Trident’s Farewell?

The geo-financial war places new geo-political facts on the ground

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Thus the President sketched out the keystone which holds together the arc of US foreign policy: the geo-financial tectonic struggle against Russia that is defining politics geo-strategically, particularly for Europe and the Middle East. Much hangs on the outcome of this policy – and whether its ‘rationale’ is soundly conceived, or misconceived. If the analysis on which it rests (the diversity and soundness of the western economy versus the greater perceived vulnerability of Russia to a plummet in energy prices) is correct, the Russian economy will weaken or implode, but more importantly, Russia as a symbol of the vision for a different global order and as a potential challenger, will

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The US, Russia and China

Alastair Crooke

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have been dealt a possibly fatal blow – and Russia’s allies (such as Iran and Syria) will have been weakened.

On the other hand, however, if the US Administration has miscalculated its, and Europe’s, own vulnerabilities to the impact of an oil price crash on the (now suspect) $40 trillion of commodity-based exposure of the western financial system (of which about $4 trillion is estimated to be specifically energy derivative exposure by the half-dozen largest US-based banks) – and believed largely to consist of bets that lie badly on the wrong side of current crude prices – then the adverse consequences, which may be truly devastating, may work in the opposite direction (to the detriment of the West). In short, we are in the midst of a huge gamble that will affect every one of us.

We do not intend here to wrangle over these respective financial vulnerabilities, beyond noting that the economic strengths and weaknesses are not as clear-cut as that indicated by President Obama – far from it. Rather, the intent here is to note how the geo-political system is already shifting – even as the geo-financial conflict unfolds.

The basis to the Bretton Woods system (the World Bank and the International Monetary Fund, over which America, alone, has veto power) has just been eclipsed. The IMF, let us recall, is supposed to act as lender of last resort to financially-troubled states. It is intended to be the tool of discipline and punishment for the imprudent – and the recalcitrant. And the World Bank and the Asian Development Bank (ADB) effectively give Wall Street (via the US Administration) a huge lever to define the development model (liberal market) that is enacted around the globe. These three institutions, plus the reserve status demanded, and acceded, to the US currency, at Bretton Woods, have been the tools by which America has maintained its control over the global order. The newest lever, polished assiduously by the US Treasury, has been the claim that any or all US dollar denominated transactions, wherever they might occur, fall within US jurisdiction and therefore are subject to US domestic law and punishment.

During the week in mid-December (15 and 16 December 2014) which saw the rouble fall more than ten per cent on each of two successive days, and which drew smirks from across the mainstream western commentariat that Russia was imploding, and that Putin’s tightly-closed fingers holding onto power were one by one, being prised off – saw a highly significant, even tectonic development. In the past, a run on the currency, such as happened with sterling in 1992, ended with a humiliating cap-in-hand appeal to the IMF (after all foreign currency reserves had been exhausted).
Instead, the rouble stabilized at just less than 60 to the $1, having been close to 80 at one point. A Chinese Foreign Minister later that week noted that his government had been very concerned at what was happening to Emerging Market currencies, and was alarmed by the rouble’s collapse. He confirmed that China had ‘helped our friend’ Russia: ‘If the Russian side needs it, we shall offer all possible support we may have,’ the Foreign Minister said. Chinese officials earlier had openly offered Russia to implement the swap agreements already negotiated by the two states, but it seems that deep-pocketed China had intervened to stabilise the rouble.

In short, China had acted as lender of last resort. It had played the role of the IMF (but without the ‘strings’ or IMF (American) coercings).

A Bloomberg Op-ed noted morosely:

‘Thanks to China, Christine Lagarde of the International Monetary Fund, Jim Yong Kim of the World Bank and Takehiko Nakao of the Asian Development Bank may no longer have much meaningful work to do. Beijing’s move to bail out Russia, on top of its recent aid for Venezuela and Argentina, signals the death of the post-war Bretton Woods world. It also marks the beginning of the end for America’s linchpin role in the global economy and Japan’s influence in Asia. What is China’s new Asian Infrastructure Investment Bank if not an ADB killer?’

And what, one might add, is the BRICS’ New Development Bank (NDB), if not a bypass to World Bank doctrines of liberal market development for Emerging Markets?

Whether the ‘run’ on the rouble was ‘inspired’ at one of those informal Treasury New York luncheons for Wall Street insiders (as some believe), or a wholly spontaneous ‘bet’ by financial institutions, is immaterial: those who shorted the rouble on the 15th December will have had their fingers burnt, and China will have made a tidy profit, having a ‘balance sheet’ big enough to overcome any speculative hedge fund or a ‘Soros’ with a ‘mere’ few hundred billion dollars to bet. In any event, China put an end to it, and thus changed the calculus.

Russia, contrary to the prevailing meme, however, is no longer a one-product economy: a recent study shows that the energy industry only contributes 16% to total national output, and in other respects (debt-to-GDP ratios, budget deficit at 1%, level of reserves etc.), Russia fares considerably better than most other European states, especially as China ‘has Russia’s back’ (in the American jargon). Equally, Russia’s policy of allowing the rouble to mirror the oil price fall, means that its energy companies’ revenues – in roubles – have not declined. In fact, they have
risen slightly. That said, of course Russia faces a continuing economic siege. Its economy declined 0.5% in November (but grew 0.6% Jan-Oct 2014).

But President Obama’s ‘rationale in this process’ – that sanctions, plus oil price collapse could make the Russian economy unmanageable – has unnerved the Europeans who have a much greater interdependency with Russia than the US. It was the ‘run’ on the rouble, however, that really spooked the European Union. Certain European banks would be massively exposed, were Russia to default. Such an event could reignite the simmering Euro financial crisis – already poised to erupt again – with the snap elections in Greece. Consequently, Europe is changing course towards Russia.

Federica Mogherini (the EU Foreign Policy Chief) in an interview with *La Repubblica* on 29 December said bluntly that Europe wants to find common ground with Russia, and to end their confrontational approach over Ukraine: ‘Even in Kiev everyone asks how the conflict could be brought to an end’. This approach was echoed by the Austrian President Fischer, who said in an interview to *Wirtschaftsblatt*, ‘The Russian economy has a certain degree of robustness, but the sanctions pose considerable problems … a serious crisis in Russia and an economic collapse would only create more problems. The doors between Europe and Russia must remain open in the economic field. The approach that more and more sanctions should be implemented against Russia until it is “weak enough” to forcefully accept the EU’s own “political objectives” was a mistake,’ President Fischer said.

The need for Europe to attend to its own interests, rather than just follow the US lead, was underlined when Federica Mogherini pointed out that ‘the latest data shows that trade between Russia and Europe is declining, while trade between Russia and the US is increasing’. And declining it is: German exports to Russia fell 22% in October. Business groups, normally strong backers of Chancellor Merkel, are warning against using economic means to put pressure on Mr. Putin: ‘The West cannot have an interest in destabilising the Russian economy or Russian politics,’ wrote the Chair of a committee of business leaders who trade with East Europe.

But this change of tack by Europe towards Russia has a second string, and again, this was made clear by Mogherini in her interview: Europe is increasingly worried by the deteriorating situation in the Middle East, and more particularly along Europe’s southern Mediterranean borders from Syria to Libya. Mogherini said: ‘We all know Russia plays an important role not only in Ukraine, but also in Syria, Iran, the Middle East, Libya’.
She clearly was suggesting that the EU could begin to repair damage with Russia by engaging with it on Middle Eastern issues – on which there is more prospects of rapport – and as the indirect route by which the EU might hope to open a more productive dialogue with Russia over Ukraine.

European Foreign Ministers meeting on 11th December saw prospects in meshing the tactical, essentially non-political, (UN Special Envoy) Di Mistura’s bottom-up, local ceasefire initiative into Moscow’s top-down programme for bringing together the internal Syrian opposition into dialogue with Syrian government representatives. To enhance the possibility of Russia accepting the EU as marriage broker between these two initiatives, Foreign Ministers agreed that statements like ‘Assad must go’ and the demand for ‘a transitional process now’ narrative should be dropped.

The question is: will all this really bring about a change in Europe’s strained relationship with Russia? There is a possibility, although Russia’s leadership is deeply disenchanted with the EU’s conduct of its diplomacy. Moscow has been very carefully leaving diplomatic doors ajar on Middle Eastern issues (and has recently accommodated the US by not embarrassing, or making political capital over America’s predicament caused by the Palestinian tabling of a resolution at the UN Security Council calling for statehood) – and both Foreign Ministers Lavrov and Bogdanov have been careful to keep Washington in the loop on their attempt to find a political solution in Syria.

Washington, though quite sceptical of both initiatives (Moscow’s and Di Mistura’s), however, would probably be quite happy to have some ‘process-for-process sake’ occupy the Syrian opposition and somehow freeze one aspect of the internal conflict – allowing the US to pursue the war on ISIS, relieved of the pressures on the Administration from Saudi Arabia, from Turkey, and from domestic critics demanding that President Obama ‘take down Assad’ as a component part to the ‘war on ISIS’, because – these critics assert – it was Assad’s and Maliki’s sectarianism that gave rise to ISIS in the first place.

Thus, with respect to the auguries for the EU inserting itself into a collaborative relationship with Moscow through the latter’s political initiative in Syria, the main stumbling block will be less that of objections from Washington, but rather those from Riyadh (which is to say, that Moscow’s ideas, and those of Di Mistura, simply may not fly in Riyadh or Ankara). Di Mistura reportedly told EU Foreign Ministers that he has implicit endorsement from Saudi Arabia, but Riyadh continues to repeat its ‘Assad must go – whatever’ stand, and Turkey continues to facilitate
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jihadists crossing into Syria. A second problem for the EU in trying to marry the localised ceasefire idea to Moscow’s political initiative is that Lavrov is of course canny enough to understand what EU member states, Britain and France, are up to when they insist that ceasefires be ‘monitored’ by an international force from the UN Security Council, or even a watered-down ‘monitoring mechanism linked to the UNSC’. It is incremental de-sovereigntisation of the state by another name: the creation of a patchwork of internationally mandated ‘no-go areas’ to Syrian State sovereignty, which then could be ‘grown’ until the State’s sovereignty becomes a diminishing residual. And Lavrov will have every cause to object, because he knows that State sovereignty is a Damascus’ red line.

However, it is not so much in the Middle East that Europe’s understandable effort to try to forge a non-confrontation rapprochement with a Russian leadership may run aground, but in Ukraine.

President Obama in his 29 December interview made very clear his rationale to the process with Russia: it bears similarities to Iran. Its premise is that incrementally tightening sanctions, plus additional financial coercions, eventually will combine to enable America to stare down the ‘Bear’. This was the old Reagan formula: undermine the USSR’s revenues, whilst causing the Soviet Union to become over-extended economically (i.e. in the arms race, and in the war in Afghanistan in the 1980s). And despite the mainstream narrative that the fall in the price of oil is solely a technical event, it is well understood in the non-West that it has also always been a political tool. Today it is the Ukraine, rather than Afghanistan, in which the US would like to see Russia over-extended. It is likely – contrary to EU ambitions of achieving a solution – that Washington wants to retain Ukraine as an economic (as well as a political) pressure-point on Russia. As Brzezinski noted, ‘Ukraine is the western outpost to prevent the re-creation of the Soviet Union’.

Ukraine is on the point of economic meltdown. EU leaders understand this, and also have concluded that the EU will not come up with the $15-$17 billion needed by Ukraine immediately. Nor will America. Nor will the IMF. Experience has taught EU leaders that the immediate financial demands in such situations are seldom little more than the first of many subsequent larger ones. President Putin understands this, too.

The restarting of commercial relations between Russia and Ukraine, for example, therefore, might be a feasible objective for the EU to attain (in the context of trying to find a political solution), but thinking that Russia will take on the burden of plugging fully the Ukrainian ‘black hole’ is not. That is the lesson from Afghanistan that has been well absorbed and
understood in Moscow, especially at a time when America is targeting Russia’s revenues. Will anyone then fill the ‘black hole’ with billions of dollars? Probably not.

The meltdown then – when it occurs – will become a new media ‘stick’ with which to beat President Putin. Western commentaries, egged on by certain politicians in the US and Europe, will scream that Putin contrived Ukraine’s bankruptcy in order to blackmail Ukraine’s leaders into submission. Tensions and rhetoric will heighten. Calls will be heard for further sanctions to be imposed on Russia. Elements in Kiev are likely to try to take advantage of the situation by provoking confrontations in the Donbas to which Russia will have to respond militarily. These elements (militia) will hope that their escalation (and Russia’s response) will precisely unlock more financial commitments for Kiev from Europe and Washington. Will the EU be able to stand against such pressures amidst a media hullabaloo of tales of (genuine) popular suffering and demands for retribution?

This imminent escalation will neither implode Russia financially nor politically. The true risk issue here is that the continuation of financial war constitutes a dangerous gamble by Washington that the West’s over-leveraged indulgence in a massive zero-cost monetary tsunami of dubious debt since 2008 has not, in fact, reversed Obama’s ‘rationale’. That is to say, America may now be more vulnerable to economic shock (as tapering of quantitative easing, emerging markets debt distress, currency volatility and dollar strength takes effect on trillions of dollar-denominated debt) than is Russia – with its quite small, and very orthodox debts. This is the unknown unknown. Perhaps the only known known is that Europe is the party most vulnerable to these unknown unknowns.

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