

## THE WAR IN UKRAINE AND ECONOMIC "SANCTIONS"

### Reminder from Engels

After the analysis developed up to this point and before proceeding further, it seems to us important to recall, in line with what we said in "The Internationalist Proletarian" No. 7 (page 11), the following consideration of Engels: "*In an attempt to judge events and series of events taken from current history, one will never be able to go back to the very last economic causes. Even in these days, when the professional press furnishes material so copiously, it will be impossible even in England to trace the course of industry and commerce in the world's market, or to follow the changes in production methods day after day in such manner as to be able to draw at any given moment a general conclusion from these highly complicated and ever changing factors, factors of which **the most important often work for a long time under cover before they suddenly and forcibly come to the surface.** A clear survey of the economic history of a given period can never be gained at the time; it is possible only later, after the subsequent collection and assortment of the material. Here statistics are an indispensable aid, but they always limp behind the event.*" (Introduction to The Class Struggles in France, F. Engels, 1895) and the no less important consideration that follows a few lines below: "*But all the conditions of a comprehensive presentation of the history of the day inevitably include sources of error, **which deters no one from writing current history.***" (ibidem). In what follows we must therefore distinguish between immediate events, susceptible to varied turns in the short term, and the general tendencies which we can observe over prolonged periods of time and which form the general framework of Marxist analysis.

### Strength and cunning

As we have seen in the preceding articles, the capitalist world was advancing in 2021 at full speed towards the outbreak of the crash and the distribution of losses, the paralysis or destruction of capital is decided by **strength** and **cunning**:

*"A portion of the old capital has to lie unused under all circumstances; it has to give up its characteristic quality as capital, so far as acting as such and producing value is concerned. **The competitive struggle would decide what part of it would be particularly affected.** (...) **The class, as such, must inevitably lose. How much the individual capitalist must bear of the loss, i.e., to what extent he must share in it at all, is decided by **STRENGTH** and **CUNNING**, and competition then becomes a fight among hostile brothers. (...) the loss is distributed in very different proportions and forms, depending on special advantages or previously captured positions, so that one capital is left unused, another is **DESTROYED**, and a third suffers but a relative loss, or is just temporarily depreciated, etc.***

*But **the equilibrium would be restored under all circumstances through the withdrawal or even the **DESTRUCTION** of more or less capital.***" (Capital, Book III, Chapter XV, K. Marx).

From the point of view of **strength**, the US withdrawal from Afghanistan was the clear thermometer of a turning point in the balance of power. Following the **plan initiated in 2008** – which then proved unsuccessful in preventing the outbreak of the crisis – **the US has been building up a fortified powder keg in Ukraine**, carrying out a series of summits and declarations of Western imperialism in the sense of reoccupying

Crimea and part of the Donbas. This **has pushed Russian imperialism to attack first**, facing the risk of seeing Ukraine reoccupy these territories. Two other factors have finally pushed Russia: the perspective of its **future weakening linked to the reduced use of fossil fuels** and the **emboldening produced by the US withdrawal** and its quick victory in Kazakhstan.

U.S. imperialism has displayed a certain **cunning** by combining the arming to the teeth of Ukraine with the announcement of rather shy and superficial sanctions in order to incite Russia to commit itself into a position from which it could not easily back up. Then the battery of more far-reaching sanctions began.

The main elements of the US plan are: 1) to take advantage of their remaining positions of preponderance of the dollar (and the euro) in trade exchanges and as a reserve currency, 2) to unload as much as possible the consequences of the crack on Russian capitalism, 3) to gain market share and consolidate itself as a gas and oil exporting country, 4) to push forward a front against China and Russia, and 5) to make war break out in Europe in order to offload part of the losses on its ally-competitor, to weaken it and force it to enter the front against China-Russia and, ultimately, for military destruction to take place in Europe in order to repeat its role in the first and second world wars.

### Attempting to economically isolate Russia

The US needed an excuse and the excuse is Russia's military attack on Ukraine. This is why the attempt of US imperialism goes beyond getting Russia to withdraw from Ukraine. In fact, the U.S. is not even interested in Russia's withdrawal, but would be much better served by a long war in Ukraine.

To deploy this plan, a whole series of sanctions have been put in place: 1) the massive exit of companies from Russia, 2) the freezing of assets of companies and banks, 3) the ban on buying and selling with Russian state-owned companies, 4) the closure of airspace to Russian airlines, 5) the expulsion of some Russian banks from the SWIFT payment system, 6) the suspension of listing of Russian companies on Western stock exchanges, 7) the veto of Russian companies at the Mobile World Congress, 8) the ban on buying Russian gas and oil in the USA, 9) the refusal of US banks to pay coupons on Russian debt, etc.

Here is a small illustration of this. PwC, KPMG, EY and Deloitte and Accenture "*oil companies BP, Shell and Equinor, technology companies such as Samsung and Apple, payment companies such as American Express, Visa and Mastercard, vehicle manufacturers Volkswagen, Ford, HarleyDavidson, General Motors, Volvo and Daimler and sportswear and accessories firms Nike and Adidas*" have announced their departure.

*"MSC and Maersk, the world's two largest container shipping companies, have joined the boycott and suspended service with Russia"* (Expansión, 02-03-2022).

*"The London Stock Exchange yesterday announced the suspension of listing of 27 Russian companies or with ownership links to the country in response to the invasion of Ukraine."* (Expansión, 04-03-2022) and *"The Moscow Stock Exchange has been suspended by the World Federation of Exchanges, the main international association that brings together the largest stock markets on the planet."* (Expansión, 05-03-2022).

"The Mobile World Congress did not hesitate yesterday to veto the presence of Russia. In total, 20 Russian companies were expected to arrive (...) SoftMediaLab, IPTV, Sigma Messaging or Trueconf. Also on the list of exhibitors were the cybersecurity firm Kaspersky and the operator Russian Satellite Communication Company." (Expansión, 26-02-2022), although in reality what was truly evident at the MWC is the predominance of Chinese companies.

The initial impact of these sanctions has been hard on the Russian economy, with large drops in stock prices and the temporary closure of the stock exchange.

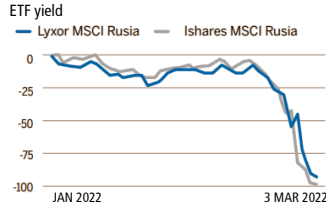
### COLLAPSE OF RUSSIAN STOCKS

Listed in foreign markets through ADRs  
Drop in percentage

Sberbank	-74
Novolipetsk Steel	-70,45
Novatek	-69,24
Severstal	-67,81
Lukoil	-62,84
Gazprom	-52,51
Norilsk Nickel	-42,71

Source: Bloomberg

### MARKET CRASH



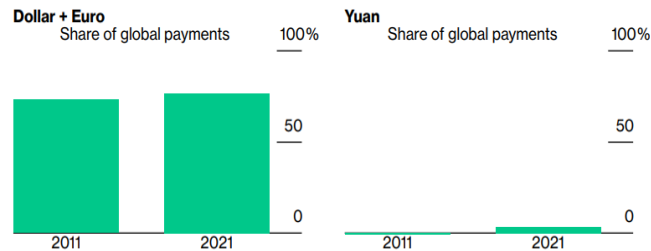
Source: Expansión

### The positions from which the U.S. is shooting

Through the dollar, the U.S. maintains part of its financial positions corresponding to the previous distribution of the world. These positions are somewhat stronger if we add those of its ally-rival, the EU's euro.

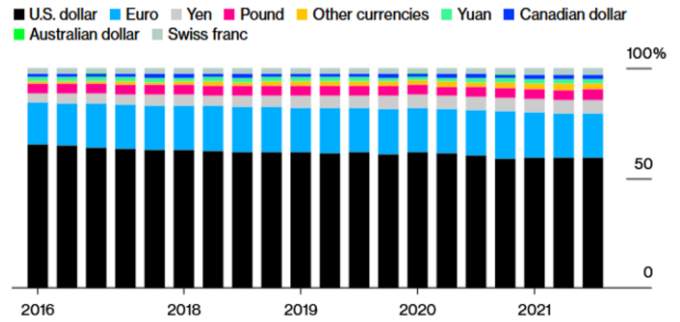
The predominance of the dollar in world exchange and as reserve currency was imposed as a result of World War II, but in the subsequent course it has even been convenient for the rest of the imperialisms that have been developing, gaining ground over the US in world production. A somewhat inconvenient convenience if you will, but which did not prevent them from gaining positions by keeping their currencies devalued and favoring the export of their goods.

When contrasting the following graphs, it should be noted that they do not correspond to a solid and consolidated situation but to a situation that is languishing. They are the portrait of a situation of financial predominance that lacks the material bases in production to sustain itself. They are a picture of the present that reflects more a past situation than the situation that is brewing and has been brewing inside.



This current disproportion gives a position of strength or, at least a foothold, to Western imperialism and the predominance of the SWIFT system is not negligible either. It "was created in 1973, when it was established in Brussels with more than 200 entities. At present it has more than 9,000 members worldwide and is used by 11,000 banks in 200 countries or territories." (Expansión, 28-02-2022). The SWIFT system is – today – much larger than the Russian alternative SPFS or Chinese CIPS: "the SPFS, where there are only 20 foreign banks. This contrasts with the more than 1,200 entities from 100 countries, including large global banks, active in Cips." (Expansión, 01-03-2022).

### Share of global foreign-exchange reserves

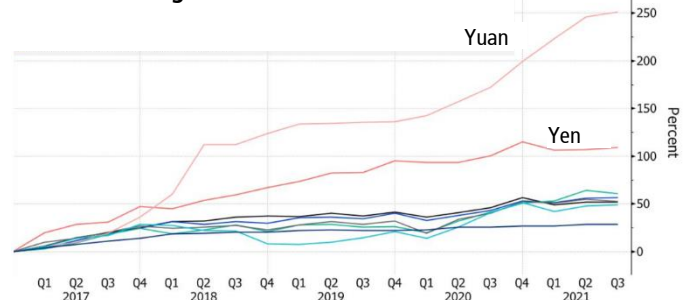


Sources: FMI, Bloomberg, 20-03-2022

If we do not only look at the comparison at a given moment, we can clearly observe a tendency towards a decrease in the percentage of dollar reserves, although they still represent more than half of the total. In "The Internationalist Proletarian" No. 7 (p.5) we can see how quickly the dollar displaced the pound sterling in its role as reserve currency. Therefore, it is not so important the starting point as the rate of erosion of the initial position of predominance, a rate which can be dramatically accelerated after the current move of Western imperialism.

In the following graph we see another trend, not very noticeable in the previous graph: a much higher growth rate of the yuan as a currency of reserve than the rest of the currencies.

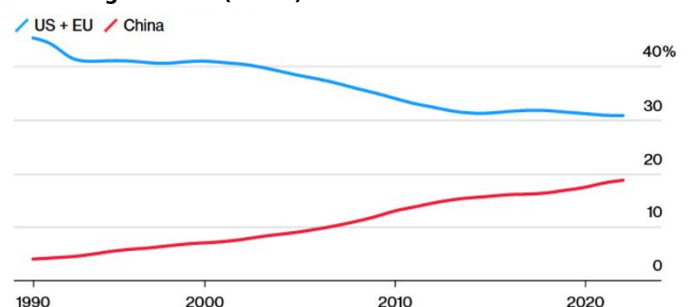
### Reserve % change



Sources: FMI, Bloomberg, 20-03-2022

This analysis cannot be separated from what we have exposed in this magazine in the article "Rales and spasms of the capitalist mercantile circulation" nor from the data provided in "The Internationalist Proletarian" No. 8 (page 6) regarding the displacement of the USA by China in the participation among the 500 companies with the highest turnover at world level or in the fact that the first 4 banks by assets (Tier 1) at world level are Chinese, etc. In the following graph, the GDPs (at purchasing power parity) of the US and the EU are added together so that they are not dwarfed by the rise of China, but the concept is equally well illustrated: even adding the US and the EU, their trend is downward while China's share of world GDP is clearly upward.

### Share of global GDP (at PPP)



Sources: FMI, Bloomberg, 03-03-2022

### **Sanctions also hit Western banks and companies**

In this financial-commercial war, the attack against Russian capitalism also reaches Western companies themselves. This "friendly fire" has trapped part of the Western speculators in Russia:

*"At the end of 2021, foreign investors held \$20 billion of Russian debt, and ruble-denominated sovereign bonds worth \$41 billion, according to data from the Russian Central Bank. Investments in Russian equities amounted to \$86 billion, according to data from the Moscow Stock Exchange."* (Expansión, 02-03-2022).

*"Foreign banks are gambling \$121.5 billion (about 109.5 billion euros) in Russia."* (Expansión, 02-03-2022), although it can be seen that those with the greatest exposure are European banks (UniCredit, Raiffeisen, Société Générale) and not American: the 25 billion from Italy or France plus 17.5 billion from Austria and 8 billion from Germany add up to 75.5 billion from European banks against 14.6 billion from the US or 9.5 billion from Japan.

### **The reaction of Russian imperialism**

On the economic front, the Russian Central Bank has rapidly raised interest rates, *"banned foreign institutions on Monday from selling local securities on the Moscow Stock Exchange, and suspended trading in shares and derivatives."* (Expansión, 02-03-2022) and began demanding to buy its gas in rubles and to pay coupons in rubles.

On the military level, Russia has activated its atomic weapons system. Petty-bourgeois philistinism feeds on the illusion that against economic sanctions the other contender will be able to respond only with other sanctions. But sanctions are an act of war and, if they were really effective in strangling Russia, the latter would respond as if a missile had been launched at it.

We cannot cultivate any illusion that the military conflict will remain confined to Ukraine while in the rest of the world it is being settled with "civilized" economic sanctions: **the commercial war and the military war are two moments of the same conflict** for the conquest of markets and the sharing out of the world. The volcano of production is in Asia and **capitalism needs to extend the destruction of productive forces to the Asian continent.**

### **Chinese and Indian imperialisms' reaction**

Both China and India have refused to condemn Russia's military action.

Although some Chinese companies and banks claim to comply with the sanctions imposed by the US, the official position of the Chinese government does not recognize them. The economic ties between China and Russia are known: *"Russia is by far Beijing's biggest recipient of loans from official sector institutions, totalling as much as \$151bn between 2000 and 2017. (...) this month, Russia's Gazprom and China's CNPC signed a 25-year deal on a new gas supply route, the Power of Siberia pipeline, which launched in 2019 and is expected to reach full capacity in 2025. Rosneft, Russia's top crude producer and its top oil exporter to China, accounting for 7 per cent of the country's total annual demand, this month agreed with CNPC to supply 100mn tonnes of oil to China through Kazakhstan over 10 years. Russia and China are also working on a third gas pipeline project via Mongolia. (...) Last week, Gazprom Neft announced it was switching all settlement for fuelling Russian planes in China to renminbi, the first Russian company to do so. (...) During the first nine months of 2021,*

*Russia and China conducted 8.7 per cent of their trade in roubles and 7.1 per cent in other currencies, according to the Russian central bank data. Dollars and euros accounted for 36.6 per cent and 47.6 per cent of Russia-China trade, respectively."* (Financial Times, 24-02-2022).

China has blocked Russia's expulsion from the G-20 proposed by the US and will provide alternatives to Russian companies in addition to having the opportunity to occupy the market abandoned by Western companies: *"Russian banks Sberbank, Alfa Bank and Tinkoff announced yesterday that they will turn to the Chinese operator UnionPay as an alternative to avoid isolation"*. (Expansión, 07-03-2022).

*"China's top envoy to Russia similarly urged Chinese executives in Moscow to "fill the vacuum" created by the war, without mentioning sanctions."* (Bloomberg, 25-03-2022).

India, for its part, is highly dependent on weapon purchases from Russia. But it is not only this aspect that determines its actions. Its confrontation with China on the Himalayan border is one of the points at which the US could try to trigger the conflict in Asia, approaching the focus of the overproduction that it cannot contain. Not by chance, the first reaction of China and India has been to resume their talks to defuse the tension on their borders.

In this area, the US is far from having succeeded in isolating Russia: *"Lavrov is set to participate in a meeting of foreign ministers of countries bordering Afghanistan, (...). He is also set to visit India on Thursday to discuss the sale of Russian crude to the country and the possibility of a rupee-ruble denominated payment method that could work outside the SWIFT messaging system"*. (Bloomberg, 29-03-2022).

### **The role of European imperialism**

European imperialism has been trying to avoid this situation, swimming between two waters, but its weakness on the military and cybernetic level, the drilling of its backyard by China with the low prices of its goods and its investment in infrastructures, as well as the irruption of the Russian bully at the edge of its borders, drastically diminish its room for maneuver.

Just as a sector within the USA would be rather inclined to attempt an alliance with Russia, so also within the European bourgeoisies there are sectors that are watching how their sacrifice is being prepared in case the conflict spreads from Ukraine to other neighboring states. In this regard, let us recall the statements of the German admiral in favor of an alliance with Russia, for which he was forced to resign.

The situation has pushed the European bourgeoisie into the arms of the USA and to strengthen its role in NATO. Germany, as well as the rest of the EU countries, will increase military spending and has sent arms to Ukraine (and not only helmets, as in January). This, however, has not developed linearly and without contradictions: recall that Hungary banned the passage of weapons through its territory, Poland has refused to provide its MIGs to Ukraine, fearing Russian retaliation, and France detained Ukrainian soldiers of its foreign legion trying to reach Ukraine.

### **Oil and gas**

The EU's dependence on Russian gas and oil is not something that can disappear in an instant: *"The EC estimates that it will take 5 years to stop depending on Russian gas"* (Expansión, 11-03-2022). The US has pompously announced itself as an alternative, but can US LNG soon replace Russian gas?

"Russia currently exports 155 billion cubic meters of gas annually to the EU. Although the basis for the promised 15 billion is unclear, the US shipped some 22 billion cubic meters of gas to Europe in 2021 and has already delivered 10 billion in the first quarter of this year, according to Refinitiv." (Expansión, 30-03-2022).

The US has vetoed gas and crude imports from Russia, which has forced it to reconsider its relations with Venezuela and to try to accelerate the nuclear agreement with Iran, which would allow lifting the embargo and adding 1.3 million barrels of oil per day in the short term. This US need to lift sanctions puts Iran in a position of strength and demands the removal of the Islamic Revolutionary Guard Corps – with which Iran intervenes in the world – from the list of terrorist organizations.

Saudi Arabia and the UAE have opposed expelling Russia from OPEC+, arguing that "there is a separation between politics and energy..." and also to increasing the supply rate, limiting it to the already planned 400,000 barrels per day.

The US lives in the permanent internal conflict of seeking a high oil price as an exporting country and the collapses in its industry that this price increase produces. At the same time, it is shaking the world by raising the price of oil, it has announced that "US oil production will increase by 180 million barrels from its strategic reserves (...) one million more barrels per day during the next six months (...) it represents 25% of the oil stored in the energy reserve (...) it currently represents around 5% of the country's demand" (Expansión, 01-04-2022). Meanwhile, Russian oil is being sold in Asia at important discounts: "Russia's Urals crude is being snapped up by Indian oil refiners after collapsing to a steep discount" (Bloomberg, 21-03-2022) which is quantified at "discounts of \$30 and \$25 per barrel" (CNBC, 28-03-2022). "The truth is that Russian oil has continued to be sold, albeit through China and at a discount of more than \$20 per barrel to the Brent price. In other words, there has been a shift in the oil trade in which part of the crude that used to go to Europe now goes to Asia, at a discount, and part of the Middle East oil that used to go to Asia now circulates to Europe, but the global market is equally supplied." (Expansión, 16-03-2022).

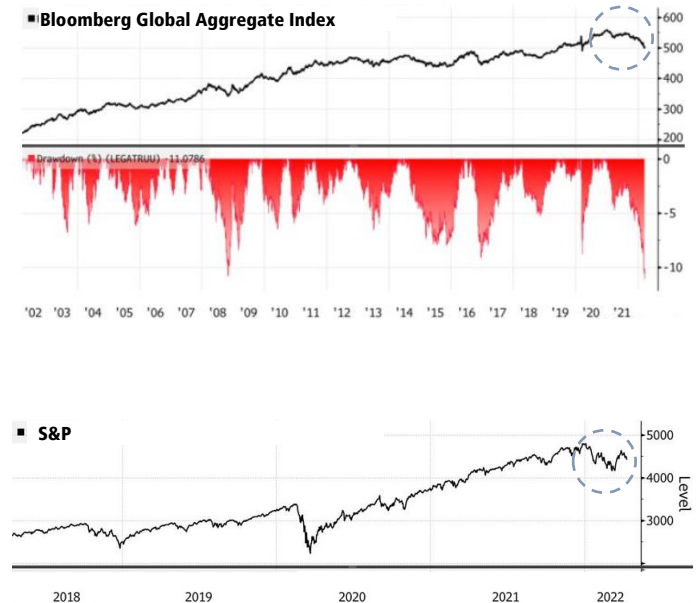
### Mid-long term consequences

Regardless of the plans of each opponent and their immediate results, the medium-long term consequences that will end up imposing themselves according to the economic and material facts that we have been showing in this issue are: 1) an increase in Russia's economic and political dependence on China, 2) the opening of the Russian market to Chinese companies, as European and American companies withdraw from it, 3) the dollar – and the euro – will be weakened as a reserve (hoarding) and exchange currency, 4) the yuan – and other currencies such as the ruble itself and the rupee – as well as the Chinese financing and exchange mechanisms will be strengthened.

Finally, it remains to be seen whether the sanctions will actually be effective or to what extent they will be effective because China and India (and Western companies themselves) may try to continue doing business with Russia officially or through cover.

### Fixed income and stock market bubble bursts

At the immediate level, US imperialism has not been able to avoid the burst of the bond market and the stock market: "The Bloomberg Global Aggregate Index, (...) has fallen 11% from a high in January 2021. (...) It equates to a drop in the index market value of about \$2.6 trillion, worse than about \$2 trillion in 2008." (Bloomberg, 23-03-2022).



For its part, "The Nasdaq 100 index has lost more than \$1 trillion in market value in the past four sessions." (Bloomberg, 11-04-2022).

### The protectionism of those who are losing the trade war

If before we have seen the Treasury Secretary advocating protectionism, let us now listen respectfully to the president of the ECB: "de-globalization caused as a reaction to the Russian invasion to guarantee supply chains, as well as the transition to an economy less dependent on external agents and green could "break the inflation regime" " (Expansión, 27-03-2022) and to the president of Black Rock: "The Russian invasion of Ukraine has put an end to the globalization we have experienced over the past three decades." (Financial Times, 24-03-2022).

In these statements we read the impulse, the need and the desire to build a wall, to escape from the world market that is coming down on them like an avalanche, to escape from the overproduction that sinks their profit rate and from the interest rate. But this is not determined by the desires of this or that character: "The cheap prices of commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate." (Manifesto of the Communist Party, 1848).

What they can do and are doing is trying: trying to raise this wall through wars and blockades, trying to unload on the rest of the competitors the destruction of capital, trying to defend themselves from the trenches they still have from the previous division of the world and, ultimately, trying to **DIE KILLING** forcing the new division of the world to be decided through the third world war.