

# Western Sanctions on Russia, Russia-China Cooperation: A Tectonic Shift of the Global Economy?

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*The Saker: How is Russia coping with sanctions so far and what are the prospects for the future?*

*Peter Koenig:* Let's begin with what are 'sanctions'? – Sanctions are (economic) punishments by the self-proclaimed empire in Washington and its European minions on any country that does not follow the dictate of the empire. Actually, it's worse. The European spineless puppets participate despite their own losses, lest they may be sanctioned themselves by the empire. In some cases, they are so submissive, like in the case of punishing Russia, they advance sanctions, against their own (economic and political) interests, just to please the transatlantic hegemon which is far away from the battleground – always stays far away from where the action is, so that others may get bombed and hurt.



Case in point: WWI and WWII – played out in and destroyed Europe, even though the impulses for the two ferocious world wars came from the US. The current 'crisis' around Ukraine is also entirely fabricated and instigated by Washington to the point of provoking another world war, maybe willy-nilly the last one of our civilization. Washington does not miss a beat for denigrating Russian President Putin, to enter the ever more transparently horrendous power game for Ukraine, where Obama's men with the help of the European vassals organized a coup, displacing a democratically elected president – Victor Yanukovich – and put a criminal, murderous Nazi Government in place.

The idea is against all previous accords, making Ukraine a NATO country and as a side line usurping the Ukraine's riches in agricultural land. Ukraine was for hundreds of years considered Europe's bread basket, especially for the Soviet Union and later for Russia. Ukraine has also natural resources, notably minerals and natural gas. With an estimated 1.2 trillion cubic meters (m<sup>3</sup>) Ukraine has Europe's 3rd largest shale gas reserves. Shale gas is accessed by the highly controversial and socio-environmentally unfriendly extraction process called 'fracking'.

The US economy which depends largely on the war industry needs constantly new wars and

conflicts. More than 50% of its GDP depends on the military and related industries and services. Obama brags being currently involved in 7 wars around the globe, notwithstanding the almost countless conflicts around the globe, instigated, funded and carried out by proxies on behalf of the empire. But Mr. Putin has not fallen into trap. In fact, thanks to Vladimir Putin's stellar strategic thinking and diplomacy, the world – especially Europe – has so far been spared a WWII – the 'would-be' third war within 100 years.

To make sure the world at large believes that Russia is the culprit in the atrocious and deadly Ukraine conflict, sanctions have to be levied against Russia; Mr. Putin has to be slandered, insulted, vilified. The naked emperor's word still has an impact in the western neoliberal hemisphere, whether politicians believe it or not – they do as if, the same way as people admire the new clothes of the naked emperor. Sanctions should punish the Russian people, evoke an internal rebellion and lead to 'regime change'. The contrary has happened. Mr. Putin with 85% enjoys one of the highest approval ratings of any democratically elected head of state.

The second question is – why can one nation alone, the US of A, impose sanctions? – Because the US had after WWII, when they called for the Bretton Woods Conference to establish the World Bank and the International Monetary Fund (IMF) already one fix idea – to dominate the world through the weapon of finance. What wasn't obvious then, has since become crystal clear. The self-declared victor of WWII dictated the rules.

With the US holding the largest gold reserves at the time, the ingenious idea was to establish a gold standard which would peg the US dollar against a gold price of US\$ 35 / ounce and all other western currencies were pegged to the dollar. The IMF was created to watch over the western gold-based monetary system.

Nixon abandoned the gold standard in 1971 because (i) too many dollars were in circulation for the US to keep up with gold reserves, and (ii) the US debt left by the Vietnam War was to be covered by the sale of gold at market price which already then was about ten times higher than the fixed \$ 35 rate. Yes, at that time even a Nixon Administration had some ethics, namely paying its debt.

But the real and hidden reason was brilliant. By leaving the gold standard, the dollar became *de facto* the world's fiat currency of reference and main reserve money, basically replacing gold. Large international contracts were established in dollars, therefore increasing the demand for dollars. In addition, through a special deal negotiated between the Bush family, friends of the Saudi King, and the House of Saud, later formalized by Kissinger with the Saudi Government, Saudi Arabia as head of OPEC, was to assure that the dollar would remain the only currency in which hydrocarbons were to be traded in the future. In return, the US would assure militarily the Saudis security. Since everybody needed oil, everybody needed dollars. The demand for more dollars in circulation.

In comes the BIS – Bank for International Settlements, created in 1930 and originally set up to facilitate Germany's reparation payments imposed by the Treaty of Versailles. Today, the BIS, largely privately owned by the Rothschild group and other western banking families, is considered the central bank of central banks, controlling almost all international monetary transactions – most of which have to transit through a US based Wall Street bank. Hence was created a fraudulent fiat monetary system thanks to which Washington plays up to this day cowboy with the rest of the world. But this is changing rapidly.

The short of the long story explains why the US has (had) so much financial power over the rest of the world, including Russia; why Washington may seize and block foreign assets around the world at will, why it can coerce and 'sanction' other countries into behaving according to their, the US agenda.

This supremacy is gradually faltering and fading ever faster. Sanctions will become more threats than actual actions. The BRICS (Brazil, Russia, India, China and South Africa), as well as the SCO (Shanghai Cooperation Organization) countries are carrying out general trade in their own currencies. Russia and China are already trading hydrocarbons in their own currencies and others will soon follow.

*The Cost of sanctions to Russia* is a controversial subject. According to CNN, the sanctions cost Russia 'more than US\$ 100 billion'. At the same time, Newsweek admits that Russia could easily replace trade with EU by increasing trade with Asia and Latin America, thereby rapidly reduce the cost of 'sanctions'. Newsweek also says that the cost of the US dictated sanctions on Europe to impose on Russia cost the EU at least € 100 billion. Indian NDTV reports losses to Europe at € 21 billion; at the same time they report 2013 EU exports to Russia as €119 billion. 'Sanctions' started in 2014.

The true story on the ground is increasing misery especially for Europe's southern countries, like Spain, Greece, Italy; common people suffering manly from losses of agricultural exports and declining tourism. But also job losses throughout the EU, for example in Germany alone, lost and threatened jobs due to the sanctions on Russia (reduced trade) are estimated at more than 300,000. The chain of consequences is endless, but mostly hurting Europe – and especially not the trans-Atlantic Big Master and hegemon. Putin actually said that these sanctions are godsent, as it allows Russia to develop agriculture and industry to eventually become self-sufficient, meaning independent from western trade.

*The question of oil prices and oil price manipulation* is also a controversial story. Oil prices have dropped by about 50% within the last 12 months, to currently around US\$ 50 / barrel. This price drop has certainly caused damage to everybody selling hydrocarbons. The benefit must be political, somewhere. Common wisdom would have it that Saudi Arabia in cohorts with the US is overproducing petrol to hurt the 'enemy', i.e. Russia, Iran and Venezuela.

However, an interesting new theory is emerging, namely that Saudi Arabia is increasingly realizing the decline of the west and is seeking a closer alliance with Russia and China – which are sure client for her hydrocarbons. Recent meetings between the Russian and Saudi Foreign Ministers, Sergei Lavrov and Adel al-Jubeir, most notably the latter's visit to Moscow earlier in August would indicate a Russian – Saudi *rapprochement* that is about more than just energy.

Some media outlets claim the Saudis see the sinking western ship and are seeking new alliances in anew orbit. The new Russia-China (BRICS, SCO) might welcome them against some political concessions. It might just be possible that in agreement with Russia and despite the temporary damage to Russia, the Saudis keep pressing the oil price down which may hurt the US shale or fracking industry more than Russia. According to the International Energy Agency the average breakeven for oil is around \$60 / barrel – which makes many shale oil production sites no longer profitable, especially in Texas and North Dakota. These industries grew in the last ten years and are heavily indebted, thus bankruptcies abound. In Texas alone some 60,000 shale oil / fracking laborers are out of work. – You may call this 'reverse sanctions'.

In addition, when gas prices dropped drastically earlier this year, many western shareholders of Russian gas companies panicked and sold off their shares at fire-sale prices – only for the Government of Russia to buy them back- at a net profit of \$20 billion within a couple of days, as Spiegel-on-line reported earlier this year.

As we know, diplomacy between Lavrov and Kerry has not advanced an inch regarding Syria. To the contrary – ISIS, sponsored by the US, the Saudis and other Gulf States, but also the EU and NATO, is infringing ever more of Syrian territory, killing more civilians and causing a flood of refugees that are blocked from entering the EU – co-responsible for the massive Middle East destruction and misery.

*The Saker: What is the complementary nature of the Russian and Chinese economies and what is the collaborative potential of these two economies?*

*Peter Koenig:* What the different high level Russia-Saudi meetings might also have on their agenda, other than energy deals and weapon sales – is the Saudis taking an active role in helping demilitarizing the Middle East, particularly stopping sponsoring and arming ISIS and other anti-Syria terror groups – and seeking normalizing relations with Iran, both countries being close allies of Russia and China.

Russia and China have already a close association in mutual financial assistance with large currency swaps between the two central banks. They are also closely linked in trading, for which especially the recent huge gas deals testify. Russia has signed with China last year two enormous gas deals amounting to close to US\$ 800 billion equivalent. The trade will take place in their respective local currencies not in US-dollars.

This and other hydrocarbon deals in currencies other than the US dollar will drastically reduce demand for the dollar and weaken even more the dollars credibility as a reserve currency. In 2000, international reserves were to more than 70% held in US dollar denominated securities. This figure has dropped in 2010 to 60% and is today rapidly approaching 50%. When the rate falls below the 50% mark, a flight out of the dollar may be expected.

*Russia Inside* and *RT* reported that Russia will issue in 2016 a new international payment card, the MIR card (MIR meaning peace around the world), in association with the Japanese JCB Credit Card system. When the new MIR card takes hold in the west, demand for the dollar and its credibility as a reserve currency will further drop. A collapse of the western fiat monetary system, the weapon of usurpation and destruction in so many countries around the globe, may be imminent.

*Why did the Chinese currency 'devalue' and the Chinese stock exchange all but collapse? –* Western media report as key responsibility a faltering Chinese economy. Look again: the Yuan was over-valued at the insistence of the US which made the Chinese central bank keep the Yuan fluctuating within a 2% 'snake' to the dollar, a request tolerated due to the enormous dollar reserves China holds, some US\$ 1.6 trillion. Now the Bank of China has decided to let the Yuan 'float' to its natural value which will give it additional strength in the world market. This will make it more attractive as a world reserve currency – which is precisely what China is aiming for, namely that the Yuan will be admitted in the IMF's SDR basket (Special Drawing Rights) which as of today consists of only four currencies- the US dollar, the British Pound, the Euro and the Japanese Yen. Adding the Yuan, would make the Yuan *de facto* an internationally accepted reserve currency, taking further weight away from

the dollar.

*As to the stock exchange* – amazing is that western bankers propagandize a decline of the Chinese economy which by their own account (Bloomberg) is still growing at 7%, which is just what China wants. Knowing the impact the Shanghai stock exchange fluctuations have on the world markets, would not Chinese bankers be able, as their western counterparts often do, to ‘massage’ the Chinese bourse downwards, an indirect ‘sanction’ to the west – costing western investors and banks hundreds of billions of dollars, but changing hardly anything of China’s internal economy.

China’s leader, Xi Jinping, joined the Russian victory celebration over Nazi Germany on 9 May 2015 with Chinese honor guards parading alongside Russian troops. Similarly, Putin and Russian troops will join Xi in Beijing on 3 September to celebrate the 70th Anniversary of the Japanese capitulation, the end of WWII. This sends a clear message of a solid Russia-China defense alliance to the west. The recent expansion of the SCO in September 2014 in Tajikistan – admitting India, Pakistan, Iran to the economic and strategic military coalition further enhances the emergence of a new power in the east.

These observations of change may signal that a tectonic power shift, not only in the Middle East, but around the world may be not far away. It happens gradually, not overnight – allowing unaligned countries to prepare for the new era – an era of sovereign countries living in peace and social justice.

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