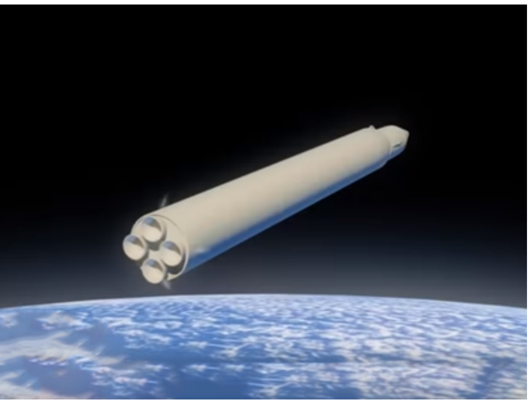
Russia’s Economy Strong and Stable – Cold War, Arms Race, Liberals, and Other Challenges

RUSSIA’S ECONOMY IN 2018

By Jon Hellevig



AN AWARA ACCOUNTING ECONOMIC ANALYSIS:

Russia’s Economy Strong and Stable – Cold War, Arms Race, Liberals, and Other Challenges

We are into the fifth year of the US initiated trade war on Russia. Cold War 2.0. is an established reality, trade wars are flaring and Trump raves about an arms race. But Russia is strong and stable with outstanding military power and a reindustrialized modern economy, lean and mean, ready to deliver a knockout blow to the US regime in its ghastly arms race challenge. This study on the Russian economy will demonstrate why so.

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Armed War Is Merely the Continuation of Economic Warfare by Other Means

Although this is an economic analysis, we have been compelled to commence by bringing up these shocking facts about the real danger of a war that could lead to nuclear annihilation of life on earth. The US preparations for war and attempts to succumb Russia and China with all imaginable means, economic, military, and all forms of hybrid warfare are what defines our times and must therefore also constitute the framework for an economic analysis. Economic analysis must acknowledge this proverbial elephant in the room.

Knowledge about the real facts about Russia's economy, knowing that Russia will not crack under the pressure, and will never surrender, would cool the ambitions of the hotheads scheming global conquest.

We should be alerted to how serious the situation is when Russian government officials publicly tell that Russia is preparing for a defensive war that the US is preparing to launch. Or, from the fact that the Russian President Putin recently saw the need to publicly deliver the chilling warning that an attack on Russia could trigger a nuclear war and the total annihilation of life on earth. And also the Russian Minister for Foreign Affairs Sergei Lavrov said that the Russian administration was aware of the US and its vassals hatching plans to attack Russia.

Alert us to the tremendous danger is precisely what the Russian government is trying to do, hoping to penetrate the Western wall of censorship with these kinds of high profile proclamations.

We have in a series of studies since 2014 told the story of Russia's economy so that the facts would really hit home to all those who live in denial while they plan and shill for a US war of conquest. The first groundbreaking study was published in December 2014 under the title Putin 2000 – 2014, Midterm Interim Results: Diversification, Modernization and the Role of the State in Russia's Economy. This study cardinally debunked the entrenched propaganda narrative on Russia's economy and showed its true modern nature. Another of our seminal studies was the June 2017 report focusing how Russia had coped with the three first years of sanctions and the oil price crash.

By design, these Awara studies on the Russian economy in the aftermath of the Ukrainian coup – which served as the pretext for initiating the sanctions war on Russia – can be seen as a historic testimony of the real situation on ground as seen by us as authentic and unbiased experts on Russia. In this sense these studies are unrivalled in accuracy and scope.

KEY FINDINGS:

- US sanctions have failed
- Russia and China winning the new arms race
- Russia's GDP (PPP) expected to grow 4% and hit 4.2 trillion (IMF)
- Russia world's sixth largest economy, on par with Germany
- Oil and gas share of GDP, less than 10%

- Russia's government and household debt lowest in the world
- Russia's economy world's most diverse and self-sufficient
- Russia's total score on all macroeconomic indicators the best in the world
- Russia undisputed leader in military technology
- Pivot to Asia gives Russia record trade balance as exports soar and imports stall
- Oil & gas share of Russia's GDP below 10%
- CB reserves soar as Russia drops the USD and relies on gold
- State budget records solid surplus
- Industrial production growing and churning out new innovative products
- Massive investment in industry and infrastructure

TRENDS:

- Pivot to China, Asia, Africa, Latin America
- Strong emphasis on de-dollarization and use of national currencies in trade with partners
- Russia rejects the US dollar
- Unprecedented investment in infrastructure, industrial and export development
- Financial collapse much more likely in the insanely debt leveraged Western economies than in Russia
- Russia could precipitate implosion of US economy by an arms race challenge

CURRENT ECONOMIC INDICATORS FOR RUSSIA (Q3 2018)

GDP growth (10/18)	**+1.5%**	CB Key rate (from 17.9.2018)	**7.5%**
Export growth (8/18)	**+28%**	External debt (9/18)	**$467 bln**
Industrial growth (10/18)	**+3.7%**	Trade surplus (2018 est.)	**$210 bln**
Real disp. Income (10/18)	**+1.4%**	Budget surplus (% of GDP)	**3%**
Inflation (10/18)	**3.55%**	Current account surplus (2018 est.)	**$105 bln**
Government debt (12/17)	**12.6%**	Unemployment (10/18)	**4.7%**
Import growth (8/18)	**+9.5%**	Average salary (10/18)	**+8.1%**
Capital investment (9/18)	**+4.1%**	CB reserves (10/18)	**$460 bln**
Retail sales (10/18)	**+1.9%**	Sovereign Wealth Fund	**$76 bln**

Stalin Was Not Fully Prepared for the War, but Pulled It off

When the West launched Operation Barbarossa on 22 June 194, the previous time they lusted to conquer and destroy Russia, Russia was not entirely prepared for war and the onslaught of the German troops that formed the core of the invading Western armies. The rapid advances of the invading hordes – about four million Western soldiers, the largest invasion forces ever amassed to attack a country – forced the Soviet government to scramble to save its people and entire industrial plants by moving them to the East, to the Urals and beyond to the Siberian heartland. There had been no such plans in place as part of the defense preparations, but nevertheless the Soviets pulled it out managing an enormous feat of relocating and restoring its industries.

On July 3, it was decided to evacuate the first 26 plants from Leningrad and Russia's central regions. By the end of 1941, nearly sixteen million Soviet civilians and over 1,500 large factories had been moved to areas in the middle or eastern parts of the country. By mid-1942, more than 1200 of the evacuated plants had been restored and become operational. At the same time previously existing plants in the area were enlarged and converted to military production. Altogether during the war more than 2,500 plants with equipment and staff were transported, among them metallurgical plants and plants producing tanks, engines, weapons, machines, tools and everything the war-torn country needed. The scale of the evacuation is further highlighted by the fact that these plants had before the war counted for approximately one third of the Soviet industrial output. With them went also scientific research institutions, food factories, farms and livestock.

By November 1941, five months after the launch of the invasion, the USSR’s industrial output was less than half of what it had been in June, before the war. And by the end of 1942, approximately one-third of the prewar production assets were wiped out by the enemy. However, enterprises whose products in 1940 had comprised two-fifths of the output of Soviet industry had been successfully evacuated and set up in the East. Then, against all odds, Russia performed a veritable Wirtschaftswunder as it managed already from December 1941 to halt the decline in industrial production and soon after hitting a tremendous growth curve which saw the output of military products by March 1942 reaching prewar production levels. The Eastern regions even secured Russia’s food supplies with the planted areas growing in 1942 by 3.7 million hectares in comparison with 1940. The Soviet war industries did not only survive but actually outpaced the Germans producing 73,000 tanks, 82,000 aircraft and 324,000 artillery pieces.

But Putin Is Ready to Take on the Enemy

This time around Russia is fully ready to defend itself. It hasn't been a straight path, there's been ups and downs, but ever since Putin took charge of the country, he has been guided by the urgency to build up Russia's defenses. The country bruised and battered after Gorbachev's perestroika and the neoliberal experiments of the 1990s has now risen from the ashes to reclaim its position as a quadruple superpower: industrial superpower, agricultural superpower, military superpower and geopolitical superpower. Russia now has the world's most self-sufficient and diversified economy capable of producing anything possibly made in the world. Russia is now for the first time in its history food self-sufficient while simultaneously exporting more food than ever before. With this clout, Russia is prepared to withstand the economic siege, that the US regime is hatching.

Most importantly, Russia has the weapons which will wipe out any invading Western hordes at one fell swoop, if need comes. We refer to Russia's nuclear doctrine, which allows for the use of its nuclear weapons arsenal to defend against invading troops. The Russian military top brass has made it abundantly clear, that there won't be any trench wars this time around, no hundreds of thousands, or millions of troops dying on the fronts, fleeing civilians and starvation. Nothing of the wars of the past century. Instead Russia will just stop the invading troops in their tracks with precision nuclear strikes in the borderland countries where they might be amassing.

Precisely for this reason, it is very unlikely that the US with its NATO forces would even attempt an invasion. All that is left for them to do is therefore to ratchet up what the US calls Russia containment, and their trade war against Russia with more and more sanctions, restrictions and threats, and build up the NATO troops at Russia's borders. This comes with tremendous costs to the US economy and those of its NATO vassal states bordering Russia – like the Baltic statelets, Poland and Finland – as they are turned into mere launching platforms for a war.

But Russia will survive and thrive. This is the message of the present report. Russia has achieved such a remarkable self-sufficiency and technological breakthrough that it does not need the West anymore for anything, especially as Russia is united with China in the economic, geopolitical and military preparations to defend against the US schemes to subjugate them in the quest to establish an absolute world hegemony. This report will show that Russia runs a modern economy with a diversified industry able to take on any challenges, including on the highest technological levels without a single bit of input from the West, if it comes to that.

Failed Western Operation Economic Barbarossa

If you are in the habit of just staring at GDP figures – like most self-proclaimed Russia experts are – then 2017 was not a great year for the Russian economy. At a cursory glance its 1.5% GDP growth would seem lackluster. But then you have no idea against which odds Russia survived the major economic calamity that the country faced. The double shock of the Western sanctions assault and oil price crash were supposed to have wiped out the Russian economy by now, leaving behind only the smoking ruins of a gas station.

The hero of the American liberals, the late senator John McCain pretended that Russia was nothing but a gas station masquerading as a country, which would go up in flames at the first puff of sanctions.

Remember all those gleeful predictions about Russia's imminent doom as the sanctions were first announced in in the wake of the CIA engineered Ukrainian coup and the coinciding oil price debacle. Cheered on by then President Obama – who famously and prematurely declared that the Russian economy was in tatters – the chorus of the usual Western pundits chipped in with their economic fatwa on Russia. But much to the chagrin of the West, the promised collapse failed to materialize. Notwithstanding the ruble's initial sharp decline, hyperinflation, bankruptcies, mass unemployment, social unrest, riots and an oligarch putsch did not ensue as it was clearly intended by the wizards who designed the sanctions.

As a matter of fact, in the four years of sanctions (2014 – 2017), the Russian economy did not experience a sharp drop in any of the main economic indicators. By the end of 2017, what decline there had been was recovered back to pre-2014 levels. The combined (arithmetical) decrease of the GDP for four years of sanctions was a paltry 0.8%, while the more important GDP PPP measure instead rose above the $4 trillion mark. Now, the IMF expects the Russian GDP PPP to grow by 4% and reach $4.2 trillion by end of 2018. By this measure, Russia is still the world's sixth largest economy practically on par with Germany ($4.4 trillion) and way above the seventh, Indonesia, and more than a third larger than each of the UK and France. (We are convinced that only the PPP measured GDP is relevant indicator, and not the nominal GDP. The nominal GDP in fact merely ranks countries in accordance with their level of prices, the more expensive everything is, and the bigger the taxes, the higher the nominal GDP. GDP PPP in turn measures the volume of output of the goods and services produced in a country).

Table 1 lists the 20 biggest economies by GDP PPP by end of 2018 as estimated by the IMF. Here, it is also noteworthy that China's economy now is a staggering 25% bigger than the US.

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Table 1. List of countries by projected GDP (PPP)

№	Country	2018
1	China	$25,238,563
2	United States	$20,412,870
3	India	$10,385,432
4	Japan	$5,574,051
5	Germany	$4,373,951
6	Russia	$4,168,884
7	Indonesia	$3,492,208
8	Brazil	$3,388,962
9	United Kingdom	$3,028,566
10	France	$2,944,262
11	Mexico	$2,508,193
12	Italy	$2,399,825
13	Turkey	$2,320,641
14	South Korea	$2,133,962
15	Saudi Arabia	$1,860,539
16	Spain	$1,845,837
17	Canada	$1,827,208
18	Iran	$1,749,428
19	Australia	$1,312,534
20	Thailand	$1,310,573

Source: IMF

What this means is that when the worst possible economic scenario – short of a full-frontal war – happened to Russia, nothing happened. That is how strong and stable Russia's economy had become before the onset of the Western operation economic Barbarossa.

In a report of June 2017, we summarized the cumulative effects of the sanctions from 2014 to 2016. That report remains relevant for understanding how Russia's economy fared under those initial years of sanctions.

Why the Sanctions Failed

The sanctions failed, because whoever devised them did not have any understanding of the true nature of the Russian economy. In all likelihood, their level of grasp of the Russian economy merely reflects back to their own decade long propaganda. They must have actually believed their self-serving talking points in the style of the trite soundbites like: "Russia does not produce anything," "Russia is a gas station with nukes," (forgetting the implication of the nukes), "Russia's economy is the size of Holland's" etc. Through their self-inflicted fog of propaganda, they failed to realize that Putin had totally overhauled the economy transforming Russia into the most self-sufficient diversified major country in the world with all the capabilities of the foremost industrial powers.

The single biggest error was to believe the propaganda lie that the Russian economy was totally dependent on oil and gas. Here they foolishly confused the share of oil and gas in total exports – which was and remains at the level of 60% – with the share of these commodities of the total economy, which in 2013 was 12% (today 9%). The difference here is that while Russia does not export a great deal of manufactured goods, it produces a bigger share of those for the domestic market than any other country in the whole world. We were the first to draw attention to this crucial difference between Russia's exports and its domestic industry in our report from 2017.

Russia Is More a Market Economy Than the West

Those who are not knowledgeable of the real nature of the Russian economy – and indeed do not understand classical economic theory – would not know that Russia is to a much greater extent a market economy than the US and the other countries of contemporary West. Russia has still retained the main characteristics of a 20th century market economy, free competition, state investments, low taxes, as well as flexibility of currency, prices and labor. The West could only dream of the kind of dynamic flexibility the Russian market economy demonstrates in adjusting to changed external circumstances. In a market economy prices reflect changes in supply and demand, and conversely prices affect supply by directing investments into productive projects where there is real demand that can be profitably met, and in the process wasteful consumption is eradicated. This is what happened in Russia and is not taking place in the West of today.

The Russian economy displays vastly more market flexibility, in several other crucial aspects, too. As an emerging market it is to a much higher degree open to competition than the ossified Western economies with dominant corporations that have essentially divvied up the markets between themselves. Russia also has a much more flexible labor market and benefits from migration that is motivated by employment and not by social benefits surfing and ethnic engineering like in the West. Contrary, to another false claim, Russia has a vibrant and stimulating business climate with much less of stifling regulations than especially is the case in the rule-strangled European Union.

In a contemporary economy, the most important commodity is money and the most important price is the price of money, represented in its two aspects: exchange value and interest rate, and their parity. Now, in the Western countries the exchange value and the interest rates are not anymore set by the market, but instead centrally regulated by the Federal Reserve (US dollar) and the European Central Bank (ECB) (and the other Western central banks, which work under the umbrella of those two). Doing so these central banks are acting like giant central planning organs, similar to the Soviet Gosplan. Two decades of abuse of their monopoly currencies that has enabled this central planning of the economy – combined with other regulatory excess – has led to enormous distortions of the Western markets (just like it did in the Soviet Union), to the point that the Western economies may not any longer be considered market economies. We have written about this in our report from 2015 "How the dollar and euro monopolies destroyed the real market economy. And what Hayek told about the need to have competing currencies."

In a market economy prices are signals that guide the allocation of scarce resources towards their optimal use. But as the Western central banks have been fueling for a decade the markets with near zero-rate interest, money has lost this function. The result is tremendous waste and misallocation of resources, which have not done much else than kept up wasteful consumption above the nations' means and sent share prices soaring and created a giant stock and real estate bubble, indeed an "everything bubble," that the US economy is now described as.

The converse was true during the previous Cold War. Back then the United States still was a market economy while the USSR was not. It is therefore that the USSR failed. The reason was absolutely not, as many believe that U.S. president Ronald Reagan engineered the collapse of the Soviet Union with his "Star Wars" arms race program. In fact, the program was more rhetorical than real and personally I do not believe that it was what knocked out the Soviet Union, rather it fell of its own weight caused by the decline of its non-competitive economy and the fading away of the belief in its ideological foundations. Nevertheless, it is undoubtedly true that the USSR spent far too big a proportion of its economic and financial resources on the military and defense, both directly and indirectly. It was the failure of the overall political system and planned economy hostile to competition which brought down the USSR. Russia's present political and economic systems are in many ways healthier than those of the Soviet Union and the West, too, and it is therefore that Russia is much better fit to take on the challenges. Today, the positions of Russia (China) and USA (West) are totally reversed. It is Russia (China) that has the dynamic system, which will allow it to satisfy – and improve – the material standards of living while simultaneously investing in the development and production of cutting edge military technology.

Resilient Russian Economy Less Dependent of the West Than Any Time After the Demise of the USSR

As already mentioned, in 2014, shortly after the Western sanctions had first been announced, we published a groundbreaking study aimed at debunking all the Western propaganda myths about the Russian economy. The Awara 2014 study showed that far from being as dependent on oil and gas as it had been widely claimed, hydrocarbons only contributed 16% to the total GDP. The study dealt a knock-out blow to the narrative that Russia (Putin) supposedly content with enjoying the natural resources revenue would have neglected the need to modernize the economy and create a diversified industry. Putting one development indicator after the other on the table, we showed that Putin had between 2000 to 2013 performed the remarkable feat of restoring and revitalizing the previously crisis-torn economy battered by years of robber capitalism and anarchy in the 1990s.

Among other things, we pointed out that Russia's industrial production had by then grown more than 50% while having undergone a total modernization at the same time. In the same period, production of food had surged by 100% and exports had had skyrocketed by almost 400%, outdoing all major Western countries. Even the growth of exports of other than oil & gas products was 250%.

What we wanted to stress with that report was that the Russian economy had reached an initial maturity, which provided a solid platform for taking the next leap to further industrialization and development of a strong manufacturing industry operating at the highest levels of technology. We expressed confidence in the fact that Russia would survive notwithstanding the Western attempts to strangle its economy. Sure enough, today any unbiased observer can tell for himself that we were spot on with that prediction.

We had another important message in the report, too, in that we stressed that the truth will set you free as we urged all those plotting to wage aggression and wars against Russia to acquaint themselves with the true state and real track record of Russia's economy. If they'd done that, they would have known that it is useless to nourish dreams of conquering Russia either militarily or by an economic stranglehold. Those dreams have been very costly for the American economy and now imply a nightmare for mankind as the US regime in their desperation pushes the confrontation with Russia to the brink of nuclear annihilation. We would wish that, the knowledge that Russia is not the economic basket case that it is portrayed in US propaganda to be would help to stave off those people from the pernicious collision course with Russia which they have embarked on.

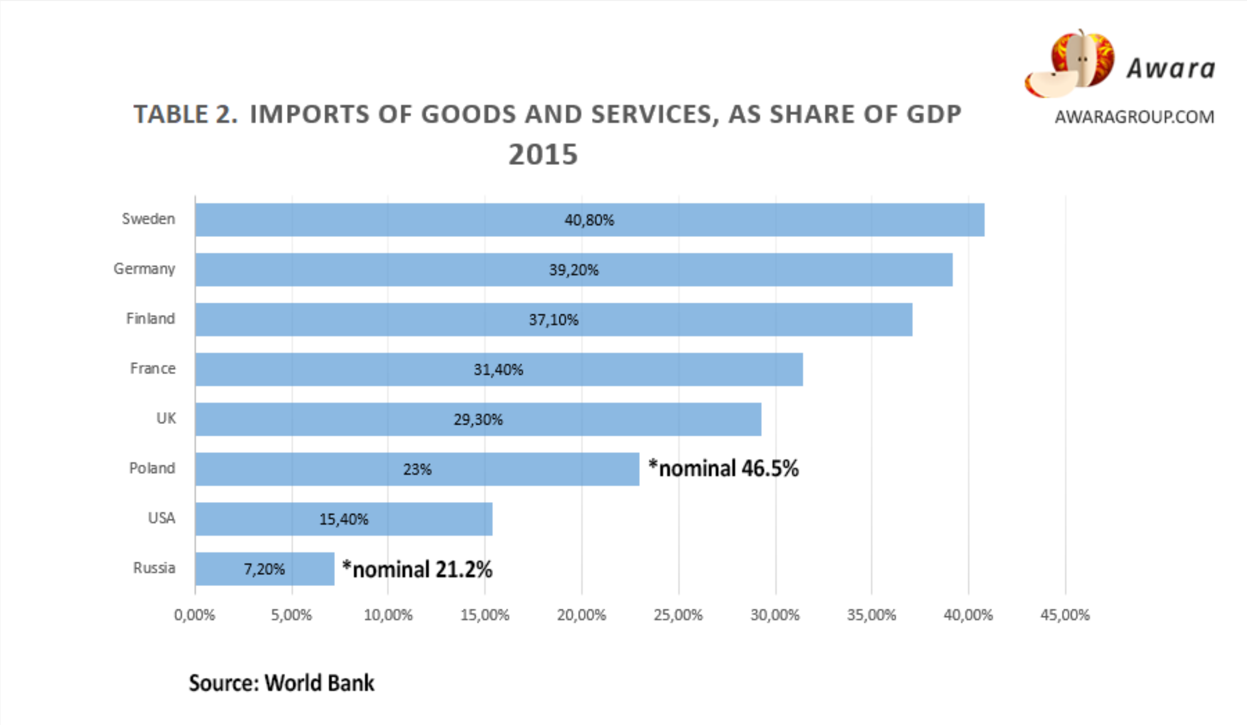
Awara followed up on its report from 2014 with a report in 2017 covering Russia's economic performance under the three first years of sanctions. This report confirmed our theses from the earlier report. Russia had survived the sanctions onslaught remarkably well. Notwithstanding Obama's black magic chatters, the Russian economy was not in tatters. Much to the chagrin of the West, neither the sanctions nor the unprecedented collapse of the oil prices managed to destroy the Russian economy.

Russia – the World's Most Self-Sufficient and Diversified Economy

After three years of sanctions, we could conclude in the 2017 report that Russia had emerged through them stronger than ever. Without hesitation we applauded Russia for having achieved the unprecedented role of a quadruple superpower: industrial superpower, agricultural superpower, military superpower and geopolitical superpower.

In that report, we went to great lengths to dispel the myths about the supposed dependency of Russia's economy on hydrocarbons. That false idea was derived from the fact that oil and gas account for the great majority of Russia's export revenue. Then through stupidity and propaganda (mostly a conflux of the two) the economic analysts extended what was true for exports (which is only a relatively small part of the economy) to supposedly be true for the whole economy. These analysts completely failed to recognize the glaring facts that on the other side of the equation Russia's imports were the lowest in the world (in proportion to size of population and economy). The extraordinary low levels of imports in a global comparison obviously signifies that Russia produces domestically a much higher share of all that it consumes (and invests), this in turn means that the economy is superbly diversified contrary to the claims of the failed experts and policymakers. In fact, Russia is the world's most self-sufficient and diversified economy.

Our argument that Russia's economy is the most diversified in the world is easily proven by World Bank statistics on the share of imports of goods and services as a percentage of the GDP. This is illustrated by **Table 2**, which compares the levels of import of Russia with a sample of countries. It shows that Russia's imports as a share of GDP was as low as 7.2%, while the corresponding level for Western European countries was between 30 to 40%.



However, to arrive at these figures we have corrected a major flaw in the World Bank statistics. For some incomprehensible reason the World Bank uses the nominal GDP as the denominator, when the correct method would obviously require the PPP adjusted GDP. (PPP for purchasing power parity). The PPP adjusted GDP indicates the size of a national economy in terms of its volume, while the nominal GDP merely reflects its US dollar value at a given date. If we want to know what is the share of imports of the total economy, we therefore must compare the imports with the volume based PPP indicator.

In keeping with the above, we have therefore adjusted the data vis-à-vis Russia with the PPP GDP figure for the relevant year. However, we have not gone through the exercise of doing the adjustment for all the presented countries. By definition the nominal and the PPP value of the U.S. economy is the same (as that is by convention the country against which all others are compared), therefore there obviously is no need to change anything for the U.S. For the other countries listed the nominal and PPP values were much closer with a 0 to 10 % mark-up and therefore the given numbers fairly accurately reflect the import share without any adjustments. This expecting Poland, which we also adjusted for PPP with a ratio of 2 to 1. Even with the flawed nominal GDP comparison, Russia’s imports stood at the globally low 21.1%.

Russia Managed so Well Because the Country Was Prepared

We often here from well-disposed commentators that sanctions have been a boon for Russia. Thanks to the sanctions, Russia has pushed through reforms, greatly increased agriculture and jump-started domestic industries, they say. But we would rather reject this sanctions bravado for two reasons. It simply does not hold water, our analysis has shown that all the positive economic developments after the onset of the sanctions have been initiated and advanced before 2014. Some spectacular results, in particular in the field of cereal harvest did occur in 2015 and 2016, but that it happened so fast afterwards should precisely alert to the fact that the investments in agriculture had been long in the making. Obviously, some things in the field of import substitution were accelerated, but the fact that they lent themselves to the acceleration was again enabled by the general preparedness.

In addition to the Awara studies 2014 and 2017, to which we already referred, we need in this connection to draw attention to a third Awara study which was dedicated in particular to Russia's import substitution programs. This study shows how Russia has timely been building up its economic and industrial capabilities to meet the challenges of an economic blockade. Our point is, that Russia did not have to improvise as the people under Stalin were compelled to do. The Putin leadership had seen this coming and was implementing the industrial strategies devised well in advance. That is why Russia withstood the onslaught. Russia's rapid and deep rapprochement with China under Putin must also be seen as one of the cornerstones in Russia’s foresighted strategy to prepare against a Western economic blockade.

The Pentagon would have wanted to see much more decisive action from the US regime on accelerated and more drastic sanctions. However, the West was faced with a dilemma as a more forceful sanctions push could have created a severe financial crisis in Europe and therefore all over the globe, to the extent that the already critically fragile debt-ridden Western economies could have collapsed themselves. Therefore, the strategy has been since 2014 to tighten the screws little by little. But due to failed – propaganda clouded – intelligence, the Russian economy has constantly been a couple of steps ahead of the US sanctions regime; just as there is a new one out of the pipeline, Russia has already neutralized that particular threat. Maybe it is not even a question of failed intelligence, but just a case of ignoring intelligence altogether, like just doing it, believing in your propaganda even if it means ignoring all facts altogether.

By now, Putin has slammed shut on the US regime the sanctions window of opportunity. Russia can perfectly well function and develop without the West, produce most of what it wants, get from China the technologies it might be missing, and trade with China and the rest of the free world. They US regime missed the bus with their sanctions by a couple of decades. And now it’s too late, forever.

Sanctions Were Meant to Deprive Russia of Technologies, but Hypersonic Russia Strikes Back

The sanctions were designed to cripple Russia's economy and undermine the people's trust in its government. In Barack Obama's words the US took special aim at damaging Russia's key sectors of economy, energy, arms, and finance. But, as we predicted in our Awara study fresh in 2014 against the received opinion, the Russian economy proved amazingly resilient and could easily withstand the Western assault with just a bit of belt tightening. Vladimir Putin's historic landslide victory in the 2018 presidential elections represents the ultimate and definitive proof that the globalist could neither break Russia's economy nor the unwavering confidence of the Russian people in their president and their determination never to surrender.

Not only did the sanctions fail, but Putin did one better unveiling in March 2018 in his state of the nation address Russia's new cutting-edge nuclear arsenal that delivered Russia at one swell swoop military parity – if not superiority over – with the United States. Experts were stunned over the bloodcurdling new Sarmat intercontinental ballistic missile and the whole range of jaw-dropping weapon systems that Putin enumerated. The Sarmat will be equipped with hypersonic nuclear warheads and the most cunning means of dodging enemy missile defense. Other Russian goodies include: a nuclear powered cruise missile with basically unlimited range; a nuclear powered ultra-high speed submarine drone with intercontinental range with silent propulsion and capability of moving at great depths; the Kinzhal, a Mach 10 hypersonic missile with a 2,000 kilometer range; the Avangard, a new strategic hypersonic missile capable of evading anti-missile defenses as it glides down at targets at Mach 20 velocities; and Star Wars type laser weapons that Putin did not yet even want to expand over.

These weapon systems represent technological feats that a backward country with an "economy in tatters" would hardly be able to pull off. And, in addition to tempering the ambitions of the Western War Party, that was precisely Putin's message to friends and foes alike.

With Russia's new hypersonic weapons and the de facto military and economic alliance between Russia and China, the multipolar world order has been restored officially putting the American century to rest. But not wanting to let go of the old, the US is pulling out all the stops in a last-ditch effort to reverse the fortunes in what amounts to the greatest geopolitical temper tantrum of all times.

Still there are reports in the Western media dismissing the reality of these Russian weapons developments. As this is the case, we would need to give this advice to the hotheads of the War Party: The choice could not be clearer. Either the US regime gets it that Russia's hypersonic missiles are for real, or they could end up getting the missiles for real.

Russia's Supposed Technological Backwardness

The most paradoxical defeat occurred in the sphere of weapons technologies, but Russia has demonstrated that it has a broad base of advanced technologies in many other spheres also. They minions who designed the sanctions were sure that the West possessed an outstanding technological edge and were sure that the sanctions would have a significant effect, for example, in halting the development of new Arctic, deep sea and shale resources. "The biggest edge that Western energy companies still have is their technological edge — that's why these sanctions have the potential to have significant impact," said Michael A. Levi, a self-professed energy expert at the Council on Foreign Relations. "Chinese companies can't step in and provide shale technology where U.S. companies are blocked. They can provide capital; they can provide people. They can't fill in on the technology front." (Editor's comment: In your dreams). "The technology cutoff could be important," Levi muses, "because Russia is only now at the early stages of developing new Arctic, deep sea and shale resources. Most of its current production comes from depleted Siberian deposits that will eventually run out. And several Western oil companies have been working with Russia to expand their resources."

But how did it play out? – Another Western in-your-face failure. Russia's energy sector has actually been thriving ever since. And what's worse, Russia managed to develop its own high-tech equipment for the Arctic environment. Gazprom went on with new domestic state-of-the-art technology to conquer the Yamala Peninsula

Arctic oil drilling and gas production center. And then Russia’s state-owned Rosneft in a moment of triumph launched on President Putin’s televised orders drilling at Tsentralno – Olginskaya-1. It is Russia’s northernmost oil well on the edge of a peninsula so deep in the Arctic Circle that the equipment had to be shipped 3,600km through icy waters navigable only for two months of the year.

Indeed, we said already back in 2014 that it was a preposterous idea of the Western powers to think that Russia, a country that has been the leader in space technology for more than half a century and produces the most cutting edge nuclear arctic submarines, would not be able to produce some Arctic drilling equipment.

The New Arms Race

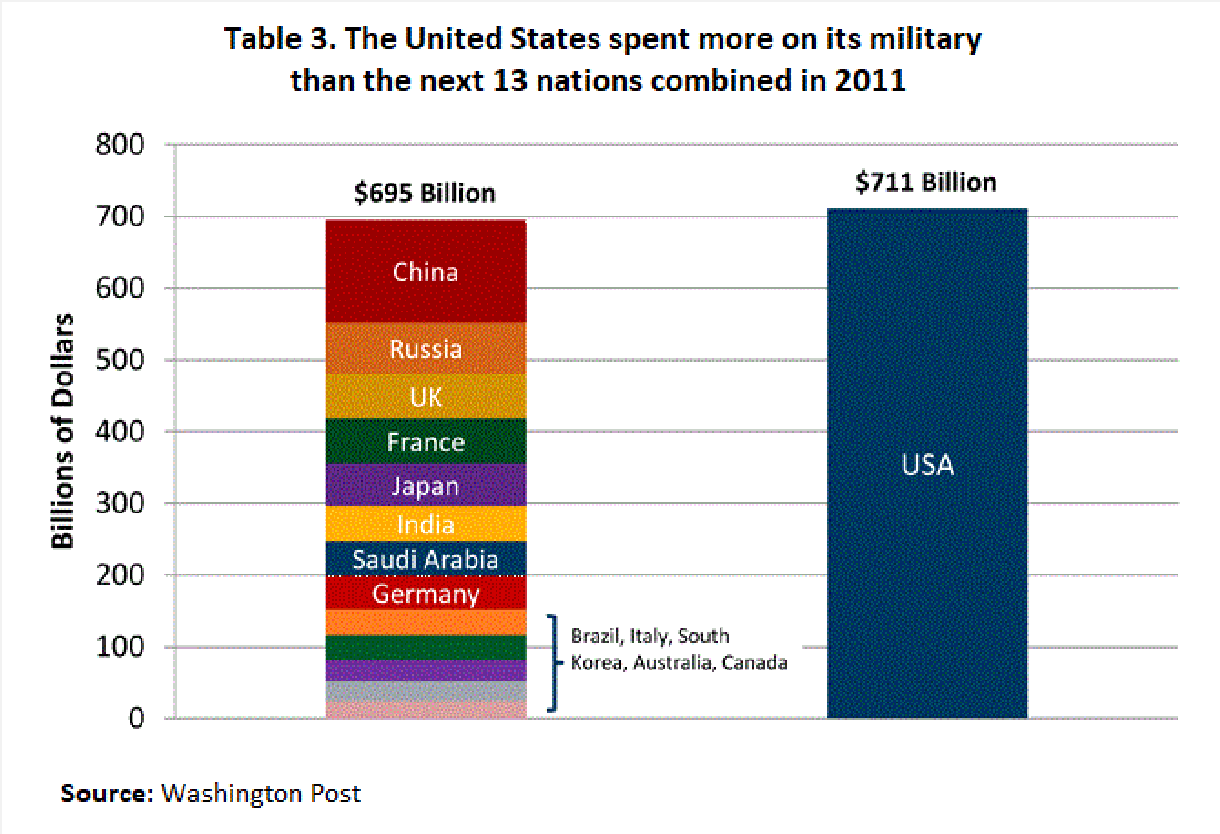
With its dynamic market economy and healthy public finances – especially the exceptionally low level of debt – Russia has taken the pole position in the new arms race initiated by the US regime.

The usual "experts" who know nothing but stare at nominal GDP figures would not understand that Russia is the likely winner in the new arms race. The minds of those people are filled by so much sedimented intellectual debris from decades of circulating their own propaganda among themselves that they have no way of getting to the heart of the matter. Their first error is to think that nominal GDP is the correct measure for the relative size of economies. That is completely wrong, to compare the size of one economy with another one must look at the GDP measured in PPP, purchasing power parity. (For a discussion about the difference between nominal GDP and PPP measured GDP, we refer to this report)

The PPP measures how much of a certain product one can buy (or reversely, produce) for one US dollar in different countries. The general PPP difference between Russia and the US is 2.6 times in Russia's favor. (This PPP conversion ratio is derived from IMF GDP figures for Russia in 2017, PPP/nominal). We suspect that in reality the difference could be even more in Russia's favor, and especially in military technology it possibly is much more. The costs on which Russia and the US produce various weapons and missile systems are obviously not in the public domain, so there is no way of knowing exactly. But from what we know about what Russia has spent on certain civilian product developments (we have discussed that in this report) and from the sporadic information in the press on costs in the US and Russia, respectively, we may draw the conclusion that even a tenfold PPP difference could be a reasonable estimate. We would even raise the question whether the US system has not reached such levels of corruption and hubris inflicted incompetence that they simply are not able to timely produce some of the things at any cost. To take one concrete example, China's Wing Loong drone cost only $1 million USD to produce, whilst the American equivalent with the same capabilities, the US MQ-9 Reaper cost a whopping $30 million.

In an article from 2016, titled Russia and China Will Win the New Arms Race this author demonstrated why the US military superiority – especially the capacity to device and produce new weapon systems – in the light of the respective budgetary spending was illusionary.

The referenced article drew attention to the below graph (**Table 3.)** depicting US military spending compared to that of other major countries. It demonstrates the shocking size of US war spending compared with other countries. The data was from 2011, but the relative magnitude is still valid.



But far from proving US superiority, this graph actually shows how tenuous the US position actually has become. While the US has already been expending those astronomical amounts it has nevertheless not reached any kind of overwhelming military superiority over China and Russia, on the contrary it is constantly losing what advantage it might have had in the past.

The actual military spending of the listed countries might be vastly more than what was depicted in the graph, but let's assume that the United States spends at the level of $700 billion, China $220 billion and Russia from $40 to 50 billion. (The Russian figure is difficult to state in dollar terms due to the volatile exchange rate of ruble to dollar). However, from these figures it would seem that the US spends around three times more than China and Russia combined, and some 15 times more than Russia alone.

Numerous factors combine to neutralize the seeming advantage the US would have for its massive spending. The US war dollar simply does not buy the desired military dominance. There is then no doubt that America spends nominally much more than China and Russia put together, but the question is not about how much one spends but what one gets for the money.

One of the obvious factors is the overwhelming PPP efficiency that Russia and China possess as discussed above. Then there is the huge cost the US incurs from its imperial overstretch entailing the wasteful maintenance of the nearly 800 military bases in more than 70 countries. On top of that the US spends massively on the floating bases of its navy, the 10 aircraft carrier groups, which for an increasing number of military experts seem like sitting ducks, as it is recognized that they are no match for the increasingly sophisticated Chinese and Russian anti-ship ballistic missiles. Not to forget the hellish spending on the United States actual wars of invasion. The Watson Institute reported in November 2017 that overseas wars have cost the United States more than $4.3 trillion since 2001 and would reach $5.6 trillion by the end of fiscal 2018. The cost refers to the assaults on Iraq, Afghanistan, Pakistan and Syria and the additional spending on Homeland Security, and the Departments of Defense and Veterans Affairs. Most probably the costs are much higher yet. For one, these figures do obviously not include covert operations.

Wall Street meets War Street

Not only do the Russians and Chinese enjoy the benefit of lower production costs due to the PPP advantage, but it is highly likely that the Russian and Chinese military-industrial complexes are much more efficient than the Americans, strange as it might sound especially to those who believe in the charade of liberal economic theory.

The biggest drain on the U.S. war budget is caused by corruption and rent-seeking as the Deep State elites ensure that a solid portion of budget financing on war directly lines their own pockets (or offshore bank accounts). This is ensured through the symbiotic relationship of the U.S. military-industrial complex with the financial sector, that of Wall Street with War Street. We may call it the securitization of the U.S. military-industrial complex. The main contractors are all listed on the stock exchange and therefore the defense contracts come with huge profit margins in order to satisfy the demands of the stock market ideology. The contracts are usually not open to any kind of tendering (at least not transparent ones) but awarded by intra-Deep State machinations where often the congressmen who live off campaign contributions serve as rubber stamps. This mechanism guarantees that the contracts come with the required budgeted profit margins. We do not have any actual figures on that but it much be tremendous. It is very probable that some 30% of the U.S. military budget is siphoned off in form of such profit drainage, eventually paid out as dividends, or worse yet as payments on stock buy-back schemes. Naturally all kinds of outrageous “consulting fees” also share into the loot, as well as your time tested flagrant overpricing.

And don’t forget outsourcing. One of the most inventive ways of looting by Wall-War Street insiders. Real outsourcing is there to guarantee more efficient operations but in this case it serves the function of further draining the system by means of overpriced contracts and another layer of profit margins. A small but good example was a contract to build a fitness center at the US base in Camp Lemonier in Djibouti for $25.5 million (2013). The system’s corruption automaton allows for any write-up of margins, as they can always be motivated by overseas “hardship.”

One interesting and crucial part of the corruption are the campaign contributions which flow back from the defense contractors to the congressmen to keep the merry-go-around in circulation.

Following the drainage down these lines, we would find that there is preciously little left for the actual hardware that counts.

For some more background to this topic, we would like to refer to this interesting article: How Corruption Cripples America’s Military. US versus Russian Weaponry. Who Wins.

Outspend vs. Outperform

We already mentioned that in our article from 2016 – where we first predicted that Russia and China would win the new arms race (more than 2 years before anybody else talked about this risk materializing) – we pointed out that winning the arms race was not about who spends the most but what you get for the money. Self-evident. But President Trump and his advisors have not even started to get it. Trump recently declared the start of the new arms race with his typical bravado coming directly from his casino economy playbook. He vowed to outspend China and Russia on new nuclear arsenal: "We have more money than anybody else, by far. We'll build it up."

That would be really funny if the subject wasn't so dreadful. Really, we don't doubt Trump will outspend China and Russia, to spend that's the one thing the US regime is good at. In the meanwhile, Russia and China will for sure continue to outperform the US.

Here Trump demonstrated that he has no grasp of the relative strengths of the US economy and those of his geopolitical competitors. Can it be that Trump, and the Deep State mandating this spending, actually do not have any clue about the tremendous PPP advantage of Russia and China, as well as their supremacy in military technology? And do they not realize that US debt has already passed such levels that could trigger a financial collapse of epic portions, whereas Russia is virtually debtless and China's debt being wholly manageable? And what about financing the already gargantuan budget deficits?

The fact is that the US economy is already – and has been so for a decade – totally dependent on constant borrowings to the tune of at least a trillion or two dollars annually. We demonstrated in a study on the US economy / (2018) that even without this latest spending pledge the US budget is totally unsustainable to the extent that if dramatic savings are not reached within 5 years the whole system could come tumbling down.

This new arms race could very likely end up being the one event that will kill the US economy and ironically Russia could this time around actually provoke the US to this arms race so as to force America to squander its last resources on that.

Russian economic growth is for real, not debt-fueled illusions as in the US and EU

Comparing with the economies of the US and the EU, the one striking feature about Russia’s economy is that it is growing without massive injections of debt, the way the Western economies are kept barely floating. In fact, far from being debt-fueled, Russia has actually shed debt in terms of its share of GDP.

Russia recorded a government debt equivalent to 12.6 percent of the country's Gross Domestic Product in 2017. And that is when we measure the debt to the nominal GDP, but as the three times bigger GDP in PPP terms shows the true size of Russia’s economy, we would have good reason to match the debt to this PPP measure, too. This would yield a government debt of 4.5% of the true GDP.

Table 4 shows how incredibly low the Russian public debt (national debt) is in a global comparison. (Note: Internationally ‘public debt’ is the same as ‘national debt’ in US parlance). Russia’s government debt ranks lowest of all major countries and 166th of all the 171 countries surveyed. China is also well behind the United States and all the other major Western countries, ranking 75th.

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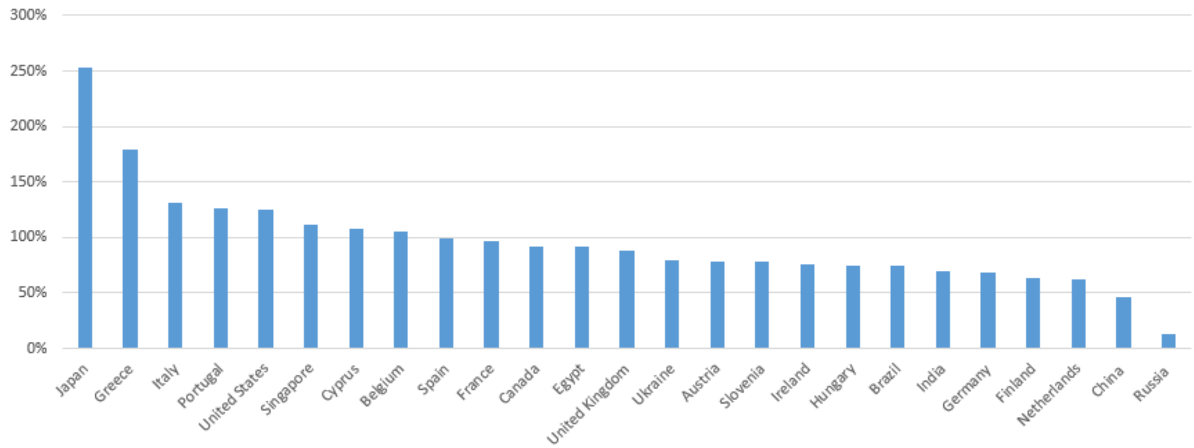
Table 4. National Debt-to-GDP



Source: Awara and tradingeconomics.com/country-list/government-debt-to-gdp

List contains all major countries and all EU countries (other countries removed from list) with Public Debt-to-GDP above 60%. China, Russia and Ukraine are added for comparison. Data as per Dec/17 or Dec/16, as available.

Looking at the dynamics of Russia's debt-to-GDP in **Table 5** one would think that Russia is in such a crisis that even its debt is sinking ☺

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Table 5. Russia Government Debt to GDP

Source: Trading Economics

Often it is at this point of a discussion that diehard Russophobes counter with "What about Russia's household debt!" Yes, what about it? Contrary to persistent claims in those circles, Russia's household debt is also among the lowest in the (developed) world. The total household debt of Russians as measured to GDP was 16% according to the latest reading (Q1, 2018). This is only a fraction of that of the debt-binging nations as shown in **Table 6**.

Table 6. Household debt-to-GDP, March 2018, selected countries

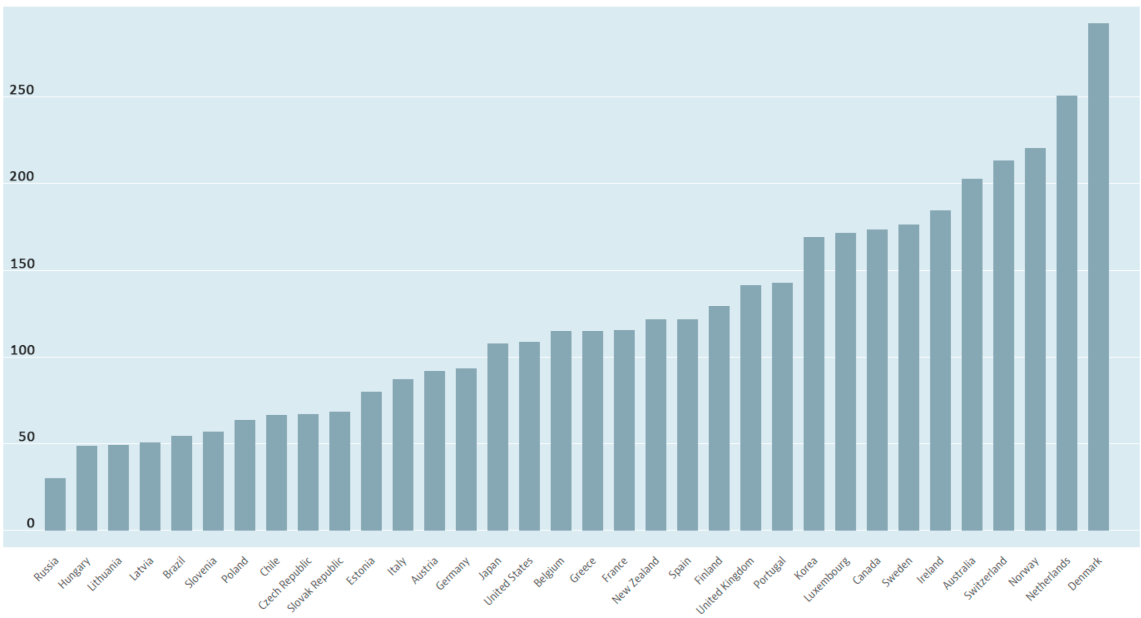
1	Switzerland	128%	10	United Kingdom	86%
2	Australia	122%	11	United States	77%
3	Denmark	117%		...	
4	Netherlands	104%	16	Finland	67%
5	Norway	102%		...	
6	Canada	99%	25	Germany	53%
7	South Korea	95%	26	China	49%
8	New Zealand	92%		...	
9	Sweden	88%	41	Russia	17%

Ranking number according corresponds to country's position
in list of world's most debt-ridden households.

Source: Trading Economics

The debt-orgy of the West looks even more shocking when you measure the household debt to disposable income of the households. By this measure Denmark was worst off with a staggering 292% debt to income, closely followed by many of the nations we would according to received stereotypes consider as rather thrifty and diligent, among these: Netherlands, Norway, Switzerland, Australia, Ireland, Sweden, Canada. Even the Germans have racked up debts in excess of 90% of their income. Again the financially sound Russians were in the other end of the table with only 30% debt (**Table 7**).

Table 7. Household debt % of disposable income (2015)



Source: OECD

Quo Vadis, America?

We can really put the amazingly low level of Russian public debt in perspective when we compare it with the staggering amount of debt the US is gobbling up every day of the year. The US Government saddled its citizen with an astounding $1.614 trillion of new debt in just a 12-month period through August 31, 2018. That amount is more than Russia's total annual nominal GDP. Then, totally addicted to debt, the US regime took $138 billion more in just the 11 first business days of the new fiscal year which started October 1. The $138 billion injection in those 11 days must be set against Russia's total historic debt, accumulated since times immemorial at about $190 trillion. Yet the US economy is only roughly 5 times bigger than Russia's (PPP) and twice as big as Russia in terms of GDP per capita (PPP) (US population is 2.2 times that of Russia's).

But what did America get for that money? Did they create in one year a new economy the size of Russia's with those $1.6 trillion? Nope. The country is trudging along, at best. Then perhaps there is one huge drain pipe in there that carries all that money right down into a bottomless swamp, where a tribe of giant swamp creatures devour it all without a trickle reaching the economy of ordinary people.

With all these borrowings one would imagine we'd be seeing amazing new infrastructure being erected all across America, high-speed bullet trains, bridges, tunnels, modernized subways, homeless people cleared off the streets, universal health care etc. But there are no signs of those.

The fact is that the trillions that the US regime pours into the economy hardly buys anything of tangible value, if it did, then we would see some amazing things being made in America and the people would feel the money trickle down all the way into their pockets. This if anything also shows how illusionary GDP comparisons are, especially those based on the nominal GDP. The figures just don't translate into any kind of material well-being.

Is it really all war and waste?

And it is not only the US regime that is borrowing, households must do it also, just to stay afloat. In the last quarter that ended in September total debt of American households hit a new (anti) record, reaching $13.5 trillion. In the same period the epidemic of student-loan delinquencies exploded with a jump of 9.1% in just that one quarter. The rise in US household debt for the quarter was $219 billion, which again alone is more than the entire Russian national debt.

And then after all this, President Trump and the American media laud this debt-pumped life raft that barely keeps the economy afloat as "the greatest economy in the history of the United States." In fact, this is an economy where even the most American thing of them all, US auto sales, where in September down 7%, including Ford recording a decline in sales of 11.2% among plans of mass layoffs. Clearly some things don't tally here.

In a recent study, we demonstrated that it is very dubious if there behind the inflated figures of the "everything bubble" has been any real economic growth in the United States: Signs That The US Debt-Fueled Economy Might Actually Collapse

Massive Debt Leverage Without Results Across the Western World

In a study published 2014, Awara revealed that not only the United States but all the Western countries had kept their economies afloat exclusively by means of massive debt leverage.

Netting the GDP growth with the growth of debt all those countries would actually all have been deep in the red. The really striking message this report sent is that even with those enormous debt injections the West has become totally incapable of producing any economic growth. The only thing achieved is that the economies have been kept formally afloat, but with fast approaching absolute debt ceilings even this will be questionable in the very near future.

Russia's External Debt

A look at Russia's external debt (what the whole national economy owes to abroad; government and corporations) reveals the same story of Russia's exceptionally low level of debt. The external debt was $491 billion at end of June 2018, down by a third from $729 billion at end of 2013. Of the foreign debt 27% was denominated in Russian rubles. Intercompany loans amounted to $147 billion. These are loans that a Russian company owes to its foreign parent or other foreign affiliated company. Hereby such foreign parents are either purely foreign investors or ultimately Russian beneficiaries who have organized their holding structures through overseas entities. Intercompany loans must be treated as a special class of loans with a lower risk from point of view of the national economy. Netting the intercompany debt from the totals Russia had only $190 billion foreign commercial third party debt (and only a negligible government debt to the external), and of this an amount equal to $41 billion is denominated in rubles. At the end of the analysis then, we see that Russian banks and corporations have third party currency loans of only $150 billion. This may be compared with the country's foreign exchange and gold reserves which were worth $461 billion at the same date.

Russia recorded a government debt equivalent to 12.6 percent of the country's Gross Domestic Product in 2017. Of this only 30% is external debt (debt issued at foreign markets), further of that only one third was denominated in US dollars (or other foreign currency). It follows then that 90% of Russia's government debt is denominated in rubles.

Lest We Forget Krugman's and Aslund's Predictions

Against these facts about the incredibly low levels of debt in the Russian economy, it was particularly ridiculous when in the wake of the sanctions, on top of all the usual nonsense, the Western pundits invented the fiction that Russia – of all countries – had a debt problem. As soon as the would break under the strain of its supposed "enormous debt" and run out of its reserves within two years.

The celebrity economist Paul Krugman penned a hit piece in his blog in the New York Times (December 18, 2014) in order to ostentatiously prove "that Russia has a debt problem, which is supposedly more severe than it seems on first glance." We countered with an article in the Russia Insider (December 20, 2014) where we punctured Krugman's puerile and unprofessional argumentation. Subsequent events have proven us right over this Nobel laureate.

Then the Swede Anders Aslund also joined the propaganda chorus spouting more nonsense about Russia's supposed debt problem. And again we had to sink those arguments in this article. And again, we were proven right. But this was an easy one, because Aslund cannot be taken seriously by anybody ever since he – having been kicked out of Russia in the wake of the catastrophic failure of the shock therapy economic policies of the 90s, which he had helped to design – devoted his life to churn out fabricated economic analysis at US stink tanks with the sole aim to besmirch Vladimir Putin.

In fact, it was precisely the low level of debt – and in particular of debt denominated in foreign currency – that was a crucial factor for Russia’s economic survival. As Russia’s forex debt was low it could easily absorb the devaluation shock. Countries with high forex external debt are vulnerable to devaluations as a growing share of the revenue of the national economy must be spent on serving the external debt as its equivalent in the home currency shoots up. They then must cut imports and domestic consumption and an ugly downward spiral may follow if there are not solid exports to compensate for the losses. Instead Russia with its healthy forex debt balance only reaped momentous benefits of the devaluation as Russia became a low-cost producer and its export prices markedly dropped relative to the competition on global markets. This while its pre-crisis foreign currency reserves were more than enough to serve the current debt obligations.

The Capital Outflow Nonstory Just Won't Go Away

We were reminded about the trite old story about supposed pernicious capital outflow from Russia when we stumbled on an article by Ben Aris with the gleefully screaming heading "Half a Trillion (!) USD Has Left Russia in Capital Outflows Since 2009." The author wanted to make it sound as if Russia were bleeding dry as all that money is leaving the country. With so many years of this leakage, one would think Russia had gone under long ago.

Problem here is that Aris has very shallow, if any, knowledge about macroeconomics. It is as if Aris imagines that there are some funds which can just keep flowing and flowing out of the country, kind of like from a gushing natural fountain. What he ignores, is that the money must first flow in before it can flow out. And it precisely does flow into Russia in form of its huge trade surplus. Thing is that a country's net capital outflow by an accounting identity is always equal to its net exports, net exports being the trade surplus. Capital outflow is recorded in the national accounts in the balance of payments in the capital account, but there is also the current account, where the trade surplus is first recorded. Thus, no more money possibly flows out than comes in, and there is absolutely no need for screaming headlines.

Bellyaching about capital outflow really corresponds to howling about a company's liabilities without considering its assets, the two sides of the balance sheet.

Conversely, if Russia had a trade deficit then it would experience a capital inflow, not a very appealing option, if you ask me. This because the sources of cash must equal the uses of cash, the money going out (trade deficit) will mean there is money coming in some other way (investment). There is a much more lengthy explanation, which you may access here. Hereby, we must not forget about the great equalizer, floating exchange rates, which in the long run ensures this accounting identity between net exports and net capital outflow.

Aris is shedding crocodile tears moved by the emotional stress his false theory has inflicted thinking that the capital outflows would have deprived Russia from the investments needed to “transform the country and bring it up to par with the developed world.” Well, as our reports show, and as can be verified by anybody who cares to take a look, there’s been quite a lot of that transformation going on lately. In this connection, the more relevant figures to watch would be those of capital investments as a percentage of GDP. To those who distrust their potentially lying eyes, we would therefore suggest to take a look at these World Bank statistics showing how much all countries spend on capital investments. A glance at that will show that Russia – capital outflow or not – has persistently experienced higher levels of investments than the Western countries in general.

Export Boom

Russia's incredible resilience and its outstanding ability to adjust by market economy mechanisms is lucidly illustrated by its foreign trade balance. Even when the price of oil, Russia's biggest export article (60%), crashed to as low as $30, Russia managed to maintain a solid trade balance. The usual analysts had predicted that with those levels of oil prices Russia would accumulate huge trade deficits which would have soon depleted the country's reserves and then plunged the Russian economy into a terminal crisis with unmanageable budget deficits, the ruble being wiped out, and ensuing hyperinflation. – That's what the Western analysts thought, because they really are so stupid. They could not imagine that in a market economy (because they don't live in market economies themselves) all the variables would adjust and find a new harmony in relation to each other: the currency would depreciate to reflect the new price levels, exporters would earn the same amount of rubles with higher dollar values, for the same reasons imports would contract and be compensated by domestic products and – to some extent – lower consumption.

With these market adjusted variables the equation of the new foreign trade realities continued to yield a solid trade surplus of $103 billion even at its lowest in year 2016. Now with the resurgent oil price (having traded at levels of $65-75 for most of the year, but plunging below $60 as we write) the trade surplus is on track to beat the historic annual record of $197 billion from 2011. Hereby exports are up by 28% for the year (by August) while imports have grown only 9.5%. With solid non-leveraged GDP growth and robust exports, the subdued imports once again prove our thesis that Russia is outstandingly self-sufficient. In September imports even decreased 1.6% compared to a year earlier, with food imports down a staggering 9.2% as Russia has reached self-sufficiency in this crucial sector.

Table 8 illustrates how Russia’s market-based economy has been able to adjust so as to yield a solid trade surplus also during periods of downturn. The export value was $522bn in 2013, dropped to $341bn in 2015 and further to $282bn in 2016 (anyway yielding a merchandize trade balance of $90bn), in 2017 exports were back to $359bn with a trade balance of $131bn. In 2018 exports could hit $450 bn with a trade balance of $210bn.

Pivot to Asia

As the US tightens the screws on Russia, Russia is pivoting to the East, to China and other Asian countries. This is confirmed by recent foreign trade figures (August 2018). Imports from EU countries has sunk to 37% of Russia's total imports whereas trade with the Asia-Pacific region now accounts for 43% of the imports. At the same time China has overtaken Germany as Russia's biggest trading partner. In 10 years, China has seen its exports to Russia surge from 12% to 22%. In the same period, exports of Germany – Russia's former biggest supplier – to Russia shrank by a quarter from 13.3% to 10.5%.

The European Union is still Russia's biggest export market, receiving mainly Russian energy supplies. In 2018 up to August, 47% of Russia's exports went to Europe, while the Asia-Pacific region accounted for 25%. Exports to China alone were up 47% year-on-year, now making up 12.3% of Russia's total exports.

In connection with the present analysis and its backdrop of the heightened tensions between Russia and the West – as a growing number of observers are even talking about a possible war – the relatively low share of the imports from the EU shows that Russia is well prepared to survive even a total suspension of trade with the West, the role of the other Western countries being insignificant in Russia's imports. The more so, as the overwhelming share of those imports are what could be considered luxury consumption (high-end car brands, brand name alcohol, perfumes), or products that can easily be substituted in Russia (within 1 to 24 months, car parts, airplanes, machinery, medicine), or acquired from China and other countries (machinery, robotics, computer and information technology). Hereby it is noteworthy that Russia's exports to the East are already now sufficient to pay for its imports from those countries, while the energy export capabilities to China are rapidly being further ramped up.

Russian liberals don't tire of asserting how supposedly important it is for Russia to make up with the West (that is, to capitulate) as Russia so badly needs, as they claim, Western technology to develop its economy. But these guys have really missed the boat (allowing for the possibility that they in fact intended to mount it and not just spread propaganda), because what technologies Russia could possibly not produce domestically it can buy from China which has fast become the global technology leader. Let us illustrate this just with a couple of interesting tidbits. Civilian telecommunications is arguably an area where Russia is behind the global leaders. But surprise, surprise, it's not from the West where Russia buys what IT it needs, but from China. The Chinese companies (Huawei, ZTE and others) now cover more than 80% of the Russian market of telecommunications equipment, whereas Western companies (Juniper, Cisco, Nokia) are down to about 10%. And then there is also a fledgling domestic industry with another 10%.

Then there is the really hot topic of industrial automation or robotics. This is the one area that the Russian liberals say Russia badly needs Western technology in to upgrade its uncompetitive labor-intensive manufacturing sector, as it faces a shrinking working age and tougher global competition. But then it turns out that it is China which is the leader in this sector, too. Just in Jan-Sep 2018 China produced 108,000 industrial robots, and that's as much as one third of the entire cumulative US stock of industrial robots. This comes as China plans to saturate industries such as car manufacturing, electronics, home appliances, aviation, textiles and chemicals with industrial robots, it is certainly the right country for Russia to team up with.

There’s a Lot of Positive Energy in Sino-Russian Cooperation

The significant growth in exports to China follows the start of operations on New Year’s Day 2018 of the second Sino-Russian oil pipeline, which doubled Russia’s capacity to export crude from the East Siberia-Pacific Ocean system from 15 to 30 million tons annually, or almost 220 million barrels. The first crude oil pipeline had started operations exactly 7 years earlier in 2011. But this is only the beginning as there are two (possibly three) gas pipelines coming up. It was reported in September that the first of the gas pipelines, the Power of Siberia (also referred to as the “Eastern Route”), was 93% completed and on track to start sending gas to China at the end of 2019. Russia’s state-owned Gazprom has a $400bn contract signed in May 2014 with China National Petroleum (CNPC) to supply 38 billion cubic meters of gas annually for the next 30 years. Investments in the construction of new production and transmission facilities accounts for approximately $55bn of the total contract value.

The Power of Siberia gas pipeline was 93% completed and on track to start sending gas to China at the end of 2019

Furthermore, Russia and China are in talks about building another pipeline – Power of Siberia 2 or the Western Route – that would deliver another 30 billion cubic meters of natural gas. The Chinese leader Xi Jinping recently publicly called to finalize the deal without delay. There are even talks already about a third gas pipeline, while Russia is also increasing LNG supplies to China, as the natural gas producer Novatek delivered in July its first ever liquefied natural gas (LNG) cargo to China via the Northern Sea Route alongside the Arctic coast.

Further Industrial and Export Diversification with Cutting Edge Technology That Irks the West

Presently, hydrocarbons account for about 63% of Russia's exports. What's interesting is that while the export growth in 2018 has been driven by higher oil prices, the share of energy exports of total exports grew only by 2.7%. This means that all other exports have also grown by some 25%. While Russia only a decade ago was heavily dependent on food imports, it is now the world's biggest exporter of wheat, with exports of this crop up in August by 60% on the year.

The government has recently adopted an ambitious plan to raise the exports of manufactured goods and food to $250 billion by 2024. This would signify an increase of more than 80%, including 78% on machinery and more than 100% on food. Total machinery exports would then reach $60 billion, including exports of cars worth $7.5 billion ($4.3 bln, 2017); civil aviation – $4.4 billion ($0.5 bln, 2017); railway equipment – $1.2 billion. Food exports would go from $15 billion to $45 billion.

Russia's development of modern commercial aircraft and the impressive Aurus range of cars are examples of the kind of efforts the country is undertaking to produce manufactured goods which will be highly competitive on the global markets. These products also show that Russia has all the technological means needed of a modern 21st century economy. We will devote the next two chapters to present these new Russian industrial spearheads.

The new Irkut MC-21 will spearhead Russia’s growth of export of manufactured goods

Russia’s Burgeoning Aviation Industry

The Russian civilian aviation industry is undergoing a total overhaul with product developments which were launched a decade ago now coming to fruition. There are the passenger jets Sukhoi-Superjet and Irkut MC-21, and the refashioned heavy transportation plane Ilyushin Il-76MD-90A, and several other aircraft under development.

The Sukhoi Superjet is a civilian 100-seat regional jet launched into operation in 2011. A modified 70-seater business jet model is presently being developed to the tune of to the tune of 85 billion rubles (about $1.5 billion) state financing, which will also enable to substitute all remaining Western technology. This will also signify a replacement of the Sam146 engines produced by a Russian-French joint venture, with the new Russian developed PD-10 jet engine. The new version is due on the market by 2020. By 2017 the share of original Russian components had already been brought up to 75% and with the new engine and – what is most crucial – domestic avionics the air jet will be practically 100% composed of domestic Russian parts.

The Irkut MC-21 is a medium-range aircraft (160 to 200 seats), which will take up competition with Airbus A320 Neo and Boeing 737 Max 8. Although the MC-21 made its maiden test flight as recently as in May 2017, the manufacturer Irkut Corporation (a division of the state-owned United Aircraft Corporation) has already racked up an order portfolio of 315 of these jets. The first deliveries are planned in 2020 to Russia’s state-owned Aeroflot. The first batch of the jet were planned to be equipped with engines from the American Pratt & Whitney, but now what with the US sanctions assault on the Russian aviation industry (more about this below) it looks like they are speeding up the process of fitting the planes with the new domestic Russian produced engine PD-14 from the very beginning.

The Il-76MD-90A represents the second generation development of the Il-76 military transport plane. It performed its maiden flight in 2012 but just recently in November 2018 the first serially produced Il-76MD-90A made its debut flight. The plane is powered by the PS-90A-76 high-bypass commercial turbofan, a Russian made engine making the plane sanctions proof, to boot.

All these aircraft are developed and manufactured by branches of the state-owned United Aircraft Corporation, which really highlights the importance of Russia maintaining – and growing – its state sector to be able to compete in the global economy.

With the fortification of the Sino-Russian alliance and increasing high-technology cooperation between the countries, these aircraft will be joined by CRAIC CR929 a long-range 250-320-seat wide-body twinjet airliner. This plane is being jointly developed by China's Comac and Russia's United Aircraft Corporation. CRAIC CR929 is expected to crack the remaining stronghold of the Boeing and Airbus duopoly in the long-range flights. The joint venture partners are targeting a maiden flight by 2023-2024.

What really demonstrates Russia's impressive prowess in modern aviation technology is Putin's recent order to the state-owned United Aircraft Corporation to develop a supersonic passenger aircraft. Incidentally, the CEO Yuri Slyusar, replied that the corporation already has a project to do just that. This supersonic passenger plane would be a civilian remake of the newly upgraded Tupolev Tu-160 supersonic strategic bomber.

The strategic bomber which will be converted into a supersonic passenger plane

The Us Bald Eagle Wants to Keep the Skies for Itself

Earlier, the first deliveries of the MC-21 had been expected for 2018/19, but both this aircraft and the Sukhoi Superjet fell prey for this latest US trade war attack. The declamations about free market competition and lecturing about Russia's need to modernize its industry aside, the US global might has predictably been called upon just when Russia intends to heed that advice. When the US Government in September (2018) imposed export restrictions on supplies to 12 Russian aviation industry corporations the real reason was not that the restricted products could be of the alleged dual-use (used for both civilian and military purposes). The real target for these sanctions was the burgeoning civilian aviation industry, which the US Deep State wants to nip in the bud.

The American side is not entirely untruthful in claiming that the 12 sanctioned Russian aviation corporations are "acting contrary to the national security or foreign policy interests of the US." When the US national security goal is set as nothing less than the achievement of an absolute political and economic world hegemony, then it is certainly true that the modernization of Russia's industry and the emergence of a challenge to Boeing, the single largest US exporter, does represent a challenge to the US national security.

Obviously, the sanctioned companies manifestly have no relation to defense procurement and have no contracts with the military as they are exclusively supplying the civilian aviation industry, in particular the MC-21 and Sukhoi Superjet.

One of the sanctioned companies, Aviadvigatel, is the company which has just recently successfully launched the new completely Russian made PD-14 engine (100% domestic), which will replace the Pratt & Whitney engines in the MC-21. The company is also presently working on the development of the PD-35 engine intended for the Sino-Russian long-haul aircraft. If it is too late to prevent the Russians from having that engine, the US at least hopes to block it from reaching the rest of the world.

Another company on the US sanctions list is AeroComposite, which has developed a unique composite wing for the aircraft. The MC-21 will be the world's first large airplane (more than 130 seats) to have composite-based wings. The estimated share of composites in the overall design is 40%.

So, we see that with their innovative products, the Russian civilian aviation industry is encroaching on some of the last vestiges of what used to be Western technological superiority. The everything-but-free-market US regime won't take lying down this audacious monopoly busting therefore, they are resorting to these underhanded tactics. The Americans do not even care anymore about trying to hide their apparent abuse of the sanctions weapon for the sake of propping up their failing economic hegemony. As Stategic Culture reminds as soon as Aeroflot, Russia's flagship carrier, announced its plans to acquire in a $3 billion deal 100 of Russia's domestically produced Sukhoi Superjet SSJ-100 airliners instead of American Boeings, the US Treasury announced it would consider sanctions against the Sukhoi. Ostensibly, the reason was that the combat jets of the same manufacturer had supposedly been used in Syrian chemical attacks.

If the Sukhoi Superjet and MC-21 was bad enough for the US Deep State regime, the Sino-Russian CRAIC CR929 makes their nightmare complete. Boeing and Airbus could still somehow suffer out the loss of the Russian commercial aviation market but the loss of the Chinese market will be a total catastrophe for them.

That is why the US regime wants to take out these competitors at any cost. But as Andrei Martyanov writes, these US sanctions are destined to fail. It's too late, the plane departed already. Martyanov argues that with the soon to be taken into full use PD-14 engine, the Russian manufacturers have practically already managed to substitute all imported parts, except for the crucially important avionics. (The computer systems which control all mechanics and provide visual monitoring and representation of all on-board conditions; and also radar, collision avoidance, altimeters, navigation and other such systems). Russia had initially chosen to use the avionics supplied by the established global leaders, mainly Honeywell and some Israeli and French avionics companies. This choice was made to save time and also ease market penetration as potential customers across the globe would prefer to utilize aircraft with those familiar systems. But Martyanov ensures that Russia has all the technological know-how to come up within a few years with domestic analogues. After all Russia can always fall back on the enormous skills of its military aviation, which uses far more sophisticated systems than any commercial aircraft. We can therefore look forward to having fully sanctions-proof Russian domestically made modern aircraft within a couple of years.

Western experts like Esko Aho still think, it's the Russians who don't get it

We would think that we have sufficiently established the case that the US is waging a trade war against Russia with the aim to hinder its industrial development and prevent Russia from launching globally competitive products. Against this background it is then quite extraordinary that such supposed Russia experts as former Finnish PM Esko Aho accuses Russia of living in a bygone world wanting to do everything by its own. In a global economy things just don't work like that," he preaches. Aho tells that in the global economy you put together your products by sourcing components from all over the world, and don't just try to stubbornly make everything on your own.

These are thoughts from an interview that Aho gave in 2018, when the US led sanctions against Russia were already in full swing in the fifth year, so it is not like he didn't know there are such things that could possibly shatter his globalist illusions.

It is then all the more disturbing that Esko Aho, a person who either does not know that sanctions prevent Russia from sourcing components from all over the world, or does not want to admit it, sits on the board of Russia's biggest bank, the state-owned Sberbank. One would think that Russia would engage for such positions real experts and people who show understanding and sympathy for Russia, rather like they have done it in the case of former German PM Gerhard Schroder.

Further, this is what Esko Aho has to say about Russia: Russia still imagines itself as a great and mighty power. “This nostalgia is what causes its xenophobia, extreme nationalism, and anti-European sentiments.”

“Post-imperial nostalgia” is also what stirs up problems in other parts of the world according to Esko Aho, “for example by Xi Jingping’s China.”

The miscalculations stemming from Russian and Chinese post-imperial nostalgia is something that the whole world will have to pay for dearly, Aho concludes.

The Putin limousine and the Aurus line of cars

Another awesome example of Russia's new product developments is the Aurus line of cars. The car made its debut on 7 May this year when President Putin arrived in the brand new Aurus presidential limousine to his fourth presidential inauguration ceremony in the Kremlin.

The luxury Aurus Senate, Russia's answer to Rolls-Royce and Bentley

Putin's new limousine is a 6 ton, 23-foot-long armored Aurus Senate powered by a twin-turbocharged 4.4-liter V8 engine jointly developed by the Russian automotive research center NAMI and Porsche.

Later in the year, a civilian unarmored version of the Aurus Senate was unveiled at the Moscow Auto Show. This car will compete in the luxury category with Rolls-Royce, Bentley and the likes. The cars will be manufactured by a joint venture between NAMI and Sollers.

Apart from the Senate, the Aurus has also launched a minivan called Arsenal, which was tailor-made for the presidential motorcade, but will also be offered for sale to the public. Then there is a SUV Komendant, the first images of which were shown on the internet in September. Further there will be a cabriolet, due in 2020 and a motorcycle in the same family.

This extraordinary product launch of premium cars made from scratch was enabled by the new engine which has been developed with the help of Porsche and a common platform to be used by the entire Aurus lineup (the unified modular platform).

The Russian minister of industry and trade, Denis Manturov, predicts that the SUV Komendant will become a popular brand which will rack up significant sales volumes, whereas the Aurus Senate luxury car would only sell in the hundreds. Further, the minister announced that based on the same platform the manufacturer would launch a crossover aimed at the mass market. According to other sources the project would also turn out a sedan in the category of the most popular Mercedes and BWM brands. Possibly, these cars aimed for the mass market would be differentiated by another brand than the Aurus.

Most of the mentioned Aurus models have already become reality with the cars rolling on Moscow streets. It is quite an extraordinary feat, in fact, considering that the development of the presidential limo started only in 2013. The Aurus saga is by now already a tremendous testimony to the can-do spirit and modernity of Russia’s economy. There are few countries in the world, which have the technological and financial backbone to realize such an audacious project launch from scratch in just a few years as the Russians have done it.

If Russia will have the guts to go for the stars with this family of cars, they could go really far. Sales of hundreds of thousands of units could be possible in a decade. For comparison, in 2017 Mercedes (globally) manufactured 2.4 million cars, and Germany exported 4.4 million cars. With necessary government support for the set-up of distribution and maintenance networks, sales of these cars on the domestic market could reach a couple of hundred thousand units whereas exports could count 50 to 100 thousand. And after that anything is possible. For now, the Russian government is very shy to speak about any significant volumes, saying they could reach 5,000 cars sold by 2021.

Other important trends in the Russian economy

Among other important trends in the Russian economy we should mention the pension reform which will see the pension age for men go up to 65 years and women to 60. It has also been decided to increase the VAT (value added tax) from 18% to 20%. We will conclude below with a brief on Russia’s drive to rid its economy of an excessive dependence on the US dollar and Putin’s grand strategy on national development of the economy and conditions of life stretching from here to 2024, the end of his present term.

De-dollarization

There are indeed a few more game changing developments. One is Russia’s – better late than never – drive to rid the US dollar of its disproportionate influence over the Russian economy, and of the global economy, while they are at it. President Putin announced September 5 at the annual BRICS Summit in Xiamen that dethroning the US dollar was at the top of his economic and foreign policy agenda.

A good start has been the almost total liquidation this summer of US treasury bills from Russia’s forex reserves. Other steps include Russia’s very serious campaign to shift to using national currencies instead of the US dollar in bilateral trade with its global partners. Russia has been quite successful already in switching the Eurasian Economic Union and CIS countries to the ruble. The share of Russian ruble payments in cross-border trade within the Eurasian Economic Union increased from 56% to 75% by 2017, from six years ago. Over the same period the US dollar’s share went down from 35% to 19%. Now, preparations are underway to augment the use the ruble and the currency of the counterpart also in trade with China, Iran, Turkey, India, among others. In early November, Russian PM Medvedev announced that Russia and China are finalizing a mechanism which would completely cut out Uncle Sam to enable the full use of national currencies in bilateral trade. In 2017, nine percent of payments for Russia’s exports to China were made in rubles and conversely 15 percent of Chinese imports to Russia were paid in yuan. This was already a significant improvement from only three years ago, when the corresponding numbers were 2 and 9 percent. End of October, Russia made a groundbreaking sanctions busting move by agreeing with

India the supply of its S-400 air defense systems for Russian rubles instead of US dollars.

We would hope that Russia moves forward with many others de-dollarization moves. One which would be much appreciated is to stop quoting its macroeconomic statistics in USD. If the Russian ruble is considered too volatile for statistical purposes then Russia could use the yuan instead, or even render them in IMF special drawing rights (a currency basket), just not euros.

Putin’s Grand Strategy on National Development

Then there is Russia’s massive investments in upgrading its transportation and logistics infrastructure, its ports, railways and roads. The investment in the transportation arteries forms part of President Putin’s major drive to overhaul the Russian economy and social conditions, which he announced immediately after the inauguration to his fourth presidential term in May 2018. The program covers such fields as energy infrastructure, industrial development with a strong push on robotic process automation, development of small and medium sized business (the goal is to bring their share of the GDP up to 40% mid 2020s), export of manufactured goods, information technology, construction of housing, health care and other.

To meet these strategic goals the Government aims to bring about an increase in overall investments in the economy to levels 25-27% of GDP, from present levels of 22-23%. Most of the investments will obviously come from the private sector, but the Government will also increase public investments in these projects. The investments concretely connected with the present version of Putin’s strategy on national development by 2024 (the end of Putin’s present presidential term) are expected to amount to 25 trillion rubles, $400 billion, of which some 40% would be direct government financing.

As part of Putin’s program, the Russian Government adopted in October a plan containing 296 road and bridge construction projects to a cost of 6.3 trillion rubles, approximately $100 billion. One of the most high-profile projects is a 2,000 kilometer four-lane highway through Russia from its border with Kazakhstan at Orenburg region to Smolensk region at the Belorussian border. The highway will form part of an 8,445 kilometer long road all the way up from Shanghai. The Chinese and Kazakh stretches of the highway are already completed and in use, the Russian part is expected to be delivered by 2020. Logistically the road will continue up to Hamburg, Germany. The project management announced that by this highway the time of delivery of goods from China to Western Europe would take only 11 days, which compares favorably with the 80 days it takes by maritime transport.

Another much awaited road is the four-lane 729 kilometer highway from Moscow through Nizhny Novgorod to Kazan with expected completion by 2023. This road is in the future also planned to connect with the highway to Shanghai through Kazakhstan by way of extending the highway from Kazan to Orenburg.

The Government is also going forward with the high speed rail between Moscow and Kazan, a project which potentially also would be extended all the way to China in one route measuring a distance in excess of 7,000 kilometers. In addition to what was already mentioned there are massive investments in ports and logistics centers in the Arctic region to enable the development of the so-called Northern Sea Route and also in the Far East around Vladivostok, and other parts of Russia. Over the last 17 years (by 2018), Russia's port capacity has already tripled to over one billion, which exceeds the capacity of the total Soviet Union by more than two thirds. Russia will also connect the Northern Sea Route region with a new 686km railroad which will be drawn from the Urals and West Siberian regions up north to the Arctic waters.

The clear priorities of this by now adopted transport infrastructure investment program is to boost Russia’s foreign trade and transit capacities to transform Russia into one of the world’s key logistics and transport hub. This drive is very much linked to joining the Russian and Eurasian logistics infrastructure to China's game changing One Belt, One Road mega-project. The Russian Eurasian heartland will form a crucial part of linking China to the European markets through this modern day Silk Road.

Concluding Remarks – a War Economy

The message which we have wanted to convey with this report is that there is a lot of positive dynamics in the Russian economy even when the primary GDP growth figures would not seem to be anything spectacular. In some sense it is a war economy, or an economy preparing for war. Although a lot of investments go into weapons, by war economy, we did not mean the classic form of such – and especially not a Soviet style of war economy – were everything else is thrown aside just to keep churning out weapons and maintaining a huge standing army. More than that, we imply that Russia is building its infrastructure, industry, and society to withstand the economic and military siege that the US is imposing on it, and indeed to modernize so as to break the siege.

It is hard to tell to what degree in this connection the subdued consumption in favor of investments is achieved by conscious government and central bank policies of austerity (including seemingly punitively high interest rates) so as to direct scarce resources into capital investments.

We think that Russia is on the right track and its economic policy by and large is well conceived. If anything, we would fault the Russian government for excessive cautiousness with financing the country’s infra structure and economic development. With such a healthy national balance sheet Russia would well afford taking some debt to speed up its modernization and the response to the American sanctions. Time is money.

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- Signs That The US Debt-Fueled Economy Might Actually Collapse (2018). Read more here.
- Awara Study on Real GDP Growth Net-of-Debt (2014). Read more here.
- The Case Against Thomas Piketty. Lies, Damned Lies, and Statistics. The True Level of Income and Wealth Inequality in Russia. (2018) Read more here.