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Russia's Ultimate Lethal Weapon

By Pepe Escobar
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Let's start with some classic Russian politics. Finance Minister Anton Siluanov is drawing up Russia's economic strategy for 2016, including the government budget. Siluanov – essentially a liberal, in favor of foreign investment – will present his proposals to the Kremlin by the end of this month.

So far, nothing spectacular. But then, a few days ago, Kommersant leaked that Russia's Security Council asked presidential aide Sergei Glazyev to come up with a separate economic strategy, to be presented to the council this week. This is not exactly a novelty, as the Russian Security Council in the past has asked small strategy groups for their economic assessment.

The Security Council is led by Nikolai Patrushev, the former head of the Federal Security Service. He and Siluanov are not exactly on the same wavelength. And here's where the plot thickens. Glazyev, a brilliant economist, is a Russian nationalist – sanctioned personally by the US.

Glazyev is arguably going no holds barred. He is in favor of barring Russian companies from using foreign currency (which makes sense); taxing the conversion of rubles to foreign currencies (same); banning foreign loans to Russian firms (depending if they are not in US dollars or euro); and – the smoking gun – requiring Russian companies that have Western loans to default.

Predictably, some sectors of US ‘Think Tankland’ went bonkers, stating with utmost certainty that *“the Russian energy sector would not be able to find much financing without connections to the West.”* Nonsense. Russian firms would easily find financing from Chinese, Japanese or South Korean sources.

Whatever measure of attention Glazyev will get inside the Kremlin, the whole episode already means that Moscow harbors no illusions in the near future regarding the exceptionalists (one just has to look at the presidential candidates, from ‘El Trumpissimo’ to ‘The Hillarator’); as Russian Deputy Foreign Minister Sergei Ryabkov recently put it, *“[we] should expect toughening of the sanctions pressure.”*

Once thing though is absolutely certain; Moscow won’t bend over backwards to *“pacify”* Washington.

Neo-Tsarism, anyone?

One might be tempted to see Glazyev drawing up plans to return to some sort of Tsarist self-sufficiency while cutting off ties with the West. Assuming some version of that would be approved by the Kremlin, what’s certain is that it may turn into a huge blow the EU might not recover from.

Imagine Russia defaulting on all its foreign debt – over \$700 billion – on which Western sanctions have raised extra, punitive costs in terms of repayment.

The default would be payback for the twin Western manipulation of oil prices and the ruble. The manipulation involved unleashing on the oil market over five million barrels a day of excess reserve production that were held back by a few usual suspects, plus derivative manipulation at the NYMEX, crashing the price.

Then, the derivative manipulation of the ruble crashed the currency. Almost all imports to Russia were virtually blocked – as oil and natural gas exports remained constant. In the long run though, this should create a significant balance of trade surplus for Russia; a very positive factor for long-term growth of Russia’s domestic industry.

Vladimir Yakunin, the former head of Russian Railways, now out due to a reshuffle, recently told AP in no uncertain terms how the aim of US sanctions was to cut off Russia economically from Europe.

Sanctions, coupled with speculation on oil and the ruble, pushed the Russian economy into recession in 2015. Yakunin, like most of the economic/business elite, expect Russia’s economic troubles to last at least until 2017.

Currently the only products that the West needs from Russia are oil and natural gas. A possible Russian default on its debt would have no effect on that demand in the short-term; and most probably in the long-term as well, unless it would contribute to a new financial crisis in the West, something that nearly happened in 1998.

We all remember August 1998, when a Russian default shook the entire Western financial system to the core. If a Russian default is now the object of serious consideration by the highest powers that be – and that includes, of course, the FSB, SVR, GRU – then the specter of The Mother of All Financial Crisis in the West is back. And for the EU, that would be fatal.

It's your fault we can't loot

Enter Iran. The lifting of sanctions on Iran – arguably by early 2016 – ultimately has nothing to do with the nuclear dossier. It's a 'Pipelineistan Great Game', as in having everything to do with oil and natural gas.

The US – and EU – wet dream remains to replace Russia with Iran in terms of natural gas and oil imports to the EU. Every serious analyst knows this might take at least a decade, and over \$200 billion in investment; not to mention Gazprom would fight it with the formidable – commercial – weapons in its arsenal.

At the same time Western financial powers in the New York-London axis did not anticipate that Moscow would not bow down and accept their demands that Putin lay off Ukraine – so that they could loot Ukraine's mostly agricultural lands at will. They obviously didn't learn from history; Putin also did not back off when he stopped them from looting Russia.

So the entire, sorrowful Kiev episode, as much as an infinite NATO expansion gambit, was also an attempt to stop Putin from preventing the Western looting of Ukraine.

What we had as a result was a tectonic geopolitical shift; the reconfiguration of the entire world balance of power as Russia and China deepened their strategic partnership – based on a mutual external threat coming mostly from the US, with the EU as accessories. Russian intelligence very well knows the alliance now makes Russia and China invulnerable, whereas separately they could easily fall victim to trademark Divide and Rule.

As for the counter-NATO angle, Russia has had plenty of time to remilitarize, focusing on defensive and offensive missiles; the key to the next major war, and not obsolete US aircraft carriers. Russian defensive missiles such as the state-of-the-art S-500 and the offensive Topol M – each with ten MIRVs – can easily neutralize whatever the Pentagon may have in store.

After Russia, Western financial 'Masters of the Universe' went after China for allying with Russia. The usual financial suspects rigged the Chinese stock market in an attempt to crash the economy, using Wall Street proxies manipulating cash settlement mechanisms to first raise up the prices of the Chinese A shares, creating a giant boom, and then reversing the cash settlement rig to crash the market.

No wonder Beijing, very much aware of what was happening massively intervened; is actively studying cash settlement moves; and is carefully reviewing the records of major stock operators in China.

Round up those central bank suspects

The Kremlin's got to do something about the Russian Central Bank.

The Russian Central Bank kept interest rates high, forcing Russian oil and natural gas producers to finance their operations from Western sources, and thereby plunging the Russian economy into a debt trap.

These loans to Russia were part of the New York-London financier axis control mechanism. Were Moscow to "disobey" the West, the West would call in their loans after crashing the ruble, making repayment almost impossible, as they did with Iran.

This is the mechanism through which the West – and its institutions, the IMF, World Bank, BIS, the whole gang – rule. Beijing is moving either to complement or replace this set-up with new and more democratic international institutions.

If the Russian Central Bank had operated under sounder principles, it would have lent money at interest rates below the West's, and linked each loan to productive investment. A modus operandi totally different from the US – where much of the central bank credit goes to banks and financiers for their speculative scams.

Michael Hudson, among others, has already made the case that the entire Fed only serves the interest of its financial rulers and does not give a damn about American industrial infrastructure, which was progressively shifted to colonies and/or vassals, as well as to China.

So the 'Masters of the Universe' thought hardcore pressure on both Russia and then China would work. It did not. There are reasons to be alarmed; the 'Masters of the Universe' will keep raising the ante, higher and higher.

The scenario ahead spells out Russia further moving east while simultaneously moving to extricate itself from most of the West's institutional architecture. The merger of the China-driven New Silk Roads, a.k.a. One Belt, One Road and the Russia-led Eurasian Economic Union, although slow and full of pitfalls, is irreversible. It's in their mutual interest to invest and develop a pan-Eurasian emporium.

Iranian natural gas will go mostly to the Asian part of Eurasia, and not the EU. And the Chinese economy will at least triple over the next fifteen years as the US continues to de-industrialize.

Whatever Putin and Obama discuss at their possible meeting at the end of the month in New York, exceptionalist pressure over the bear won't abate. So it pays for the bear to keep a lethal financial weapon in storage.