

## Weekly Commentary 41 – October 2023

*Empire ends when its bonds find no buyers.*

For those not in the financial industry, you may not fully appreciate the rise of US Treasury 10 year bond yields to 4.8 percent last week, almost a one way climb without much of a breather since the onset of Covid 19 in April 2020. It's a crash of epic proportions.

There has been a 3.5 year bear market in which anyone who depended on investments in bonds for returns, got bloodied. And who wouldn't have owned bonds during this period? The wisdom in the investment industry is an allocation of assets according to the so-called 60-40 rule, in which 60 percent of assets would be invested in equities and 40 percent would go to bonds. That rule of thumb has been considered an optimal posture in investments, and that has produced some of the best risk-adjusted returns in the market. No longer.

Conventional wisdom regards bonds to be "safer" than stocks, and if an investor or fund takes on equity risk, it made sense to balance that exposure with a safe or much "less risky" play, ie bonds. Depending on each investor's appetite or ability to take risk, investment portfolios would steer prudently around this benchmark. Those who are not comfortable with risky gyrations in equities would increase their bond allocation, ie invest more than 40 percent in bonds. And hope to get a better night's sleep.

But more recently, that allocation has been underperforming. Portfolios that held 60 percent in stocks and 40 in bonds have lost money. Serious money. Those who followed this standard have seen their annualised returns sink nearly 35% this year alone. It is the worst performance in a century. And it is not over.

Here are the charts on two listed bond portfolios, one consisting entirely of US government bonds, considered risk free (credit risk only) named TLT. It is down 50% from its highs.



And here is a PIMCO-managed ETF (as I have highlighted in previous reports, PIMCO has been circumspect on bonds, and they might have lost less, given that they are among the best in the business of bond investments :



These bond funds have crashed. The turmoil is far from over. The yields of bonds have just reached new highs (ie bond portfolio values have plummeted) just this last week. There are the following problems that will emerge:

- 1) When does the rout end? My answer...it's got a long way to go.
- 2) Even if we imagine we have seen the worse in yields (I am certainly not saying that), the fallout of the losses has not been publicised yet, since the accounting of portfolio values will have to catch up on market movements, and then declared to investors. There will be blood seen everywhere, when losses are finally computed and released.

Here is a Financial Times article on why the bond market collapse is going to continue for some time:

## **Huge US government borrowing adds to bond market pain**

*Big increase in issuance and stagnant demand has exacerbated drop in Treasury bond prices, say analysts*

A step-up in borrowing by the US government has deepened a decline in bond markets that has sent yields to their highest point since 2007, analysts and investors say.

Much of the recent bond rout reflects a shift in expectations about the future path of interest rates and economic expansion. Friday's data showing strong US jobs growth heaped further pressure on bond prices, as it added to the anxiety that interest rates will need to stick at high levels to defeat inflation.

But investors and analysts say a recent deluge of new debt hitting the market has also pushed yields higher, particularly on longer-dated bonds that have been hit hardest. Demand from big Treasury buyers such as foreign investors, foreign central banks and US banks has meanwhile remained stagnant.

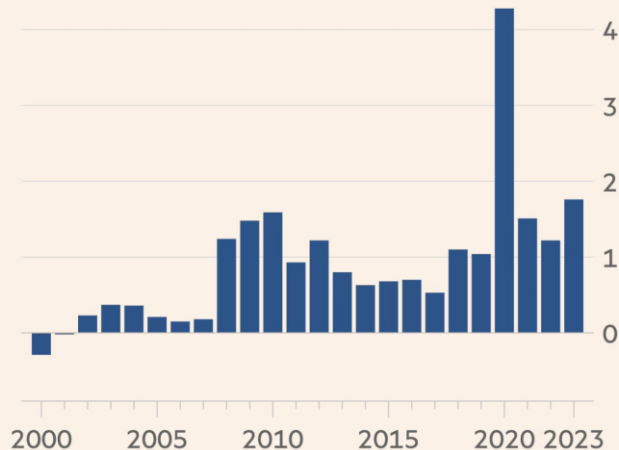
Changes in the supply of Treasuries have not historically been major drivers of bonds. Yields sank to historic lows despite vast fiscal spending programmes in the coronavirus pandemic, for instance. However, the current surge is happening as the biggest buyer of Treasury bonds — the US Federal Reserve — continues to step back from the market.

“We’ve seen this extraordinary level of issuance and little sign that there will be any fiscal reining in as we look ahead,” said Andrew McCaffery, chief investment officer at Fidelity International. “The markets have been saying that the US cost for borrowing needs to be higher.”

To bridge widening budget deficits and make up for lower tax revenue, the US government has ramped up its borrowing this year, with about \$1tn of bonds expected to be issued in the three months to October. Trade body Sifma notes that net issuance has so far this year hit \$1.8tn, which is already the second-highest tally on record behind the early stages of the pandemic in 2020, when the Fed hoovered up lots of the extra bonds under its asset purchase programme.

## Net Treasury issuance in 2023 is the second highest on record

Net cash raised (\$tn)



2023 figure is year-to-date

Source: Sifma

© FT

Issuance is expected to continue to rise. Torsten Slok, chief economist at Apollo Global Management, says he expects Treasury auction sizes to increase on average by 23 per cent in 2024.

The scale of borrowing has not come as a surprise to bond investors; the Treasury department released its latest plans in August. But analysts say the market has only gradually adjusted to the relentless issuance.

“The market knows and understands what the supply numbers look like from the Treasury,” said Meghan Swiber, a US rates strategist at Bank of America. “We have a good sense of what those deficits will be. But the actual flow impact of that supply did not hit us immediately. **And a lot of the impact is still ahead of us.**”

The supply of Treasuries had already increased sharply since the global financial crisis, as the US boosted issuance to pay for then-president Trump’s tax cuts, and following that during the pandemic. The Treasury market is roughly \$25tn in size today, five times what it was at the beginning of 2008. But now, sharply higher borrowing costs will also add to the government’s expenses.

In the face of the increase in supply, foreign investors and foreign central banks — a cornerstone of demand in the Treasury market — have kept their purchases relatively steady over the past year, according to Exante Data.

Demand from Japan and China, the biggest foreign holders of Treasuries, has been relatively stable this calendar year, although it has dropped as a percentage of the total Treasury market, according to Brad Setser, a senior fellow at the Council on Foreign Relations.

The same trend is true for US banks, historically among the biggest buyers of Treasury bonds. Banks' holdings of Treasuries and agency mortgage-backed securities dipped to around \$4tn in late September from an all-time high of \$4.7tn in February 2022, according to data from the Fed. Less demand from banks is mostly attributable to changes in regulation after the global financial crisis that made it more expensive for banks to hold bonds. More recently, banks have also shied away from the market after losses on debt holdings contributed to the demise of Silicon Valley Bank in March.

“More than anything, banks have not been coming to the scene to buy these Treasuries,” said Fahd Malik, a fixed income portfolio manager at AllianceBernstein. “There’s no marginal buyer, so that increases these moves. This economic data shouldn’t be moving the market as much as it has been.”

Analysts said fiscal concerns have also helped to push up borrowing costs in parts of Europe. The UK was given a warning shot last year when former chancellor Kwasi Kwarteng announced a £45bn package of unfunded tax cuts, sparking turmoil in the bond market and leading to intervention by the Bank of England.

More recently, Italian yields climbed last month after Rome raised its budget deficit target for this year and next. Ten-year borrowing costs touched 5 per cent this week for the first time since 2013, before pulling back to 4.9 per cent. “Where Italy’s trading, we are easily at levels where you would question if its debt is sustainable,” said Tomasz Wieladek, chief European economist at T Rowe Price.

Allow me to put the key points in the above article in simple English and then extend the analysis:

- 1) The Americans have a profligate government. They don't know how to stop borrowing. There is no money at the operating level and there is no money in reserves. Spending beyond their means is never considered unsustainable, but instead regarded as a privilege that derives from being the global hegemon armed with a massive military. That privilege and the cost of maintaining it with military might is now taking down the US government.
- 2) They have been intoxicated by the ability to use the Dollar's reserve currency status to borrow what was essentially free money, especially from trade surplus countries who had invested those surpluses in US assets. All these central banks are having second thoughts now since the US weaponised Russia's own national reserves against it. Every central bank is now trying to de-dollarise, ie move away from complete faith in the US government's willingness to repay on dollar debt loaned to it.

- 3) The dismal failure of US fiscal and monetary policies under the Biden Administration is simply astounding. First, to make themselves look better than Trump's team with regard to covid policies, they threw money at the problem in 2021, without regard to how it will end. They therefore expanded government expenditures paid for by debt in the trillions, with Biden foolishly following some stupid theory called Modern Monetary Theory, which purported he could pursue humongous federal deficit financing, Keynesian style, without inflationary consequences. Imagine that lunacy! Without thinking through those policies, especially in terms of the inflation that must follow, he actually went ahead and did it. Well, as the world now knows, profligate financial policies can only end one way – defacto bankruptcy and pernicious inflation. And that is happening now, with lenders to the US government taking cover or running for the hills.
- 4) The current state of government financing has resulted in an inverted yield curve. This is because for the past two years, the Treasury has concentrated their borrowing in the short end of the curve. Supply has been humongous in this sector and it drives up yields more than in the longer maturities. This inverted yield curve then makes it even more difficult for banks to buy long term bonds because they will end up like Silicon Valley Bank, which did just that – buy long dated bonds and funding them with short term deposits plagued by rising rates. With that large base of natural buyers of US bonds being reluctant to take on more interest rate risk, the buyers for bonds are shrinking away or demanding higher yields.
- 5) The fact that bond yields are rising makes it necessary for the Treasury to increase debt service payments. That in turn further increases the need to issue more bonds just to pay interest, further driving up yields and prolonging the cycle. It has become a vicious cycle.
- 6) The entire US government is dysfunctional at various levels. The State Department as well as the Defence Department make commitments that the Treasury Department cannot find the money to pay for – Ukraine is the classic example and they actually want to extend that to Taiwan. Very soon, there will be bills coming in from Israel, now engaged in a new war. The extremists in the House of Representatives may seem like crazy MAGA types, but if one takes a more objective view, their action to stop the Speaker from committing to huge expenditures that the country cannot afford is in fact the rational position. At least half the country agrees with that, and the profligate government of the other half will soon have to deal with culling the federal budget.

The bond market crash hasn't ended. It's that simple. And the more it goes down, the cost of government finance will spiral into a vicious cycle, and basically poses the risk of American federal finance going completely out of control.

Some analysts say that 40 years ago, the Fed was able to pull the country back from the brink. Paul Volcker, the then Fed Chairman, did that by inflicting a lot of pain to the economy (it went into a serious recession). But he didn't start with \$33 trillion in debt. It was not even \$1 trillion back then... A repeat of Volcker's feat is unlikely.

Is there a balm, if a cure does not exist? Not that I can see, if the likes of Rand Paul, Marjorie Taylor Greene and Matt Gaetz are considered radicals in an environment in which spending money to pursue the liberal agenda of the ruling party is the norm. Mainstream opinion is captured in the headline of an opinion piece in the FT, which captures the mood of the Democrats and the liberal collective west:

### **The ungovernable Republicans: "Their goal is chaos"**

Edward Luce in Washington OCTOBER 7 2023

A vacancy opened up on Tuesday for the world's most thankless job: Republican Speaker of the US House of Representatives.

Whoever takes the role of the presiding officer of America's lower house should brace for accusations of betrayal by fellow Republicans and schadenfreude from opposition Democrats.

Assuming they can stomach that, the new Speaker will start with as poor odds as the outgoing one, Kevin McCarthy, whose 269-day stint was the shortest since 1876 when the Speaker died of natural causes. McCarthy, by contrast, was brought down by fellow Republicans. His betrayal was to have struck a deal with Democrats to keep the US government open for a while longer. The vote for McCarthy's successor will take place on Wednesday.

Like France's Jacobins, America's conservative revolution keeps devouring its children. The exception is Donald Trump. While McCarthy was being defenestrated in Washington, Trump was in New York facing fraud charges in a civil suit that, if he is found guilty, will almost certainly result in a huge fine and a ban on doing business in his hometown.

Rather than curry favour with the court, Trump accused the judge of being a corrupt tool of the deep state. He has continued to rail against proceedings on social media, even after the judge slapped a gag order on him. This is in spite of the fact that Trump is also embroiled in four criminal cases around the country.

While Trump was attacking America's judiciary, his acolytes in Washington were making its legislature ungovernable. That covers two out of three branches of the US government; Trump is hoping to regain control of the remaining one next year.

The question is how much further this populist revolution has to run. Observers have been saying for years that the Republican "fever" is about to break, a forecast made about the Tea Party Republicans by then President Barack Obama in 2012. Obama's hope proved forlorn. Three years later, Trump descended his tower's golden escalator to begin his journey to the White House.

After innumerable near misses during his volatile presidency, some predicted the fever would break after the storming of the US Capitol on January 6 2021. That forecast, too, was premature.

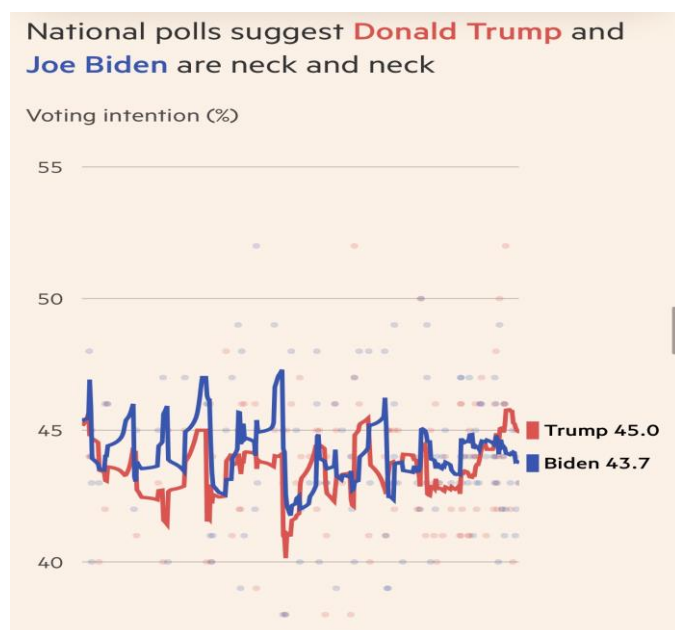
Those who now say that only Trump's imprisonment could return the Republican party to regular order might be guilty of equally wishful thinking. Trump's 2024 re-election strategy is built around being a victim of America's legal system. Barely a day passes when he does not accuse one judge or another, or the judiciary as a whole, of being partisan, corrupt or racist, in the case of attorney-general Letitia James of New York, who is black.

"Any other defendant would be in the slammer by now," says Norm Ornstein, a Washington-based scholar of American conservatism. "Whether Trump physically wants to be in jail, I don't know. But his whole campaign is about being the martyr of a corrupt legal system."

### **Kicking down the barn**

The risk of political martyrdom that goes with leadership of the Republican caucus needs no emphasis. When Tea Party Republicans swept the 2010 midterm elections, they were led by the "Young Guns" trio of Eric Cantor, Paul Ryan and McCarthy. Cantor was ousted from Congress in 2014 in a primary challenge by a new breed of grassroots populist. Paul Ryan resigned the speakership in 2018 after arch-conservative rebels had made his job impossible. McCarthy fell to a similar fate on Tuesday.

Who would take on the job now? In another era, McCarthy's deputy, Patrick McHenry, would be the natural candidate to replace him. McHenry has declined to run. Few could blame him for walking away.



Two Republicans have put their names forward, so far. One is Steve Scalise, a diehard Louisiana conservative who was badly wounded in a shooter incident six years ago and is now being treated for blood cancer. Such resilience might well qualify him for the job. The other is Jim Jordan, an ultraloyal Ohio Trumpian, who has for years been a thorn in the side of Republican leadership. Each of them is



betting that they would succeed in imposing discipline where a swelling list of former Speakers have failed.

There is no assurance that either will win (although with Trump's endorsement Jordan has to be the favourite). In a quirk of congressional rules, the Speaker is elected by the whole House of Representatives even though the job is partisan. Since Republicans have a thin majority — 221 seats versus 212 for the Democrats — they can afford to lose only four of their own in the final vote. Democrats will almost certainly unanimously oppose whoever Republicans put forward as their candidate next Wednesday, as they did in last Tuesday's vote to oust McCarthy. It took eight Republican rebels plus the Democrats to bring McCarthy down.

The problem facing Scalise and Jordan is that there is almost nothing they can offer to their most extreme colleagues that could buy more than their fleeting loyalty. McCarthy went through a gruelling 15 rounds of voting to secure the job in January. With each round, he added to a mountain of promises that he had little power to keep. He also agreed to a rule allowing just one Republican to trigger a simple majority vote on his speakership — the so-called motion to vacate. It was a desperate concession by a weak candidate that all but guaranteed his short tenure.

Why should the next Speaker's fate be any different? One answer is that both Scalise and Jordan have stronger conservative credentials than McCarthy. Jordan is a former head of the Freedom Caucus, the most rightwing group in the legislative party.

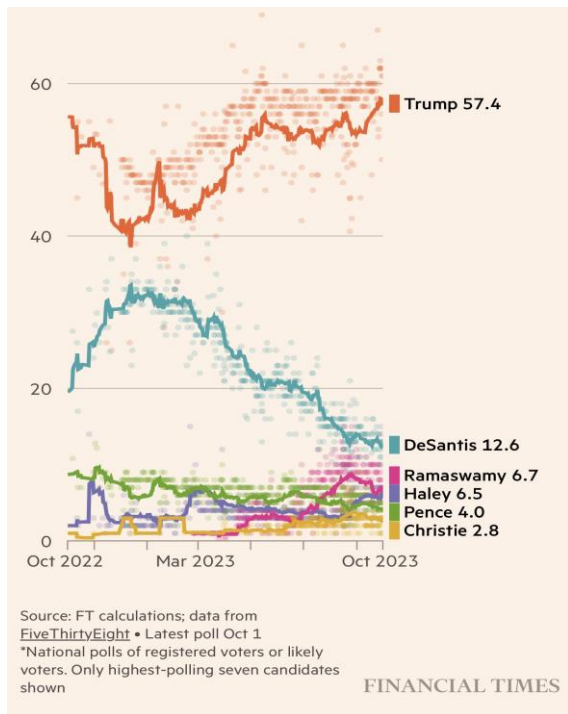
But a lot depends on what is meant by conservative. Even if the next Speaker is a former rebel with strong grassroots cachet, like Jordan, it is hard to know what policies would keep the troops in line. It is doubtful that any commitment would satisfy Matt Gaetz, the uber-disruptive Florida lawmaker who triggered last Tuesday's motion against McCarthy.

The traditional conservative litmus tests of supporting tax cuts, lower public spending, tighter US-Mexico border controls and strong defence seem almost quaint compared with the demands of today's hardline conservatives. Gaetz and his allies want to defund the FBI, impeach the US attorney-general, investigate the "Biden crime family" and end American support for Ukraine. There is nothing programmatic about their agenda. It shifts with the mood of the base.

"Their goal is chaos itself — to bring the system down," says William Galston, a Brookings Institution senior fellow. "They are not reformists in any normal understanding of the word."

Sam Rayburn, the Texas Democrat who in the 1940s and 1950s was one of America's most celebrated Speakers, once said: "Any jackass can kick down a barn but it takes a carpenter to build one."

In Rayburn's day, however, the Speaker could discipline the jackasses. One such tool was the ability to deprive an unruly member of campaign funds. Nowadays, renegade lawmakers regularly outraise their leaders through acts of performative outrage. The average congressional incumbent raised \$2.8mn in the last round of House races. Viral artists such as Gaetz, Georgia's Marjorie Taylor Greene, and Colorado's Lauren Boebert can rake in as much as that in 48 hours. Gaetz was once asked whether he feared sacrificing his star power for notoriety. "What's the difference?" he replied.



It is hard to know what could convince the barnburners to change their ways. The Maga base rewards them with money and the media lavishes them with airtime. In a recent Economist/YouGov poll, a majority of Republican voters said their representatives should stick to their position “no matter what” rather than compromise with Democrats. By contrast, Democratic voters chose compromise over principle by around two to one. As McCarthy found out, the very act of striking a deal with Democrats crosses the red line.

“It is tempting to say that whoever becomes Speaker is destined to fail,” says Ornstein. “When the enemy is the system itself, it is impossible to govern.”

Few this week were shedding tears over McCarthy’s ejection.

To cling on to his job, McCarthy had to pretend to be all things to all people. But chameleons are ill equipped to lead. A senior colleague of McCarthy’s once somewhat unkindly observed: “If McCarthy is alone, does he exist?” The same question might eventually be asked about his successor.

Whoever it is, the reckoning will come swiftly. McCarthy negotiated a 45-day funding extension to keep the US government open, which will expire in mid-November. The next Speaker will face the choice of crossing Republican extremists by making a deal to keep government open, or closing Washington and damaging Republican hopes of retaining the House at the next election. Either option risks political suicide.

The ultimate apostle of chaos is Trump, who urged the House to default on US sovereign debt in May and is now egging on a government shutdown. Other than his mounting legal struggles, Trump’s state of mind remains as capricious, and inimitable, as ever: at a rally this week he explained in detail why he would rather die by electrocution than be killed by a shark. While he is still around, Trump will continue to make it all but impossible for others to lead the conservative movement.

No one can rival his ability to hijack the news cycle. That leaves the party wide open to Trumpian mimics, such as Gaetz, who have acquired his knack of creating viral moments. It is a mistake to suppose they have a practical end goal in mind.

The next Republican Speaker will nevertheless have to run the gauntlet of negotiating with people like Gaetz, a spectacle that will do few favours to America's tarnished democratic reputation. A scholar in China's Global Times, an organ of its communist party, this week said that American politics resembled "a host of demons dancing in riotous revelry".

That offered a particularly lurid image of the likely Republican dramas yet to come. It might also be a fair description of how Trump prefers things to be.

"Ungovernable!!" the liberals declare! And the article basically puts all the blame of the congressional turmoil on the dissidents who moved to end McCarthy's speakership. Hell, I mean, just look at the negativity which the friends of Biden and Big Spending (including FT of the UK and practically all governments in Europe which have enjoyed American largesse) have painted the rebels in. I am in no position to comment on the far right's behaviour and they could really be howling like coyotes in the House for all I know, but the issues at hand, rather than the personalities, are fair game for objective analysis.

The tone of the article is the thinking of the majority in government and of the liberal mainstream media. That it is the Extreme Right that is dragging down the country. Really?

Could it be that the Right is right, and the rest are wrong?

The vast majority of the political Centre, plus the liberal Left, are pursuing policies that are profligate and guaranteed to implode the economy. When it is the majority that has gone mad, how should a small minority correct the course of the ship? Since the days of HMS Bounty, it can only be done by riotous mutiny.

Which is what we are seeing over the last week...

This is the society that makes a big deal out of checks and balances and one source of criticism is now labelled "ungovernable", according to the FT article. Now, the bond market, which is completely apolitical, has joined the conservative Right and is shouting at the top of its voice, fxxk it, guys, the country is spending and borrowing too much. Much too much. Stop!

What better way is there for the right-wing dissidents to shout this out loud and pull off a stunt like sacking the speaker, when it is the vast majority that has gone mad?

Without quick redress, it is a one-way street to a \$40 trillion national debt within the next few years. It is simple arithmetic.

And what is the consequence of that?

Higher interest rates will prevail. Mortgages, student loans, credit card debt, business borrowings, car loans and so on will default. There is another FT article that draws attention to this problem, and it looks at only a subset – car loans - rather than every type of debt that is prevailing across the entire US economy:

### **Interest rate surge drives US car loan payments to record high**

*One in five borrowers owes at least \$1,000 a month as vehicle costs remain elevated*

*Claire Bushey in Chicago OCTOBER 6 2023*

US consumers who borrowed money to buy a new car are on the hook for record loan payments, with one in five owing at least \$1,000 a month, as surging interest rates combine with costly inventory to make vehicles less affordable.

The rising cost of financing is bad news for carmakers, as some customers shun more profitable trucks and sport utility vehicles for cheaper models. It comes as higher interest rates spread through the consumer economy, from mortgages to credit cards to car loans.

The interest rate on loans averaged 7.4 per cent in the third quarter, the highest it has been since 2007, according to car research group Edmunds. The average monthly payment of \$736 was a record high, while the share of car buyers paying at least \$1,000 a month reached nearly 18 per cent.

New cars, trucks and SUVs are continuing to sell, buoyed by unmet demand from a supply crunch that began in the pandemic, but prices are lofty.

“Affordability has been such a big factor this year,” said Edmunds analyst Jessica Caldwell. “The pent-up demand will carry the sales rate, but it’s just going to be people replacing their vehicles or people who are more affluent . . . We’re seeing demand for lower-priced vehicles, which we have not seen in awhile.”

Higher financing costs come as the United Auto Workers union enters its fourth week of a strike against Ford, General Motors and Stellantis, the three big Detroit carmakers. Continuing walkouts could lead to depleted car supplies, but higher prices and interest payments threaten to hit demand.

“Prices are a function of supply and demand,” said Bank of America analyst John Murphy. “A weaker demand picture could offset the supply-side shock.”

The UAW has rolled out the strike gradually since September 15, with more workers at more facilities joining each week. That piecemeal approach meant the effects on inventory are so far “negligible”, said Jonathan Smoke, chief economist at Cox Automotive.

Interest rates, on the other hand, are the car industry’s “public enemy number 1”, along with credit availability and the overall economy, he said. “These are not good signs for demand continuing to be strong or improving in the fourth quarter.”

At Ally Financial, which has a large car lending business, Doug Timmerman, president of dealer financial services, said in a memo last week that it had made “the difficult decision to reduce expenses through headcount reduction” and would offer buyouts to some employees. Detroit-based Ally originated \$9.8bn in consumer car loans in the second quarter, down 21 per cent from \$12.4bn a year before.

A spokesman acknowledged a “challenging macro environment” and said the cuts affect less than 5 per cent of its workforce.

Smaller cars with a cheaper sticker price are moving off dealer lots faster than more expensive ones. Compact models such as the Toyota Corolla and Honda Civic have become popular, Caldwell said, a shift from US consumers’ preference for fully loaded trucks and SUVs during the era of low interest rates. The shift has also accompanied a recent rebound in petrol prices at the pump.

In August 2021, dealers had a 28-day supply of vehicles selling for more than \$50,000, and a 32-day supply of vehicles priced beneath that threshold, according to Edmunds’ data. Two years later, the supply of vehicles less than \$50,000 is selling out in 26 days, while more expensive cars and trucks linger for 40 days.

Carmakers have raised incentives to tempt more buyers into the market. Discounts — whether through leasing deals, special financing rates or cash rebates — averaged \$2,365 in August, the highest they have been all year, according to Cox Automotive-owned Kelley Blue Book. Still, they remain historically low, accounting for 4.9 per cent of the average transaction price, compared with pre-pandemic norms of about 10 per cent.

That’s just cars. Think of credit cards, mortgages and business loans as well. I have already written in multiple blogs that recession is creeping down the pike. It could now be hurtling along at high speed...

Zerohedge writes:

## **How Recession Begins?**

BY TYLER DURDEN

SATURDAY, OCT 07, 2023 - 11:40 PM

We have been emphasizing here that the yield curve is a very powerful predictor of recession, that whenever a three-month yield (on Bonds) is lower than that of a ten-year by over 50 basis points (bps) or for over two months, the inversion is deemed reliable.

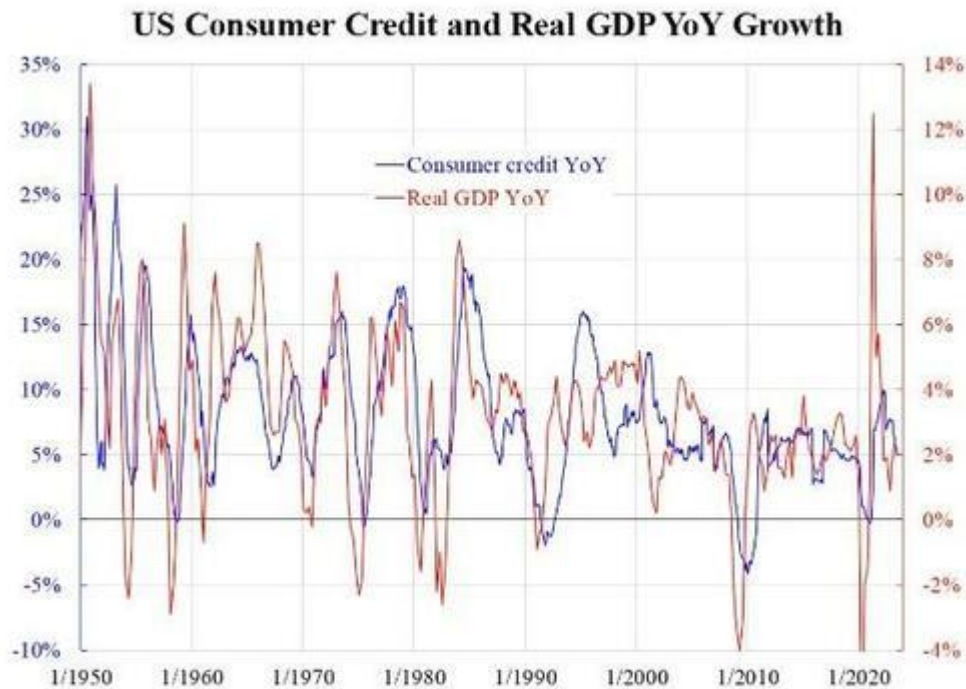
Months ago, the inversion reached 200 bps, implying an almost 80 percent chance of recession ahead. Such a strong signal has not been seen for over four decades since the early 1980s. **However, there is a long gap from the beginning of inversion to the start of a recession, usually in the range of four to six quarters with a mean of five.**

Instead of blindly believing such a time gap, one school suggests inversion is due much more to policy rate hikes than long-tenor yield movement under market forces. In other words, yield curve inversion predicting a recession is somehow equivalent to a rate hike causing a recession.

Coincidentally, **the usual time needed for a rate hike to be effective is roughly four to six quarters**, which is pretty much the same time gap between yield curve inversion and recession realization. This round, the inversion was first seen last November, implying recession should now begin.

**Despite a recession is usually not known until it happens, there are usually some signs.** Specifically, lending growth has already been much weaker than before under high interest rates.

**The attached chart compares U.S. consumer credit and real GDP year-over-year (YoY) growth.** They have co-moved almost since the beginning of records. Although consumption is regarded as important for its largest share of GDP, it is not in terms of growth. Consumption growth is well-known to be low and stable, which is human nature. Instead, other components are the drivers.



**As a growth driver, investment ranks higher than output, which is higher than consumption.** In equilibrium, they grow at the same rate, but their volatilities differ. In the long run, production equals consumption but the former is not as smooth as the latter. For example, agricultural crops are harvested only once or twice a year but people eat every day. Investment is producing future output, which is even more volatile by definition. It is the volatility that drives the growth during a boom period, and similarly drives the contraction during the bust. This applies everywhere.

**Knowing all these, it will be relatively easy to judge the cycle status by looking at the investment type data.** The famous candidates are the housing-related ones, but these are sector-specific and may not represent the overall economy. By contrast, consumption credit is a leveraged indicator of consumption having an investment nature. **Since the series is, in principle, about consumption, the shape is smoother than GDP, as is seen from the chart. Its declining trend confirms the slowdown without too much lag, thanks to its monthly released frequency.**

Once this loop of borrow-to-consume stops, the growth of other areas could cool down quickly. In one to two quarters ahead or five to six quarters since the yield curve inversion, the tightening effect will be more vividly seen in broader areas, which will define the beginning of the recession.

To cut to the chase, what the above article says is that even with the buoyant jobs situation, announced two days ago, a recession may still happen. The yield curve predicts that we will come around to that next year.

Well, now that democratic checks and balances are in full play, with the conservative extreme Right forcing spending restraint, we can expect that there would be a cutback on the Biden White House's mind-blowing extravagance. I think that the "ungovernable" radicals will render the rest of the Biden presidency ineffective. And based on Zerohedge's report, recession will probably start just around the time of the election in Nov 2024. Goodbye Biden.

Very soon, there won't be much of any support for Ukraine. The warmongering Biden White House did not comprehend what Ukrainian support for "as long as it takes" really implies for its own bankrupt Treasury. After the remaining scraps of aid are fed to the baying lapdogs in Kyiv in the next few weeks, what is it going to do? The Europeans are already saying that if the US is not coming up with the money for Kyiv, they have nothing more to give. Pardon? What's that? I thought Boris, Jans and Ursula also promised aid "as long as it takes"? When you have no more money, you learn to speak softly without hinting there is a big stick hidden behind your back.

A former EC President, Jean-Claude Juncker, has slammed the possibility of Ukraine joining the EU, lambasting the country as massively corrupt. "Anyone who has had anything to do with Ukraine knows that this is a country that is corrupt at all levels of society. Despite its efforts, it is not ready for accession; it needs massive internal reform processes," he said. And Zelensky goes off scolding and refuting Juncker, saying nobody has wasted a single dollar of aid, when just before he went to the UN, he fired the entire top echelon at his defense ministry for being corrupt. What a clown!

Zelensky is finished, and we are just counting months, maybe even weeks, before he is gone.

And he will also bring down Biden unless the old fool cuts links quickly enough. The might of the American economy and its overly expansive and crushingly expensive military to take on Russia and China, especially under the aggrandizing strategy of Tony Blinken who wants to take on both together, are over. And even as Washington panics over the continuance of the Project Ukraine (*Financial Times*, *Alarm grows in Washington over future of US military aid to Ukraine*; James Politi in Washington *Read the full article at:* <https://on.ft.com/3rzVbV8>), its attention is being redirected to the Middle East.

In case you don't know it yet, Israel has just started a new war. Guess who is on the hook for that as well? Guess which war will the Americans take their eyes away from? Money for Kyiv at the same time, in the absence of any? That's really wishful thinking.



Maybe at this time, the State Department should take economics and finance lessons on how behaviour and promises should be circumscribed by how much money its Treasury has.

Empire has an expiry date, and it coincides with the maturities of bonds issued by its government.

By:

*Yeong, Wai-Cheong, CFA*

*Fintech Entrepreneur, Money Manager and Blogger*

*Un-Influencer in a World full of Hubris*

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### ***Appendix***

In comparison to the chaos we find in the United States these days, there are voices of reason from the very people that Americans treat as propagandists. This last week, America's public enemy No 1, Vladimir Putin, gave a speech that demonstrates an intellect which puts to shame those in DC who paint him as a despot. What you hear coming from the van der Leyens and the Bidens of the west are platitudes. Putin gives a tour de force exploration of recent global events from his perspective. Here it is, which you won't see published in the New York Times, CNN or BBC.

Russian President Vladimir Putin has delivered a wide-ranging keynote speech and answered questions at the 19th Annual Meeting of the Valdai Discussion Club on Thursday.

*KEYNOTE SPEECH, VALDAI CONFERENCE, SOCHI RUSSIA, 5<sup>th</sup> OCTOBER, 2023*

**Vladimir Putin:** Thank you very much.

Dear participants of the plenary session! Ladies and Gentlemen! Friends!

I got a little acquainted with the discussions that took place here in the previous days - very interesting and informative. I hope you did not regret that you came to Russia and communicate with each other.

Good to see you all.

On the platform of the Valdai Club, we have talked more than once about those shifts - serious, big shifts that have already taken place and are taking place in the world, about the risks that are associated with the degradation of world institutions, with the erosion of the principles of collective security, with the substitution of international law for the so-called rules - I wanted to say, it's clear who invented it, but, perhaps, this is also inaccurate - it's generally not clear who invented it, what these rules are based on, what is inside these rules.

Apparently, there is only an attempt to approve one rule, so that those in power - now they are talking about power, I'm talking about global power - have the opportunity to live without any rules at all and they are allowed to do everything, everything would get away with whatever they do. Here, in fact, are these very rules, which, as the people say, they constantly talk about to us, that is, they constantly talk about it.

The value of the Valdai discussions lies in the fact that a variety of assessments and forecasts are heard here. How true they were, life itself shows, the most strict and objective examiner is life. Here it shows how correct our preliminary discussions were in previous years.

Alas, events are still developing according to a negative scenario, which we spoke about more than once or twice during previous meetings. Moreover, these events have developed into a large-scale, systemic crisis, and not only in the military-political, but also in the economic and humanitarian spheres.

The so-called West - conditionally, of course, there is no unity there - it is clear that this is a very complex conglomerate, nevertheless, let's say that this West has taken a number of steps to escalate in recent years and especially in recent months. As a matter of fact, they always play to exacerbate, there is nothing new here either. This is the incitement of war in Ukraine, these are provocations around Taiwan, the destabilization of the world food and energy markets. The latter, of course, was not done on purpose, there is no doubt about it, but due to a number of systemic errors of precisely those Western authorities that I have already mentioned. And as we see now, plus to this is the destruction of pan-European gas pipelines. This is generally a transcendent thing, but nevertheless we are witnessing these sad events.

Power over the world is exactly what the so-called West has staked in its game. But this game is certainly dangerous, bloody and, I would say, dirty. It denies the sovereignty of countries and peoples, their originality and uniqueness, does not put the interests of other states in anything. In any case, if it is not directly stated about denial, but in practice this is precisely what is being carried out. No one, except those who formulate these very rules that I mentioned, has the right to original development: everyone else must be "combed" to these very rules.

In this regard, let me remind you of Russia's proposals to Western partners to build confidence and build a system of collective security. In December of last year, they were once again simply thrown aside.

But in the modern world, it is unlikely to sit out. He who sows the wind, as they say, will reap the whirlwind. The crisis has indeed acquired a global character, it affects everyone. There is no need to harbor any illusions.

Humanity now has, in fact, two ways: either to continue to accumulate a burden of problems that will inevitably crush us all, or to try together to find solutions, albeit imperfect, but working, capable of making our world more stable and safer.

You know, I have always believed and believe in the power of common sense. Therefore, I am convinced that sooner or later both the new centers of a multipolar world order and the West will have to start an equal conversation about a common future for us, and the sooner the better, of course. And in this regard, I will outline some of the most important accents for all of us.

Today's events have relegated environmental problems to the background - oddly enough, but I would like to start with this. Climate change is no longer at the top of the agenda. But these fundamental challenges have not disappeared, they have not gone away, they are only growing.

One of the most dangerous consequences of the violation of the ecological balance is the reduction of biodiversity in nature. And now I turn to the main topic, for which we all gathered: is another diversity less important - cultural, social, political, civilizational?

At the same time, simplification, the erasure of all and any differences have become almost the essence of the modern West. What is behind this simplification? First of all, this is the disappearance of the creative potential of the West itself and the desire to restrain, block the free development of other civilizations.

There is also a direct mercantile interest, of course: by imposing their values, consumer stereotypes, unification, our opponents - I will call them so carefully - are trying to expand markets for their products. Everything is very primitive on this track. It is no coincidence that the West claims that it is its culture and worldview that should be universal. If this is not said directly - although they are also often said directly - but if they are not said directly, then this is how they behave and insist that, in fact, in the fact of life, with their policy, they insist that these very values be unconditionally accepted by all other participants in international communication.

I will quote from the famous Harvard speech of Alexander Isaevich Solzhenitsyn. As early as 1978, he noted that the West is characterized by a "continuous blindness of superiority" - and this is still happening - which "supports the notion that all vast areas on our planet should develop and develop to the current Western systems ...". 1978 Nothing has changed.

Over the past nearly half a century, this blindness that Solzhenitsyn spoke of - openly racist and neo-colonial in nature - has taken on simply ugly forms, especially after the emergence of the so-called unipolar world. What do I want to say to this? Confidence in one's infallibility is a very dangerous state: it is one step away from the desire of the "infallible" themselves to simply destroy those they do not like. As they say, "cancel" - let's at least think about the meaning of this word.

Even at the height of the Cold War, at the peak of the confrontation between systems, ideologies and military rivalry, it never even occurred to anyone to deny the very existence of culture, art, science of other peoples - their opponents. It didn't even cross anyone's mind! Yes, certain restrictions were imposed on educational, scientific, cultural and,

unfortunately, sports ties. Nevertheless, both the Soviet and American leaders of that time had enough understanding that the humanitarian sphere must be treated delicately, studying and respecting the opponent, sometimes borrowing something from him in order to preserve, at least for the future, the basis for sound, fruitful relations.

And now what is happening? At one time, the Nazis reached the point of burning books, and now Western “guardians of liberalism and progress” have fallen to the prohibitions of Dostoevsky and Tchaikovsky. The so-called cancel culture, but in fact - we have already talked about this many times - the real cancel culture mows down everything that is alive and creative, does not allow free thought to develop in any of the areas: neither in economics, nor in politics, nor in culture.

The very liberal ideology today has changed beyond recognition. If initially classical liberalism understood the freedom of every person as the freedom to say what you want, to do what you want, then already in the 20th century liberals began to declare that the so-called open society has enemies - it turns out that an open society has enemies - and the freedom of such enemies can and should be limited, if not abolished. Now they have reached the point of absurdity, when any alternative point of view is declared subversive propaganda and a threat to democracy.

Whatever comes from Russia is all the “intrigues of the Kremlin”. But look at yourself! Are we all that powerful? Any criticism of our opponents - any! - is perceived as "the machinations of the Kremlin", "the hand of the Kremlin". This is some nonsense. What have you fallen to? At least move your brains, state something more interesting, state your point of view somehow conceptually. It is impossible to blame everything on the machinations of the Kremlin.

All this was prophetically predicted by Fyodor Mikhailovich Dostoevsky back in the 19th century. One of the characters in his novel *The Possessed*, the nihilist Shigalev, described the bright future he invented in this way: “leaving boundless freedom, I conclude with boundless despotism” - this, by the way, is what our Western opponents came to. He is echoed by another protagonist of the novel - Peter Verkhovensky, arguing that widespread betrayal, denunciation, espionage is necessary, that society does not need talents and higher abilities: "Cicero's tongue is cut off, Copernicus's eyes are gouged out, Shakespeare is stoned." This is what our Western opponents are coming to. What is this if not the modern Western culture of cancellation?

There were great thinkers, and I am grateful, to be honest, to my assistants who found these quotes.

What can be said about this? History, of course, will put everything in its place and cancel not the greatest works of the universally recognized geniuses of world culture, but those who today for some reason decided that they have the right to dispose of this world culture at their own discretion. The self-conceit of such figures, as they say, goes off scale, but no one will even remember their names in a few years. And Dostoevsky will live like Tchaikovsky, Pushkin, no matter how much anyone wants it.

It was on unification, on financial and technological monopoly, on the erasure of all and all kinds of differences, that the Western model of globalization, neo-colonial in its essence, was

also built. The task was clear - to strengthen the unconditional dominance of the West in the world economy and politics, and for this to put at the service of natural and financial resources, intellectual, human and economic opportunities of the entire planet, to do this under the sauce of the so-called new global interdependence.

Here I would like to recall another Russian philosopher - Alexander Alexandrovich Zinoviev, whose centenary we will celebrate just the other day, on October 29. Even more than 20 years ago, he said that for the survival of Western civilization at the level reached by it, "the whole planet is necessary as an environment for existence, all the resources of mankind are necessary." That's what they claim, and that's exactly what it is.

Moreover, in this system, the West initially laid a huge head start for itself, since it developed its principles and mechanisms itself - as now the very principles that they constantly talk about and which are an incomprehensible "black hole": what it is - no one knows. But as soon as the benefits of globalization began to be derived not by Western countries, but by other states, and above all, of course, we are talking about the large states of Asia, the West immediately changed or completely canceled many rules. And the so-called sacred principles of free trade, economic openness, equal competition, even the right to property were suddenly forgotten at once, completely. As soon as something becomes profitable for themselves, they change the rules immediately, on the go, in the course of the game.

Or another example of the substitution of concepts and meanings. Western ideologists and politicians have been saying and repeating to the whole world for many years: there is no alternative to democracy. True, they were talking about the Western, so-called liberal model of democracy. All other options and forms of democracy they scornfully and - I want to emphasize this - through the lip, arrogantly rejected. This manner has developed a long time ago, since colonial times: everyone is considered second-class people, and themselves are exceptional. And so it continues for centuries to this day.

But today the absolute majority of the world community demands democracy in international affairs and does not accept any form of authoritarian dictate by individual countries or groups of states. What is this if not the direct application of the principles of democracy at the level of international relations?

And what is the position of the "civilized" - in quotation marks - West? If you are a democrat, then it would seem that you should welcome such a natural desire for freedom of billions of people - but no! The West calls it a subversion of the liberal rules-based order, launches economic and trade wars, sanctions, boycotts, color revolutions, prepares and conducts all sorts of coups.

One of them led to tragic consequences in Ukraine in 2014 - they supported it, they even said how much money they spent on this coup. In general, they are simply dumbfounded, they are not shy about anything. They took Soleimani and killed an Iranian general. It was possible to treat Soleimani as you like, but this is an official of another state! They killed on the territory of a third country and said: yes, we killed. What is it in general? Where do we live?

Out of habit, Washington continues to call the current world order American-style liberal, but in fact, every day this notorious "order" multiplies chaos and, I might add, becomes more and more intolerant even towards the Western countries themselves, towards their attempts to

show any independence. Everything is suppressed right on the vine, and they impose more sanctions against their own allies - without any hesitation! And they agree with everything, lowering their heads low.

For example, the July proposals of the Hungarian parliamentarians to consolidate the commitment to European Christian values and culture in the EU treaty were perceived not even as a *fronde*, but as a direct hostile sabotage. What is this? What does it mean? Yes, some people like it, some people don't.

For a thousand years, we in Russia have developed a unique culture of interaction between all world religions. There is no need to cancel anything: neither Christian values, nor Islamic, nor Jewish values. We have other world religions. We just need to be respectful to each other. In a number of regions of the country – I just know this firsthand – people walk together, celebrate Christian, Islamic, Buddhist, and Jewish holidays, and do it with pleasure, congratulating each other and rejoicing for each other.

But not here. Why not? At least they would discuss. Marvelous!

All this, without exaggeration, is not even a systemic, but a doctrinal crisis of the neoliberal model of the American world order. They have no ideas of creation and positive development, they simply have nothing to offer the world, except to maintain their dominance.

I am convinced that real democracy in a multipolar world first of all presupposes the possibility for any nation – I want to emphasize this – for any society, any civilization, to choose its own path, its own socio-political system. If the United States, the EU countries have such a right, then, of course, the countries of Asia, the Islamic states, the monarchies of the Persian Gulf, and the states of other continents also have this right. Of course, our country, Russia, also has it, and no one will ever be able to dictate to our people what kind of society and on what principles we should build.

A direct threat to the political, economic, ideological monopoly of the West is that alternative social models may arise in the world - more effective, I want to emphasize this, more effective today, bright, attractive than those that exist. But such models will definitely develop - this is inevitable. By the way, American political scientists, experts, they write about it directly. True, their government is not yet listening very much, although they cannot fail to see these ideas that are expressed on the pages of political science magazines and in discussions.

Development should go exactly in the dialogue of civilizations, based on spiritual and moral values. Yes, different civilizations have a different understanding of a person, his nature - it is often only different on the surface, but everyone recognizes the highest dignity and spiritual essence of a person. And it is extremely important to have a common, common foundation on which we can certainly build and must build our future.

What do I want to emphasize here? Traditional values are not some fixed set of postulates that everyone must adhere to. Of course not. Their difference from the so-called neo-liberal values is that in each case they are unique, because they follow from the tradition of a particular society, its culture and historical experience. Therefore, traditional values cannot be

imposed on anyone - they must simply be respected, carefully treated with what every nation has chosen for centuries.

This is our understanding of traditional values, and this approach is shared and accepted by the majority of humanity. This is natural, because it is the traditional societies of the East, Latin America, Africa, Eurasia that form the basis of world civilization.

Respect for the peculiarities of peoples and civilizations is in the interests of everyone. In fact, this is also in the interests of the so-called West. Losing its dominance, it quickly becomes a minority on the world stage. And, of course, the right of this Western minority to their own cultural identity, of course, I want to emphasize this, must be ensured, it must be treated, of course, with respect, but, I emphasize, on an equal footing with the rights of everyone else.

If Western elites think they can inject into the minds of their people, their societies, strange, in my opinion, newfangled trends like dozens of genders and gay pride parades, then so be it. Let them do what they want! But what they certainly have no right to do is to require others to follow in the same direction.

We see that complex demographic, political and social processes are going on in Western countries. Of course, this is their internal affair. Russia does not interfere in these issues and is not going to do it - unlike the West, we do not climb into someone else's yard. But we hope that pragmatism will prevail and that Russia's dialogue with the genuine, traditional West, as well as with other equal centers of development, will become an important contribution to building a multipolar world order.

I will add that multipolarity is a real, and in fact, the only chance for the same Europe to restore its political and economic subjectivity. To be honest, we all understand, and they speak about it in the same Europe directly: today this legal personality of Europe - how to put it mildly, so as not to offend anyone - is very limited.

The world is inherently diverse, and the attempts of the West to drive everyone under one template are objectively doomed, nothing will come of it.

The arrogant desire for world leadership, and in fact, for dictatorship or for the preservation of leadership through dictate, in fact, turns into a decrease in the international authority of the leaders of the Western world, including the United States, and an increase in distrust in their ability to negotiate as a whole. Today they say one thing - tomorrow another, they sign documents - tomorrow they refuse them, they do what they want. There is no stability at all. It is completely incomprehensible how the documents are signed, what they talked about, what one can hope for.

If earlier only a few countries allowed themselves to argue with the same America, and it looked almost like a sensation, now it is already commonplace when various states refuse Washington its unfounded demands, despite the fact that it is still trying to put pressure on everyone . An erroneous policy is absolutely, simply nowhere. Well, let it be their choice too.

I am convinced that the peoples of the world will not turn a blind eye to the policy of coercion, which has discredited itself, and every time the West will have to pay and pay more

and more for trying to maintain its hegemony. In the place of these elites in the West, I would seriously think about such a prospect, just as some political scientists and politicians in the United States themselves are thinking about it, as I have already said.

In the current conditions of a tough conflict, I will say a few things directly. Russia, being an independent, original civilization, has never considered and does not consider itself an enemy of the West. Americanophobia, Anglophobia, Francophobia, Germanophobia - these are the same forms of racism as Russophobia and anti-Semitism - however, like any manifestations of xenophobia.

You just need to clearly understand that there are, as I said before, two West - at least two, and maybe more, but at least two: the West of traditional, primarily Christian, values, freedom, patriotism, the richest culture, now, Islamic values too - a significant part of the population of many Western countries profess Islam. This West is close to us in some ways, we have many things in common, even ancient roots. But there is another West - aggressive, cosmopolitan, neo-colonial, acting as a tool of the neo-liberal elites. Russia, of course, will never put up with the dictates of this West.

In 2000, after being elected President, what I faced, I will always remember this - remember what price we paid for destroying the terrorist nest in the North Caucasus, which the West then practically openly supported. All adults here, most of you present in this hall, understand what I am talking about. We know that this is how it was in practice: financial, political, informational support. We have all experienced it.

Moreover, [the West] not only actively supported terrorists on Russian territory, but also nurtured this threat in many ways. We know it. Nevertheless, after the stabilization of the situation, when the main terrorist gangs were defeated, thanks also to the courage of the Chechen people, we decided not to look back, not to pretend to be offended, to go forward, to build relationships even with those who actually worked against us, to establish and develop relations with all who want it, on the basis of mutual benefit and respect for each other.

I thought it was in the general interest. Russia, thank God, survived all the difficulties of that time, withstood, strengthened itself, coped with internal and external terrorism, the economy survived, began to develop, and its defense capability began to increase. We tried to build relations with the leading countries of the West and with NATO. The message was the same: let's stop being enemies, let's live together, let's have a dialogue, build trust, and hence peace. We were absolutely sincere, I want to emphasize this, we clearly understood the complexity of such a rapprochement, but we went for it.

And what did we get in return? In short, we received a “no” in all the main areas of possible cooperation. We have received ever-increasing pressure on us and the creation of hotbeds of tension at our borders. And what is the purpose, if I may ask, of this pressure? Well, what? It's that easy to train, isn't it? Of course not. The goal is to make Russia more vulnerable. The goal is to turn Russia into a tool for achieving its own geopolitical goals.

Strictly speaking, this is a universal rule: they try to turn everyone into a tool in order to use these tools for their own purposes. And those who do not submit to this pressure, do not want to be such an instrument - sanctions are imposed against them, all kinds of economic restrictions are carried out against them and in relation to them, coups are being prepared or,



where it is possible to carry out, carried out, and so on. And in the end, if nothing can be done at all, there is only one goal - to destroy, to brush it off the political map. But it did not work out and will never be able to deploy and implement such a scenario in relation to Russia.

What else would you like to add? Russia does not challenge the elites of the West - Russia simply defends its right to exist and develop freely. At the same time, we ourselves are not going to become some kind of new hegemon. Russia does not propose to replace unipolarity with bipolarity, tripolarity, and so on, the dominance of the West with the dominance of the East, North or South. This would inevitably lead to a new impasse.

And I want to quote here the words of the great Russian philosopher Nikolai Yakovlevich Danilevsky, who believed that progress does not consist in everyone going in the same direction, as some of our opponents are pushing us - in this case, progress would soon stop, says Danilevsky, - but is to "produce the entire field, which is the field of the historical activity of mankind, in all directions." And he adds that no civilization can be proud to represent the highest point of development.

I am convinced that dictatorship can only be countered by the freedom of development of countries and peoples, the degradation of the individual - love for a person as a creator, primitive simplification and prohibitions - the flourishing complexity of cultures and traditions.

The meaning of today's historical moment lies precisely in the fact that all civilizations, states and their integration associations really open up opportunities for their own, democratic, original path of development. And above all, we believe that the new world order should be based on law and right, be free, original and fair.

Thus, the world economy and trade should become more fair and open. Russia considers inevitable the process of formation of new international financial platforms, including for the purposes of international settlements. Such platforms should be outside national jurisdictions, be secure, depoliticized, automated and not depend on any single control center. Is it possible to do this or not? Of course yes. It will take a lot of effort, combining the efforts of many countries, but it can be done.

This will rule out the possibility of abuse in the new global financial infrastructure, and will make it possible to effectively, profitably and safely manage international transactions without the dollar and other so-called reserve currencies. Moreover, using the dollar as a weapon, the United States and the West as a whole discredited the institution of international financial reserves. First, he devalued them due to inflation in the dollar and euro zone, and then completely - tsap-scratch - pocketed our gold and foreign exchange reserves.

The transition to settlements in national currencies will be actively gaining momentum - inevitably. This, of course, depends on the state of the issuers of these currencies, on the state of their economies, but they will strengthen, and such calculations, of course, will gradually begin to dominate. Such is the logic of the sovereign economic and financial policy of the multipolar world.

Further. Today, new world development centers already have unique technologies and scientific developments in various fields and can successfully compete with Western multinational companies in many areas.

Obviously, we have a common, quite pragmatic interest in an honest and open scientific and technological exchange. Together, everyone wins more than individually. The majority should benefit, not individual super-rich corporations.

How are things today? If the West sells medicines or seeds of food crops to other countries, then it orders the killing of national pharmaceuticals and selection, in fact, in practice it all comes down to this; supplies machine tools and equipment - destroys local mechanical engineering. I, while still the Prime Minister, understood this: as soon as the market is opened for a certain product group, that's it, the local manufacturer "lay down", and it's almost impossible to raise your head. That's how relationships are built. Thus, the capture of markets and resources takes place, countries are deprived of their technological and scientific potential. This is not progress, but enslavement, the reduction of economies to a primitive level.

Technological development should not increase global inequality, but reduce it. This is how Russia traditionally implements its foreign technology policy. For example, by building nuclear power plants in other countries, we are simultaneously creating centers of competence there, training national personnel – we are creating an industry, we are not just building an enterprise, but creating an entire industry. In fact, we give other countries the opportunity to make a real breakthrough in their scientific and technological development, reduce inequality, and bring their energy sector to a new level of efficiency and environmental friendliness.

Let me emphasize again: sovereignty, original development in no way mean isolation, autarky, but, on the contrary, presuppose active, mutually beneficial cooperation on fair and equal principles.

If liberal globalization is depersonalization, the imposition of the Western model on the whole world, then integration, on the contrary, is the disclosure of the potential of each civilization in the interests of the whole, for the sake of the common gain. If globalism is a dictate, and this is what it all comes down to in the end, then integration is the joint development of common strategies that are beneficial to everyone.

In this regard, Russia considers it important to more actively launch mechanisms for creating large spaces built on the interaction of neighboring countries, whose economy, social system, resource base, and infrastructure complement each other. Such large spaces, in fact, are the basis of a multipolar world order - the economic basis. From their dialogue, the true unity of humanity is born, much more complex, original and multidimensional than in the simplified ideas of some Western ideologists.

The unity of humanity is not built on the command "do like me", "be like us". It is formed taking into account and on the basis of the opinions of all, with a careful attitude to the identity of each society and people. It is on this principle that long-term cooperation in a multipolar world can develop.

In this regard, it may be worth considering that the structure of the United Nations, including its Security Council, reflects precisely the diversity of world regions to a greater extent. After all, much more will depend on Asia, Africa, Latin America in the world of tomorrow than is commonly believed today, and such an increase in their influence is certainly positive.

Let me remind you that Western civilization is not the only one even in our common Eurasian space. Moreover, the majority of the population is concentrated precisely in the east of Eurasia - where the centers of the most ancient civilizations of mankind arose.

The value and significance of Eurasia is that this continent is a self-sufficient complex with gigantic resources of any kind and huge opportunities. And the harder we work to increase the connectivity of Eurasia, create new ways, forms of cooperation, the more impressive success we achieve.

The successful activity of the Eurasian Economic Union, the rapid growth of the authority and influence of the Shanghai Cooperation Organization, large-scale initiatives within the framework of the "One Belt, One Road", plans for multilateral cooperation on the implementation of the North-South transport corridor and many other projects in this part of the world, I am sure that this is the beginning of a new era, a new stage in the development of Eurasia. Integration projects here do not contradict, but mutually complement each other, of course, if they are carried out by neighboring countries in their own interests, and are not introduced by external forces in order to split the Eurasian space, turn it into a zone of bloc confrontation.

A natural part of Greater Eurasia could also be its western tip - Europe. But many of its leaders are hampered by the conviction that the Europeans are better than others, that it is not appropriate for them to participate in some undertakings on an equal footing with the rest. Behind such arrogance, they somehow do not notice that they themselves have already become someone else's periphery, have essentially turned into vassals - often without the right to vote.

Dear colleagues!

The collapse of the Soviet Union also destroyed the balance of geopolitical forces. The West felt like a winner and proclaimed a unipolar world order in which only its will, its culture, its interests had the right to exist.

Now this historical period of undivided dominance of the West in world affairs is coming to an end, the unipolar world is becoming a thing of the past. We are standing at a historic milestone, ahead of what is probably the most dangerous, unpredictable and at the same time important decade since the end of World War II. The West is not able to single-handedly manage humanity, but is desperately trying to do it, and most of the peoples of the world no longer want to put up with it. This is the main contradiction of the new era. To use the words of a classic, the situation is revolutionary to a certain extent: the upper classes cannot, and the lower classes do not want to live like this already, to use the words of a classic.

This state of affairs is fraught with global conflicts or a whole chain of conflicts, which is a threat to humanity, including the West itself. Constructively, constructively resolve this contradiction - that is today's main historical task.

Changing milestones is a painful process, but natural and inevitable. The future world order is being formed before our eyes. And in this world order, we must listen to everyone, take into account every point of view, every nation, society, culture, every system of worldviews, ideas and religious beliefs, without imposing a single truth on anyone, and only on this basis, understanding our responsibility for fate - the fate of peoples, the planet, to build a symphony of human civilization.

On this I would like to end with words of gratitude for the patience that you have shown in listening to my message.