The Sino-Russian Gas Deal: Psychological Warfare in Financial Markets

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Global Research, June 01, 2014
Mint Press News

Region: Asia, Russia and FSU
Theme: Global Economy

A natural gas deal between Russia and China was in the works for a long time, so why all the fuss over its unveiling?

One has to look beyond the headlines when considering world events. The ballyhoo that is made of many of these events is either newspeak or grossly disjointed by narrow-sighted interpretations. The announcement of the mega energy deal for just over 36.8 billion cubic meters (1.3 trillion cubic feet) of natural gas reached between the Russian Federation and the People's Republic of China on May 21 is just one example of this.

The natural gas deal struck between Beijing and Moscow does not signal anything new or a shift in Russian economic policies and ties with China, but it's being touted as such.

In one way or another, most news reports about the energy deal are distorting the nature of the Sino-Russian energy agreement and highlighting this particular deal in purely political terms. The gas deal has actually been — excuse the pun — in the pipeline for quite some time, as Beijing and Moscow have talked about and negotiated some sort of long-term gas export-import formula for about 10 years. Anyone that has been following these important negotiations would know this and immediately recognize the sensationalist and distorted nature of the current reporting on the gas agreement.

Russia's President Vladimir Putin, background left, and China's President Xi Jinping, background right, smile during signing ceremony in Shanghai, China. (AP/RIA Novosti, Alexei Druzhinin, Presidential Press Service)

Pundits and media outlets hostile to Moscow are billing the agreement as a sign that Russia plans on tightening the screws on the energy flow to the European Union. They are using this conjecture to argue for a diversification of energy sources to the EU, encourage EU leaders to rollback economic ties with Moscow, and promote the commencement of a U.S.-supported "fracking revolution" to exploit natural gas and oil reserves through the process of hydraulic fracturing.

On the other hand, pundits and media outlets which are overtly supportive of Moscow are portraying the deal between Gazprom and the China National Petroleum Corporation, or CNPC, as a move by the Kremlin to minimize its economic losses and divert its business Eastward since being confronted with economic sanctions and diplomatic disrespect by the so-called West over Ukraine and the Crimean Peninsula.

Rebranding an existing trend

In no uncertain terms, the Sino-Russian gas deal categorically does not mark the start of either a “looking East” policy or a “de-dollarization” policy. Nor is the strategic alliance between Russia and China just germinating as a result of the fallout from the Ukrainian crisis. Anything that makes it sound otherwise is sensationalism projected by media sources and uninformed pundits that overlook the actual facts about Russia and China. Instead, on the part of these outlets and pundits, there is either a deficit in a comprehensive understanding in their reporting of the news and in their analyses of the events shaping the world, or they are trying to frame events through a lens that suits present-day political interests.

In any case, there is nothing new, at all. First, nothing new has been signaled by the deal between Gazprom and CNPC. Second, Russia and China became strategic partners when their leaders announced that they would oppose Washington’s dreams for a unipolar world after the United States and NATO attacked the Federal Republic of Yugoslavia in 1999.

The natural gas deal itself is part of an existing trend and a process that has been well underway for several years. In reality, the Russian Federation has embarked on a path of increasing trade with Asia for over a decade now, and both Moscow and its Chinese partners announced their decisions to embark on the avenue of de-dollarization by trading in local currencies close to a decade ago. In 2007, the governments of China and Russia initiated the framework for the creation of a working group to de-dollarize trade in their bilateral trade transactions through a formal agreement. In 2008, when Vladimir Putin was serving as the prime minister of Russia, he and his Chinese counterpart, then-Premier Wen Jiabao, were even engaged in the process. Both Beijing and Moscow also have similar agreements with their other Eurasian partners.

The natural gas agreement announced in Shanghai was really put together by technocratic negotiators. It is the work of years of sturdy negotiations — not an agreement that was made or concluded in the matter of a few months. Nor was the Sino-Russian deal something that was initiated as an effort on the part of the Russians to circumvent the economic sanctions steadily being ratcheted up against their economy by Washington and its cohorts.

Regardless of the tensions between Moscow and Washington over the simmering crisis in Ukraine, the deal, which is valued at $400 billion, was going to be made and signed one way or another.

Because of the economic sanctions against the Russian Federation, the unveiling of the deal last week during the Conference on Interaction and Confidence Building Measures in Asia summit in Shanghai has been politically stage-managed and highlighted, with careful consideration paid to the ramifications its announcement would make.

While the deal has been largely technocratic, there is a strong possibility that the Russians could have made a change to the purchase price that they were asking from the Chinese, and both sides could have accelerated the finalization of the agreement on the basis of political considerations. In other words, the economic war that has been unleashed against the Russian Federation may have hastened the deal and introduced political variables or aims to what has largely been a technocratic affair for both sides.

The gas deal and psychological warfare

"Investor confidence" is the key phrase here. What the gas deal definitely marks is that China has Russia's back in a psychological war over investor confidence. The announcement of the agreement in Shanghai is largely a Sino-Russian retort to the U.S. and its allies, which are strategically trying to undermine investor confidence in the Russian economy.

In her May 8 testimony to the Foreign Affairs Committee of the U.S. House of Representatives, Victoria Nuland, assistant secretary of state for European and Eurasian affairs, asserted the following from a prepared statement:

> "The Russian economy is already buckling under the pressure of these internationally imposed sanctions. Its credit rating is hovering just above 'junk' status. $51 billion in capital has fled Russia since the beginning of the year, approaching the $60 billion figure for all of 2013. Russian bonds are trading at higher yields than any debt in Europe. As the ruble has fallen, the Central Bank has raised interest rates twice and has spent close to $30 billion [US] from its reserves since early March to stabilize it."

Although Nuland went out of her way to conclude that the Russian people were not the target of, but the collateral damage from the imposed sanctions, it was very clear at the hearing that the main targets of the sanctions were, in fact, the Russian people. During the hearing, Rep. Albio Sires candidly made it clear that the Russian people "have to feel" the sanctions and asked for evidence from the Obama administration that the Russian people were suffering from the punishment of economic sanctions. U.S. State Department and Treasury representatives at the hearing, in turn, made it clear to Sires that the Russian people "will begin to feel" the punishment of economic sanctions with the trade between Russia and the EU being damaged, costs of borrowing going up and inflation expanding.

Nuland's sentiments were echoed by Daniel Glaser, assistant secretary for terrorist financing in the Treasury Department, at the hearing on Capitol Hill. Both made it clear that the U.S. government is working to impose economic costs against the Russians that will snowball gradually. Glaser also clarified that it takes time for the damage to the economy to be reflected politically — meaning that the creation of an economic recession in Russia is aimed at making the Russian people so miserable that they will demand that the Kremlin surrender to Washington's demands.

Glaser testified thus:

> "Sanctions, and the uncertainty they have created in the market, are having an impact, directly and indirectly, on Russia's weak economy. And as sanctions increase, the costs will not only increase, but Russia's ability to mitigate costs will diminish. Already, market analysts are forecasting significant continued outflows of both foreign and domestic capital and a further weakening of growth prospects for the year. The IMF has downgraded Russia's growth outlook to 0.2 percent this year, and suggested that recession is not out of the question."

He also made the following points:

● Since the start of 2014, the Russian Federation's stock market has declined by over 13 percent;

● Heavy capital outflows have started to hurt the Russian economy and have resulted in Standard and Poor's Financial Services downgrading Russia's sovereign credit to BBB- — one level above what S&P calls "junk status;"

● Investors now want higher returns from Russian bonds due to the higher risks involved with investing with Russia;

● The Central Bank of the Russian Federation has spent nearly $50 billion, or 10 percent of its total foreign exchange reserves, to defend the value of Russia's national currency from the financial warfare that Washington has unleashed;

● Despite substantial market intervention by the Russian Central Bank and an interest rate hike, the Russian national currency has depreciated by almost 8 percent since the start of 2014.

What Glaser did not say is that the supposedly bad S&P BBB- status that the Russian Federation's economy has been reduced to is the same rating as those of two of Russia's BRICS partners, Brazil and India, which do not seem to be in a state of dread or panic at all. Nor did he mention that S&P's analyses, like economics itself, are not free of political interests and manipulation. The emphasis on the rating being "one notch above junk status" is pure theatrics aimed at creating alarm and fear.

Washington's strategy against Moscow clearly involves strategies to create general market uncertainty that will destabilize Russia or, as Nuland put it, "create market conditions that will make Russia increasingly vulnerable to financial" assault. A psychological war to undermine confidence in the Russian Federation's economy using financial manipulation has been launched, and the timing of the announcement of the Sino-Russian natural gas deal is tied to this.

Although the deal was already in the works and independent of the events in Ukraine, and though Russia is turning to China for economic backing against the economic warfare it faces, the energy deal's very public unveiling in Shanghai was a counter-move to Washington's actions against Russia. Not only does the Sino-Russian gas deal indicate that Russia has economic alternatives, its announcement served as a psychological jab aimed at offsetting the financial assaults of the U.S. government on Russia that are aimed at undermining investor confidence in the Russian economy. What the gas deal is supposed to do is secure confidence in the Russian economy by showing that it will have large earnings for the next 30 years.

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An award-winning author and geopolitical analyst, Mahdi Darius Nazemroaya is the author of The Globalization of NATO (Clarity Press) and a forthcoming book The War on Libya and the Re-Colonization of Africa. He has also contributed to several other books ranging from cultural critique to international relations. He is a Sociologist and Research Associate at the Centre for Research on Globalization (CRG), a contributor at the Strategic Culture Foundation (SCF), Moscow, and a member of the Scientific Committee of Geopolitica, Italy.