twice as high as that in Zone 2.

It can readily be seen that the growth rate for gross regional product in the second zone is beginning to exceed the rate for Zone 1 more and more markedly. Does this fact threaten the economic interests of the first zone? Obviously it does.



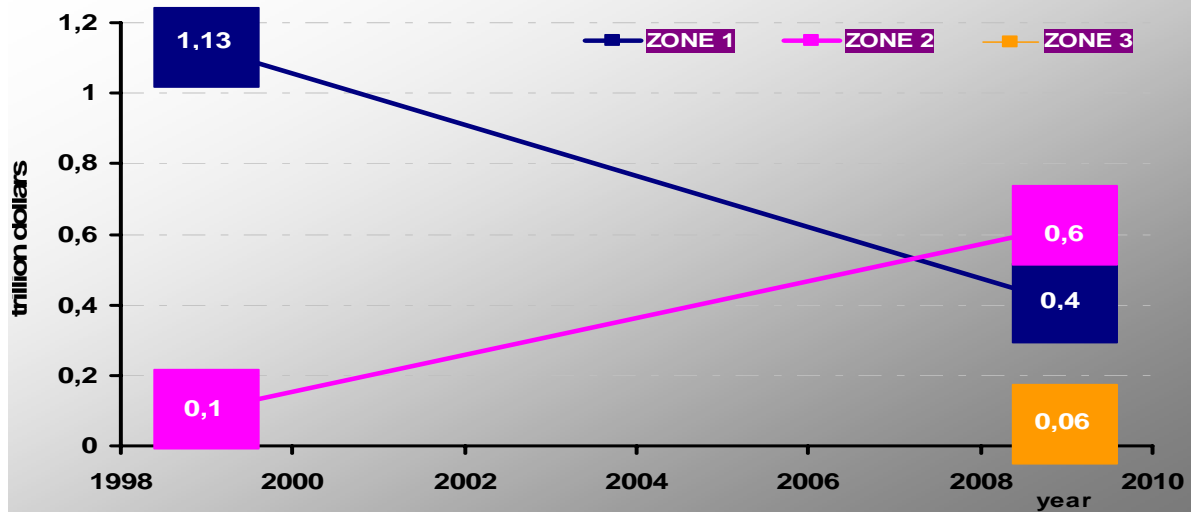
Slide 3. Gross regional product growth rates for selected geo-economic zones

We can see these global trends of *economic and financial power shifting from one geo-economic zone to another* in investment flows (Slide 4), the capitalisation of banks (Slide 5) and market capitalisation (Slide 6).



Slide 4. Changes of direction in global investment flows by geo-economic zone

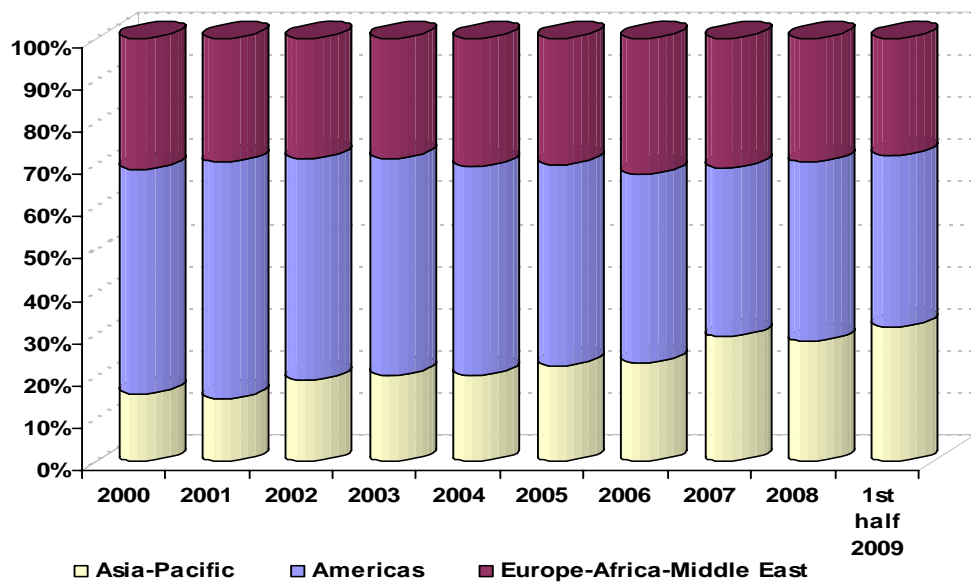
Dynamics of first-rate banks (TOP 20) capitalization in geo - economical zones



Sources: Financial Times - "FT Global 500", Thomson Reuters

Slide 5. Dynamics of capitalisation of major banks (from the TOP 20 list) by geo-economic zone

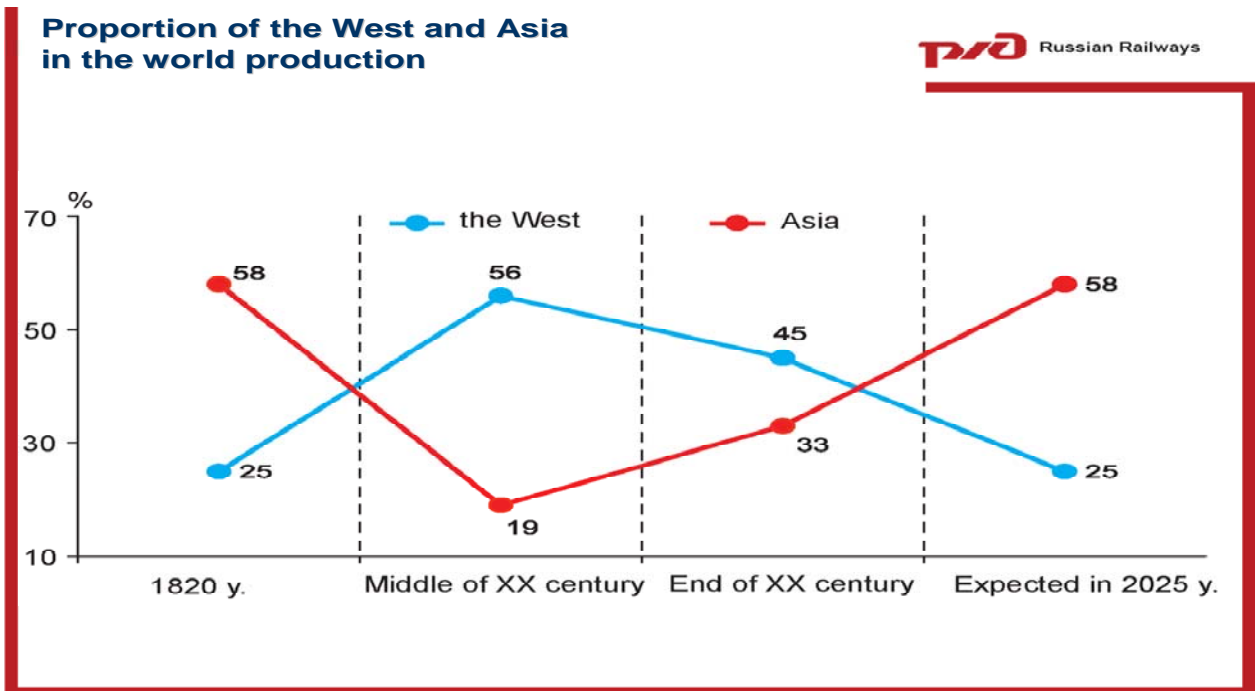
Market capitalization in geo - economical zones. South-eastern Asia takes first place



Source: World Federation of Exchanges

Slide 6. Market capitalisation by geo-economic zone. South-East Asia leads.

This is not the first time there has been a change in geo-economic leadership in the world (Slide 7). The West has not been in the lead at all times in history.



Slide 7. The Western and Asian worlds' shares in the overall volume of world production

Economic and financial power is thus shifting from the Atlantic Alliance zone to other regions. That is not to say that the question of leadership has been finally resolved, but this process is global, prolonged and steady. The crisis has not halted it: on the contrary, certain processes have actually accelerated during the crisis. Moreover, we would suggest that the process in question and the crisis are connected in a specific cause-and-effect relationship.

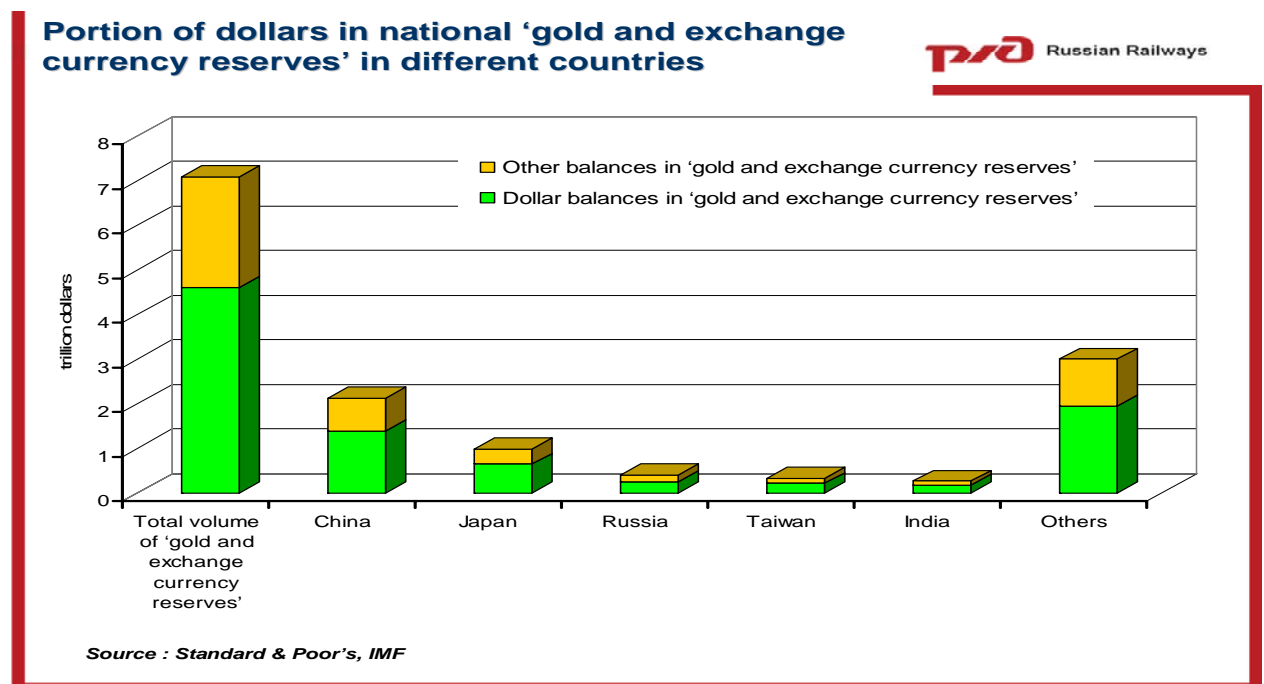
Here is the key question: is Zone 1 indifferent to its impending loss of economic leadership and to the fact that *the parasitic system of a global financial pyramid is coming to an end*? Obviously not.

2. The nature of the world crisis

The whole world has of course given due respect to the advanced and developed nature of the American economy and to the Western world's leadership in the post-Second World War years. But there is a *secret* to this success which is not entirely seemly and which is beginning to come to light.

In essence it is very simple. The American economy is based on a brilliant invention. By gaining the right to be the issuer of the global currency (the dollar) and by unilaterally rejecting the obligation to back up the currency it was issuing with gold or any other security in the 1970s, the USA discovered a fabulously profitable national business. The dollar became a product.

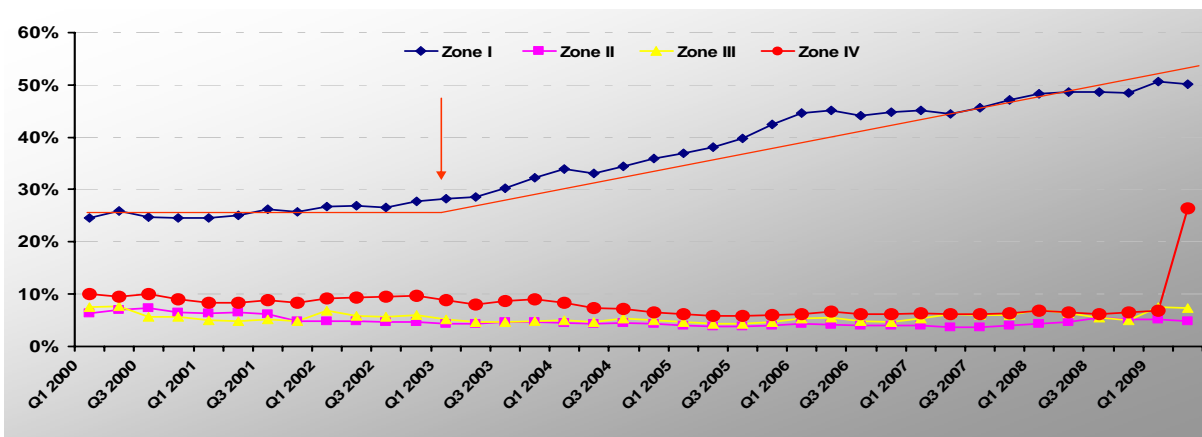
The dollar became the world's medium for accounting and accumulating reserves (Slide 8). Dollar holdings accounted for more than a half of states' gold and exchange currency reserves.



Slide 8. Dollar holdings as a proportion of states' gold and exchange currency reserves

It is worth noting that Zone 1 is building up its gold reserves *with an eye to the future*, while various countries are also beginning to change their attitude to the dollar and to gold following the lessons of the current crisis (Slides 9-10).

Averaged portion of monetary gold in zone's 'gold and exchange currency reserves'

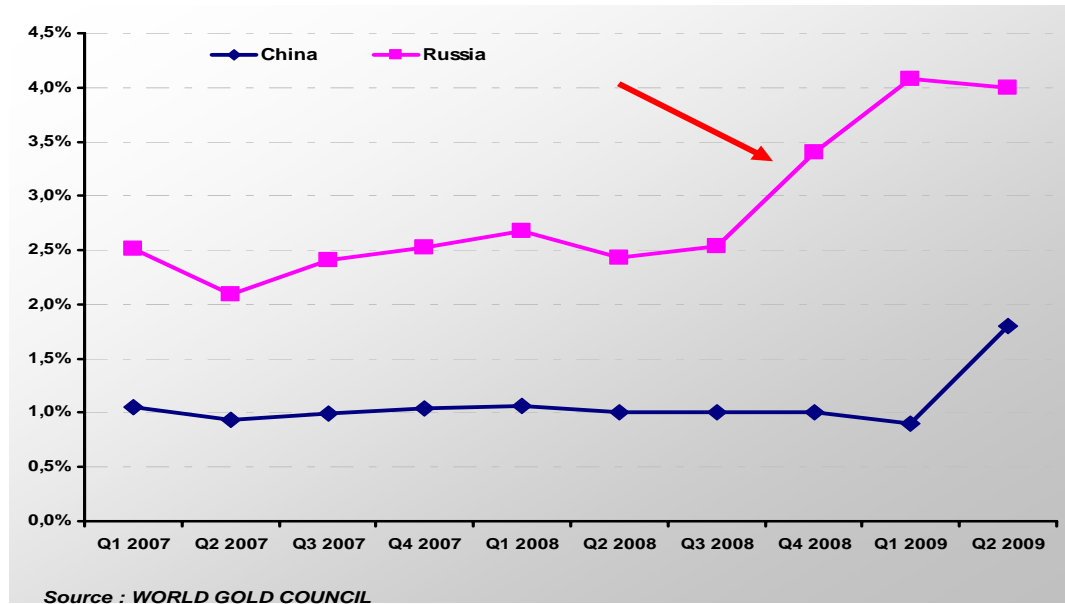


Source : WORLD GOLD COUNCIL

Slide 9. Proportion of monetary gold in gold and exchange currency reserves. The USA and its allies (Zone 1) hold their national gold and exchange currency reserves in gold, but so far the rest of world has held theirs in dollars.

In our view, this way of acting “with an eye to the future” is a signal of the understanding in Zone 1 that the financial pyramid is coming to an end, and that means the West has to take measures to protect itself. It is likely that these same actions are one of the causes of the crisis. Here we find a specific key for our analysis: INTERESTS – ACTIONS – CRISIS.

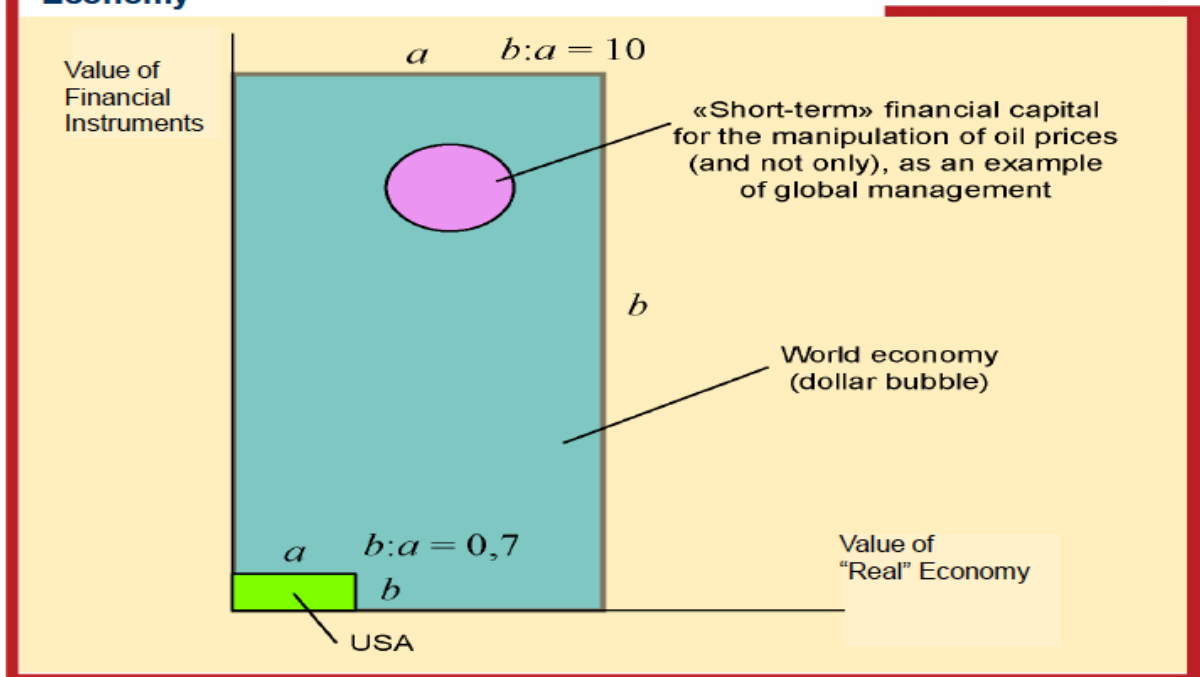
Crisis forced countries to decrease dollar and to increase monetary gold portion in 'gold and exchange currency reserves'



Slide 10. The crisis has forced some countries to reduce the proportion of dollars in their gold and exchange currency reserves and to increase the proportion of monetary gold

Thus by issuing a 100-dollar banknote which costs 4 cents to produce, the USA is selling this “product” to the whole world for 100 dollars apiece. The profitability of this “business” amounts to 250,000%! Everyone knows that finances should more or less correspond to the volume of real production. Let us see what the aforementioned “invention” has led to, along with other “inventions” such as financial instruments including balanced securities and derivatives (Slide 11).

Estimated Value of Globally Traded Financial Instruments and the Value of Global "Real" Economy



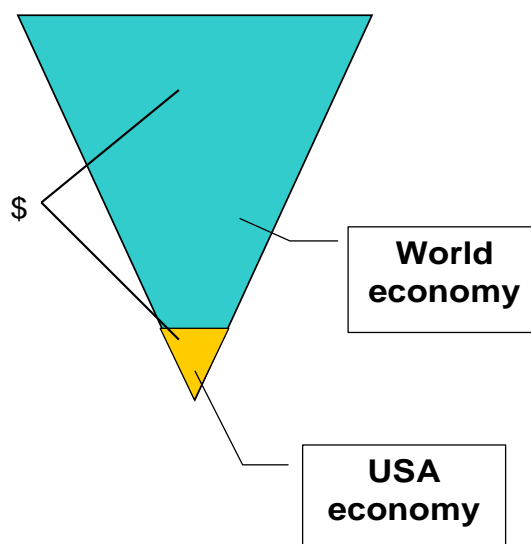
Slide 11. The relationship between financial instruments and the real economy in the context of dollarisation of the global economy

On a global scale, the relationship between financial instruments and the real economy stands in excess of 1,000%. And so within their national economies governments are for the most part responsible and restrict this relationship by managing the mount of currency issued by their central banks in the face of the obvious threats of inflation and instability in national currencies. In such cases the relationship between finances and the real economy does not exceed 200%.

Thus we have 200% in national currency-issuing economies, and 1,000% in the event of a global economy in which the USA acts as the issuing centre. True, we should note that it's not actually America that acts as the issuing agent but the FRS, which represents 20 private banks. To put it simply, in financial terms 20 bank proprietors run the world economy. They are independent, uncontrolled, and in principle unrestrained in their dollar-issuing policy. If we return to the idea that the world is ruled by INTERESTS, we can imagine the type of interests and the standards of responsibility in such an uncontrolled system. Let's imagine that for

some reason the amount of dollars being issued began to return to US economic territory (Slide 12).

'Dollar bubble' is a threat to USA economy

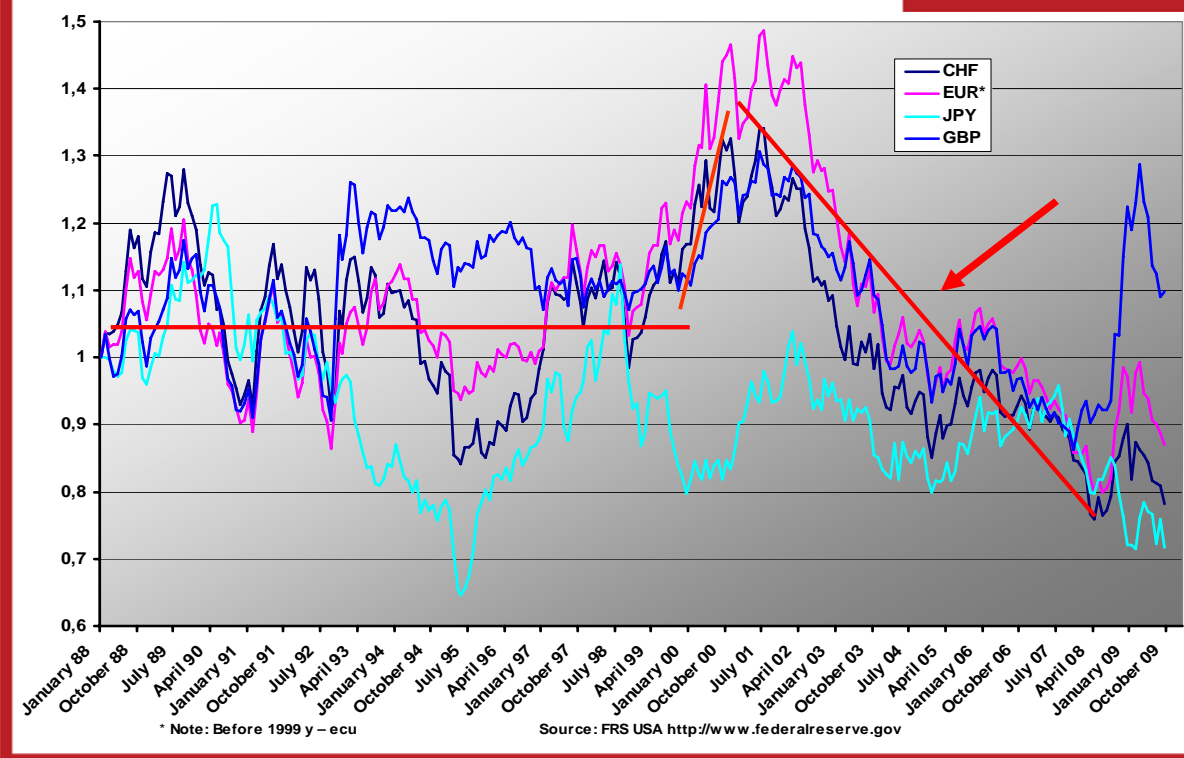


Slide 12. Dollar “overload” is a threat to the US economy

It can easily be seen that such a turn of events would be a deadly threat to the USA. That is why it is obvious that the USA, the Western alliance and their financial, economic, military and political resources cannot, and will not, remain indifferent to such events.

In connection with this, let's look at the actual indicators of the dollar “business” that we have been describing, as they stood on the threshold of the current crisis and during it. It's interesting to see how the different geo-economic regions relate to the dollar. This is primarily shown by the “price” of the dollar, expressed in national currencies (Slide 13).

Rates of exchange in units of 1988 y.



Slide 13. The relative value of national currency exchange rates based on 1988 prices

As we can see, for a long time the “price” of a dollar around the world fluctuated around a quasi-permanent average value. It signifies the presence of numerous different processes connected not only with the policy of the issuing centre but also with the interests of the world’s major economic entities, the governments of various countries and market effects. But we can also see a global trend, a process which derives from a larger-scale and more consolidated cause.

So, if the “price” of a dollar “diminishes”, it means that demand for the “product” in the form of the dollar is falling. It is squeezed out from the relevant regional currency zone.

It is clear that the “pricing” history of the dollar is marked by this steady squeezing out that started at the beginning of 2000 in the majority of geo-economic zones.

The aforementioned threat to the USA and its allies has begun to grow.

Here it is especially important to consider the dynamics of the yuan, which illustrates the basic story of the global spasms currencies have experienced. The profitability of the “dollar” pyramid has fallen. In these circumstances, what is the natural INTEREST of the owners of this business? Naturally, it is to restore world demand for the dollar. How can they achieve this? By creating a severe shortage of dollars in financial circulation, which is not difficult when they have access to the issuing centre and to the world’s financial institutions.

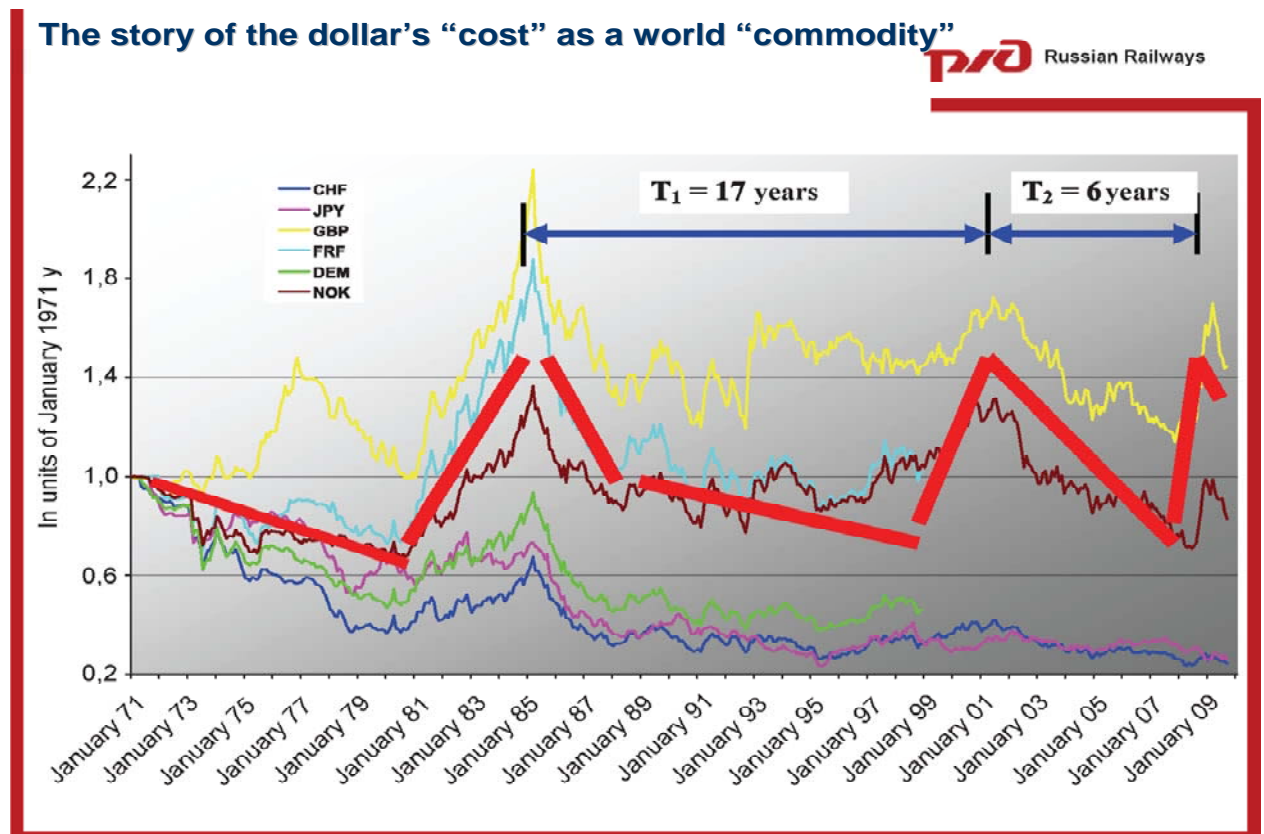
The financial crisis is in essence the sudden onset of a shortage of negotiable financial resources.

After the creation of the shortage and stimulation of world demand for the product that is the dollar, we can see that restoration of the pyramid is under way, at the same time as a reduction in the refinancing rate and the provision of unlimited credit from the FRS to the world’s governments... and it looks as though the pyramid has been repaired (the rising phase in Slide 13).

However, there is already quite a lot of firm opposition from many countries to such an unjustly constructed global financial and economic system. The growing centre of economic power that is China and the South-East as a whole is already a factor in the global economy. Its policy is becoming autonomous of the fate of the dollar.

After the maximum success of its “treatment” the dollar has again started to become cheaper in virtually all countries. This allows us to predict that a similar crisis in the form of another attempt to “repair” the global financial pyramid is again likely.

By examining the dynamics of the “price” of the dollar since the USA stopped backing it with gold, we can see the periodic nature of crises such as the present one. The period between crises is diminishing. On the basis of that model, a new crisis is programmed and predicted to happen in $T_3 = 2\text{--}3$ years’ time. (Slide 14)



Slide 14. Periodicity of crises with the dollar pyramid. The next crisis is predicted to happen in $T_3 = 2\text{--}3$ years’ time.

Within the expert community there are analytical views that as the possibilities of crisis “repair” technologies are exhausted, they will give way to new methods. *One would like to hope that these methods will be peaceful.* It should be obvious to the world community that the owners of a business with a “profitability” of 250,000% are not going to give it up voluntarily!

We proceed from the fact that in the historical perspective the fate of the dollar is predetermined. It’s only a question of when radical changes will happen. We estimate this as a few years from now. The world’s financial system will change. Evidence of this is the increasingly active economic situation and the growing

independence, reinforced by the shift of economic power from Zone 1 to Zone 2. However, these changes may be accompanied by very big global political tensions, for which the world and regional communities must prepare themselves.

3. What are the opportunities for Russia in the future global financial and economic system?

Today it is difficult to regard Russia's financial policy as independent. The Central Bank of Russia is issuing roubles strictly in accordance with the amount of dollars coming into the country. It is thereby virtually confirming its rejection of financial sovereignty for the country. But it is important that Russia is gradually moving towards an understanding that the dollar-dependent economy based on raw material exports is exhausted and is setting a goal of innovation and diversification.

It is important to note that according to the conclusions of the first part of our report, at a time when the geo-economic map of the world is being reconfigured, only Russia, being geo-economically linked with Zone 1, is simultaneously linked with Zone 2.

A new Eurasian integrated configuration emerges, in which Russia has a particular role. Analysis shows that three basic options for the further development of the situation are possible for Russia.

Firstly, we could assent to the existing state of affairs in the global financial system, but the result of this position would be the ultimate loss of sovereignty in our financial and economic system and the preservation of the dominance of foreign currency in the country's financial flows. The Russian economy would never be able to change its "raw material" status, because in the world's system of division of labour the "high-tech" niches are already occupied by others. As the

results of the last G20 summit showed, this is exactly the path onto which outside forces are today trying to push the development of Russia.

The second route is for Russia to take part in one of the regional currency and financial systems that are emerging. To date these regional systems are the “Euro” project, the “golden yuan” project in the region of East and South-East Asia, the “Gulf dinar” in the Gulf countries and the single Latin American currency. This option seems the most likely from the point of view of global analysis.

But there is also a third route – to create and develop a relatively independent financial centre in Russia.

At a time when the old stereotypes are crumbling, many types of financial centre are losing their meaning. The centres of attraction will remain those places which are centres of real production and transport hubs. That is the class of countries that Russia belongs to, its geographical location allowing it to act as a key hub on the trade, transport, migration and other routes between Europe and Asia and to play the role of geo-economic integrator. In addition to this, in the future as a result of global warming there will be a substantial increase in the significance of Russia’s northern regions and the processes of opening up the Arctic will be stepped up, which will be an additional plus in the country’s rating as a transport hub not only on the East–West route but also in terms of North–South.

Today Russia is moving towards a decision in favour of this development scenario at the highest political level.

Conclusions

The current crisis is most likely neither ad hoc nor accidental. It reflects global processes which are reconfiguring the world's economy and finances. The most likely things to happen in due course are the dollar losing its special role and either new attempts being made to revive it ranging from new financial crises or some other form of global upheaval, or an accelerating process of regionalised currencies and a retreat from the generalisation of globalisation. Russia, thanks to its geo-economic position, has very constructive prospects for building up its national interests in these scenarios.

The geo-economic Zone 1, the consolidated West led by the USA, has a much more difficult choice to make. Firstly, sooner or later it will have to give up its super-profitable financial pyramid, which will cause it colossal direct economic damage and which it will try to resist. Second, it will most likely have to come to terms with this and look for more realistic ways for economic growth to replace the ones it is losing, which are parasitic and unjust with regard to the other countries of the world. And third, which we would like to warn of from this platform, it will have to overcome the temptation to use force to resolve the financial restructuring that is coming.

In general, the global community and especially regional communities in other geo-economic zones should accelerate and push ahead with managing the processes of regionalising reserve currencies and creating new regional financial regulators and systems for financial and economic exchange.