Russian Trundle

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February 13, 2023

"If goods don't cross borders, soldiers will" is a quote commonly attributed to Frederic Bastiat. It promptly describes the political implications of free-trade between nations; An international order which has flourished in the late Pax Americana, and ever more so since the undisputed American hegemony since the 1990s. This order has been strained in the recent decade, and notoriously been put on ice in the face of war on the European continent on the 24nd of February 2022. In an usually rapid display of force, the western coalition of nations fired salvos of sanctions at Russia [See Figure 1] mere hours after Ukrainian cities were attacked. These sanctions embody the pinnacle of the uni-polar economic order, namely that the United States and its sphere may subdue any foe at a finger's snap. Yet despite an unprecedented flurry of economic attacks, the only rubble in Russia's economy is the currency riding a five-year high [Figure 2]. According to the IIF, expected Russian GDP growth/decline for 2022 was estimated at -15% in March, and has since switched to potentially 0.3% growth. How has the Russian economy withstood the western efforts to curb it? What is to be expected of the Russian economy going forward?

To answer these questions, a plethora of economic literature and journalism is consulted, alongside analysis of economic metrics by the World Bank, the World Trade Organisation (WTO), Orbis data, and the Global Trade Alert (GTA) database. Additional commentary is provided by Professor Simon Evenett, who specialises in global trade. In order to approach the current Russian economic fortress, it must be understood in five distinct phases along with its deeply intertwined political developments to facilitate analysis. First, the post-soviet economy after its turbulent years of the 90s is dissected in its essential sectors, highlighting its international dependencies as well as potential attempts for fortification. The second phase depicts the stabilisation of Russia under the Putin regime and the consequent formation of the modern Russian economy. In its third phase after the 2014 Crimean annexation, the economic fortress began to take shape. With the invasion of Ukraine, the Russian economy enters its fourth phase of resolute fortification. Finally, the fifth phase entails the long-term 'trundle' of the Russian economy.

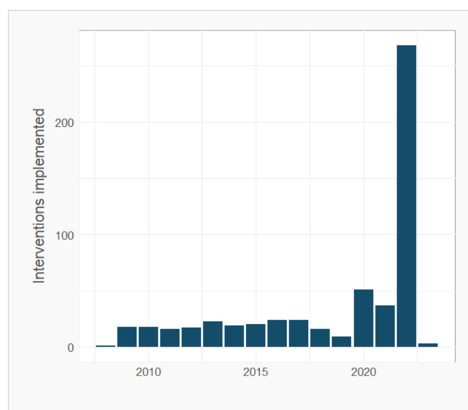

Figure 1: Sanctionary state interventions implemented by Western governments against Russia over time

Sanctions and the Western Economies

On the contrary, the development and prominence of the Western economies is a well known narrative. For sake of clarity, these include North America, the European Union, the United Kingdom, Oceania, South Korea, and finally, Japan. These economies comprise roughly 55% of global GDP in 2021, according to the IMF. Given the unpopularity as well as the abysmal success of the late Middle Eastern interventions, the western geopolitical tool of choice for coercion is to make use of this economic heft and exert economic pressure via "smart sanctions", according to a report by the GCSP. These are supposed to target only specific actors and ideally achieve a defined change in policy of the targeted state, without the collateral damage for the civilian population that arise from traditional embargoes. The historical track record of sanctions is however bleak; Roughly 34% of imposed sanctions achieve the intended policy change, and provide the highest success rate when used as threats. Nicholas Mulder, an expert on sanctions, explains that the only comparable sanctions in terms of heft and scale are those applied on Mussolini's Italy upon the 1935 invasion of Ethiopia, which did little to vanquish the desire for conquest. Regarding the types of modern sanctions, and specifically those used in Russia, these may be divided into those affecting finance, commodities, defence goods, export controls, and finally those on individual persons.

All these efforts aim at maintaining the neoliberal order described by the Washington consensus – prosperity for some, and hegemony for others – which sees open economic cooperation as a precondition for peace. As Evenett explains however, *"economic interdependence cannot be seen as a panacea for* *preventing war"*. It is an essential cornerstone for the formula of peace, but no silver bullet. Given this entire context, a more detailed development of the Russian economy will follow with concluding remarks on its long term trajectory.

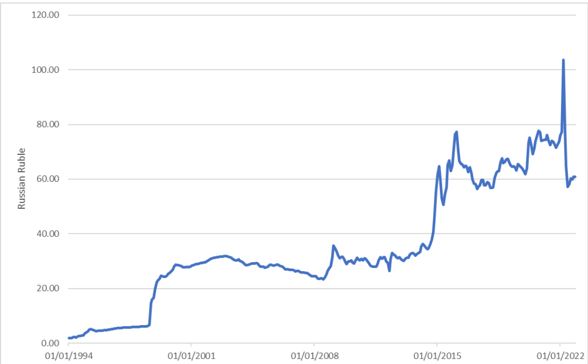

Figure 2: Rubles per USD over time

The Yeltsin Era

Depression, shock therapy, and hyperinflation came to characterise the Russian economy of the 'wild years', also known as the Yeltsin era, named after the incumbent president. Manufacturing virtually collapses due to macroeconomic contractions as well as low competitiveness. Life expectancy drops by 5 years. The fertility rate dropped from around 2.1 down to 1.2 children per woman in this era. This rampant insecurity left traumatic scars in the memory of many living Russians, and renewed the authoritarian position of the state in the Russian social contract. Coupled with fears of the geopolitical encroaches and successes of the West, this sentiment explicitly manifested itself in the strong showing of LPDR – an ultranationalist and monarchist party – in the 1993 Duma (parliamentary) elections, gaining the most seats but not a majority in parliament. Nevzorov, a famous anti-Western and isolationist member of the Duma stated: "Russia's 1'000 year tradition of distrusting change and foreigners is stronger than ever," in a 1993 interview with the New York Times. As explained by Tatiana Vorozheikina, a Russian political scientist, Liberalism also fails to spark Russia's economy. Instead, the soviet culture is retained, where personal loyalty and group solidarity was paramount for economic success – fostering nepotism and clientelism. This self-serving socioeconomic elite composed itself of political allies of Yeltsin, who amongst many state industries also inherited control of media companies; the crucial platforms for the development of democratic spheres of discussion. Summarised, it was a period of misery, perceived humiliation, and depression.

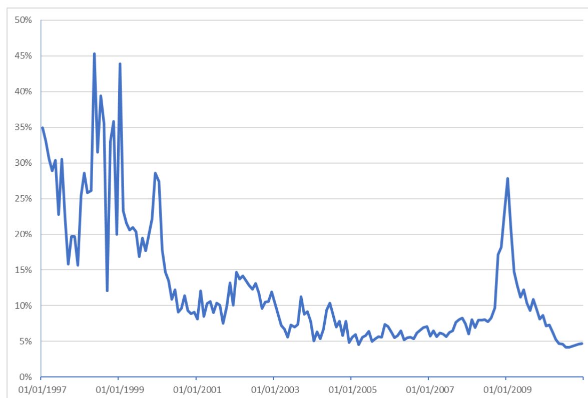

Figure 3: 90 day interbank yield

Yeltsin's political career came to an end in tandem with the 1998 Russian financial crisis. The Yeltsin administration tried to maintain a fixed exchange rate regime while battling inflation simultaneously via double digit interest rates [Figure 3/ Figure 5 continued]. Currency pressure also arose because Russia still heavily relied on imports from the ex-Soviet states. In global commodities, Oil prices plummeted [Figure 4]. Subsequent market fears evoked a flight of [foreign] capital as well as insurmountable pressure to devalue the Ruble. Annual yields of ruble denominated bonds rose to 200%. The consequent sovereign defaults of the crisis presented Russia with a rude awakening to the economic realities of a market world order, and sparked initial thoughts of minimising western financial leverage over Russia according to Evenett. In the same August month in which the government defaults, a Chechen Mujahideen army invades Dagestan, a Russian oblast in the Caucasus. The perceived drunk ineptitude of Yeltsin, the macroeconomic recession, and the Chechen war provided the perfect storm for the accession to executive power of Yeltsin's hand-picked successor, Vladimir Putin.

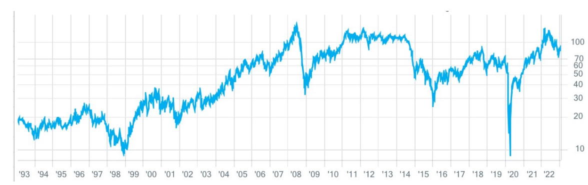

Figure 4: Brent Crude spot price in USD/bbl over time

Putin's Stability

Putin initially had one primary political directive: Stability, and to avoid the terrors of the Yeltsin era. To this end, the economy is merely an instrument. Naturally, this meant continuing the policy of clientelism, with a notorious kleptocratic elite ruling the industries. Stepping out of line would lead to immediate repercussions. Such was the famous fate of disgraced oil tycoon Mikail Khodorkovsky who was imprisoned in 2005 after immense flirtation with liberalism. Such intrigue also famously came from Herman Gref, minister of economics and trade from 2000 to 2007, “the most liberal member of Putin’s extended circle, ” according to the Financial Times. These liberally-minded technocrats were appointed however exclusively in order to bolster the economy, and to great effect. As Evenett reads it: *“He [Putin] sets the overall direction, and that direction could be pretty dark, but he’s smart enough to know when he’s got smart technocrats.”*. The Russian Central Bank [RCB] had also gained the confidence of the markets for its hawkish commitment, a legacy that the bank would maintain under Putin. In the course of the Russian economy, this would have been the last opportunity for Russia to join the liberal economies of the west, but this naturally threatened the primary directive. Investment for diversification, bringing global expertise, and a general attraction of global and domestically nurtured talent all proved *“inconsistent with running an increasingly strict dictatorship,”* as Evenett puts it.

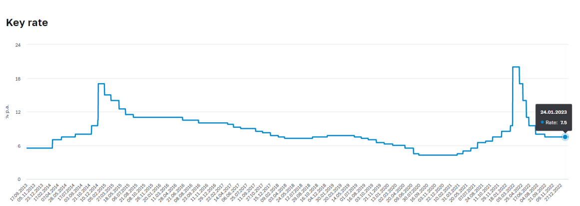

Figure 5: Key interest rate set by the RCB

Foregoing the realisation of a modern service based economy, attention was focused on the immense mineral wealth, which fed directly into the craving of the rising Asian economies fueling the commodity boom. Russia would maintain the following uncomplex economic composition for the following two decades. Raw materials alone account for roughly 70% of Russia’s exports in 2019, almost half of those being just crude oil. The agricultural sector pales in relative size, but due to Russia’s position as the largest wheat exporter as well as being a crucial supplier of fertilisers, there is great geopolitical leverage stemming from this agricultural output. Regarding industrial output, Russia is the largest arms exporter next to the U.S as well as boasting the capability to develop advanced weapon systems such as fifth generation fighter jets. It seems that government expenditure was not spared in this domain. This conjoins with a developed aerospace industry in addition to a large, internally relevant automotive industry. The IT sector never managed to flourish and only accounted for roughly 1.2% of GDP in 2015, compared to 10% in the U.S. With such a composition, the budget of the petrostate is hostage to swings in commodity prices, which exhibits itself in the 2008 financial crisis and the further roller coaster of oil prices.

The positive trade balance reaped from the mineral wealth was arduously used to pay off its debts, seeing the debt to GDP ratio decrease from 92% in 1999 down to an impressive 7.2% in 2007. The central bank also accumulated a massive coffer of foreign currencies, whereas previously it owned virtually none. Russia also embraced the relations with the hungry Asian economies, seeing its exposure of foreign trade with western countries drop from 60% to roughly 50% according to Evenett. On the home front, the labour pool is subservient bar some protests every few years. Notably, the fertility rate manages to rapidly recover up to roughly 1.7. With regained economic confidence, Russia would use its momentum to invade the sovereign nation of Georgia in 2008, with little to no economic repercussions anywhere linked to the invasion. Much more relevant was the decreased demand for petroleum [Figure 4] that came with the global recession, a catalyst that renewed OPEC’s interest in Russia’s membership. Russia refuses membership, but does coordinate with the cartel on occasion. This preference for sovereignty most likely stems from the fact that Russia’s political objectives are so dependent on oil revenues; Objectives which might not align with the cartel’s broader interests. Russia does however eagerly join the WTO in 2012, which grants further stability to the government’s essential commodity revenues. In the same year, Putin would again assume leadership of the executive again after a constitutionally-required break of four years. In 2014, Russia would see itself emboldened by achieving political objectives and stability, enjoying high economic growth, but also being alerted by the recent Euromaidan protests, and perhaps spooked by the incoming glut of shale oil [Figure 4]. Thusly, Putin would ride his nation into the first geopolitical endeavour that would fatefully strain economic relations with the west: The 2014 annexation of Crimea.

Crimea

The brute annexation of the Crimea in March 2014 and the associated insurgence in the Donbas region of Ukraine proved the first decisive strain in economic relations to the west. Within days after the invasion of “little green men”, the Obama administration invoked the International Emergency Economic Powers Act and got to work. Until the summer of 2014, the Western nations banded together to punish and change the course of Russian policy through three channels: First, the sanctions targeted the financing of Russian energy projects, secondly, export controls were set on key technologies associated with energy extraction, and finally, specific individuals involved in the annexation and insurgency were sanctioned. Additionally, arms exports to Russia were severely tightened. Consequently, the Russian energy sector should deteriorate, collapsing government finances and finally leading to a change in policy. As per a statement from the Economist in 2014, this shall "bring to an end a 25-year-long quest to make Moscow a partner of the West," adding that the sanctions could "do real damage." – So the Western policy makers intended.

As discussed earlier, sanctions have a poor track record in reaching their objectives. Effective foreign policy uses sanctions as a deterrent, and in applying sanctions post-haste, Evenett acknowledges that "in many ways, it's an admission of their own failure." What the sanctions did however achieve was a more intangible decoupling of Western finance from Russia. As a report by the Bank for International Settlements shows, credit of western banks to Russia decreased by roughly 50% in the following years after Crimea, and never recovered. Western capital flight paralleled the sanctions, and the rubble began to plummet [Figure 2] , causing visible pain to GDP output of Russia. – But already this crisis would again give renown to the economic technocrats, particularly the fresh head of the RCB, Elvira Nabiullina. Through aggressive interest rate hikes [Figure 5], letting the currency float, and by means of the large foreign currency reserves, the RCB managed to stabilise the currency in early 2015. No capital controls were implemented. Despite lower oil prices, the government's healthy coffers could intrigue investors looking for high-yield bonds as they faced record-low interest rates in Western markets. Thus, the horrors of the 1998 meltdown were averted.

In retrospect, this crisis gave the Russian government rich experience in treating such a crisis in the future. First in line, the Nabiullina technocrats had proved their capability to avoid a meltdown, and gained the trust of Putin. The CRB also devised an internal payment system named 'Mir' so as to gain autonomy from Mastercard and Visa. Fearing exclusion from SWIFT – the Belgian messaging network for financial transactions between banks – the CRB also immediately endeavoured to develop their alternative called SPFS. Both Mir and SPFS came into service in 2017. In the same year, the Russian government would adopt a fiscal rule to save any excess revenues above 40 Dollars per barrel of oil for a rainy day fund. The crisis has also allowed the government to fill the vacuum of western investment; A data inquiry on Orbis shows that assets of Western firms have roughly halved from 2014 to 2020, spelling opportunity for government investment. In The Economist, Vladislav Inozemstev, a Russian economist, states that national stability in Russia depends less on growth but more on wages being paid, which the government may provide en masse by virtue of its positive trade balances. Russia's reorientation of exports to Asia also experiences a further acceleration, implying that "Russia needs the West less," as Evenett asserts. The Yuan's share of the foreign-currency reserve grew from 3% to 14% while the share of Dollars halved in 2018 alone already according to The Economist. These reserves would amass to 630 Billion USD, equivalent to 38% of GDP, at the beginning of 2022. Thus, the fortress economy assumed its shape.

The Russian economy would however face one main problem: Expiration. The OEC is a research institute that ranks all countries in terms of their economic complexity, a strong predictor of macroeconomic development. With graceful steadiness, Russia has descended from 25th place globally in 2000 to 30th place in 2010 down to 43rd place in 2020 in said ranking. In addition to general unproductivity, the petrostate model will simply expire with decreasing demand in fossil fuels due to ecological requirements. Finally, the labour pool shows pressing demographic issues. According to a report by the Rand corporation, given the fertility rate of Russia in the 90s, population growth may only be possible with net immigration of at least 500'000 immigrants. The fertility rate has gradually recovered until the present since its nosedive in the 90s, but still below the replacement rate of 2.1 births per woman. The Rand corporation describes an economic *"window of opportunity"* that has expired in 2015. After this, efforts must be made to avert "major adverse consequences created by changes in population structure". In 2020, the Russian population decreased for the first time since the wild 90s. As such, there is a crunch of productive labour force as well as innovative youngsters. These young people also hold much more unfavourable opinions of the Putin regime according to the Levada-Center, an institute running the most reliable Russian opinion polls. The population is additionally crippled by a record suicide rate and rampant alcoholism, sometimes even considered a national catastrophe. Additionally, swings in the oil price seem to correlate with agitation of the government. It would be monocausal to point out these economic conditions as the trigger for Russia's future agitation, but there is no denial that the state was aware of the pressing situation. Coupled together with a revanchist autocracy as well as further geopolitical conditions, Putin would finally call for war.

Ukraine

The first economic strikes by Western nations were not conducted in response to the outbreak of war, but already three days earlier on the 21st of February. On this date, Putin would formally recognize the two breakaway statelets in the Donbas. The following day, the U.K and the U.S began freezing assets of Promsvyazbank and further Russian financing institutions. The next day the EU followed suit and also sanctioned all Duma members. Another day later, upon Putin's proclamation of war on the 24th of February at 5:00 am, The United States would get to work on unleashing *"the mother of all sanctions"* [Figure 1] , as described by the chairman Bob Mendez of the US Senate's foreign-relations committee. Like the Ukrainian cities that were hammered mere minutes after the announcement of the war, the Western nations began pummeling the Russian economy, in what Evenett calls *"corrections"* of what needed to be implemented in 2014 already. These sanctionary measures, chronologically recorded by S&P Global, can be divided into the following categories each with differing effectiveness: Firstly, the financial nerve centres such as banks, financing, and payment institutions are constrained. Secondly, trade restrictions including export controls on goods or even intellectual property are enacted.The third type may be categorised as targeted sanctions on individual perpetrators associated with the war. Over the following year, these measures sought out the following goals: The sparking of a liquidity crisis for the Russian government, and later, the degradation of the whole Russian economy to an extent which makes war too costly, either for the government, or for the people sustaining the government.

The mother of all sanctions

Name	Total Assets	Primary FactSet RBICS Economy
Sberbank Russia PJSC	548,827.61	Finance
Public Joint-Stock Company Gazprom	362,547.38	Energy
VTB Bank PJSC	278,100.83	Finance
Rosneft Oil Co.	219,408.39	Energy
Gazprombank OJSC	116,282.30	Finance
Oil Co. LUKOIL PJSC	92,494.17	Energy
Public Joint Stock Company Moscow Exchange MICEX-RTS	81,905.69	Finance
Surgutneftegas PJSC	80,495.52	Energy
Russian Railways OJSC	77,440.65	Industrials
Gazprom Neft PJSC	66,134.13	Energy
Alfa-Bank JSC	63,693.08	Finance
Public Joint-Stock Company Promsvyazbank	53,611.75	Finance
Russian Agricultural Bank OJSC	51,643.60	Finance
Public Joint-Stock Company "Bank Otkritie Financial Corporat...	46,936.63	Finance
Public Joint Stock Company Transneft	45,601.26	Energy
CREDIT BANK OF MOSCOW (public joint-stock company)	39,430.66	Finance
Public Joint stock company ROSSETI	37,688.62	Utilities

Figure 6: Largest firms of Russia by assets in 2022

It must be understood that a swift defeat of the Ukrainian army was very palpable at the outset of war, and as such the Western governments attempted to stir financial ruin as soon as possible. As such, there was a heavy initial focus on targeting the financing and crediting institutions, spearheaded by the Anglo-Saxon governments and tentatively followed by the EU and other allies. Banks had their assets frozen, including vast sums of the RCB's reserves, and the same institutions would be swiftly locked out of SWIFT transactions, demarcating a crossing of the Rubicon in sanctions already two days after the outbreak of war. Initially, mainly state-affiliated banks were targeted such as the state-owned VTB, but already in the beginning of March the targets widened; Sberbank, the largest Russian bank headed by the reputed liberal Herman Gref, was also sanctioned. Until summer, all of the 8 largest Banks of Russia [Figure 8] were sanctioned to some extent by western nations. Interestingly, Singapore joined as well for the enactment of some financial sanctions, gaining it a spot on the "unfriendly countries list" of Russia. Due to all these sanctions, the RCB cannot access roughly half of its reserves which are denoted in currencies of these "unfriendly countries". In parallel to the financial measures, export controls on technology were also immediately enacted by Western countries, but these will not bite until much later. In response international markets feared coming defaults on all fronts. The MOEX index, a capitalization weighted index of large equities, fell by 45% on the day of the invasion. In the following two weeks of the invasion, the Ruble would shed roughly 50% of its value compared to the Dollar [Figure 2]. Accordingly, the IIF predicted a 15% contraction in Russian GDP – figures which parallel the horrors of the wild 90s.

A December 2022 Financial Times article describes a meeting of Russia's top technocrats with Putin a month prior to the invasion headed by Gref and supported by Nabiullina, the topic being the fallout of potential Western sanctions. There, the economic entourage presents a scenario of a GDP contraction of 30% and a necessary interest rate of 35%. Ultimately, they were unable to sway Putin with their warnings, and upon hearing of the war, Gref apparently was “completely bereft, in a total state of shock” – for now it was up to these loyal technocrats to combat their own prophecies. However, sanctions as depicted in their horror scenario such as large embargoes were never realised, and those that were enacted are manageable in the short run. On the same day as the invasion, public trading of stock was suspended. To combat the falling currency, the RCB hiked the key deposit rate to 20% [Figure 5]. Requirements for loan collateral have been made much tougher. Transactions could be transferred through the cumbersome but homegrown SFPS, and crucially, banks vital to the payment of fossil fuels such as Gazprombank have not been banned from SWIFT until now, which allowed a shallow flow of Dollars and Euros into the country. By early April, all losses of the ruble were restored, and as stock markets reopened they actually recorded gains. It seems that the Russian policy of diligently paying off Western debts and detaching from the Western financial system allowed for relatively little damage. The only dubious remark the RCB would finally make in their May report – the first after outbreak of war – is that the “Macroeconomic forecast has been materially revised” and a “challenging [...] external environment”, anticipating a contraction of 8-10% of GDP in 2022. However, the external markets would bless Russia with high commodity prices; No one but the Americans can afford to forgo their interdependence with Russian commodities.

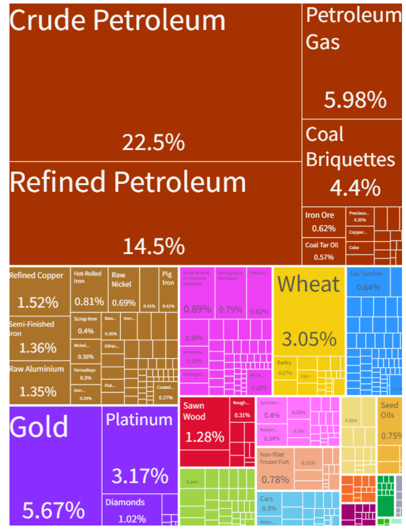

Figure 7: Composition of Russian exports in 2020

As the economist Paul Welfens describes, the economic exposure of European economies to Russia initially seems very contained, with exports to Russia amassing to 1-3% of GDP. Russia owns – and by extension of its concurrent dominance of the black sea – controls market shares worth 11% of global oil, 20% of the global corn, natural gas, fertiliser, and 30% of wheat [Figure 7]. For the entire EU this translates to 46.8% of natural gas and 24.7% of oil imports coming from Russia in 2021, and for some countries such as Hungary a share of 76% of fossil fuels stem from Russia; A tough precedent when EU policy requires consensus of all members. On the other hand, Europe purchases roughly 40% of Russia’s total exports, illustrating again that economic interdependence cuts both ways. With a lack of political capital to endure such economic hardship, the EU decided at a summit in March that it will not follow suit with the Americans on an immediate boycott of Russian fossil fuels. There was however a consensus in Europe to move away from Russian energy. This decision would manifest tentatively via the banning of Russian maritime imports of oil [but not by pipe], as well as the recently introduced price cap of 60 USD per barrel. Regardless of these longer running developments, Evenett remarks that Russia *“has taken a hit in volume, but not on price”*, allowing revenues to remain stable despite fewer barrels of oil being sold. Finally, Russia can simply redirect its fossil fuel exports to India and China who will gladly savour Russian oil at a discount exemplified by the widening gap between Russia’s Urals oil and north sea Brent crude [Figure 8]. Over the year, a massive “grey” market has mushroomed with new brokers in Hong Kong and Dubai whereby Urals oil is mixed with other flavours, making it difficult for sanctions to be effectively implemented. Western policy also overestimated the significance of oil revenue as exemplified by the Yale study by Sonnenfeld et al. in July which falsely presumed that the Russian state budget runs 60% on fossil revenues, when in reality it is closer to 40-45%. This Russian budget is also based on revenues of 70 USD per barrel, a price which was overshot for most of 2022 until the price cap agreement could partially pull it down. As such, the Western attacks on the energy sector have also failed to bite.

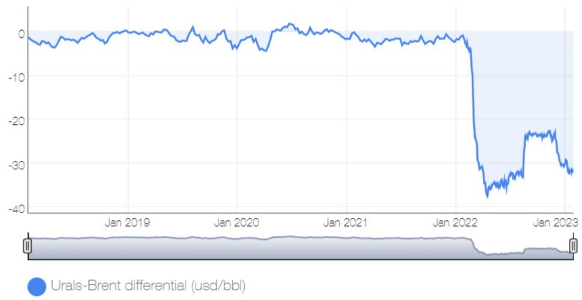

Figure 8: USD discount/bbl between Brent and Urals

Private undertakings

If the sanctions implemented on finance and energy could not wound the Russian finances, surely the private sector could do more damage, whether via a Western boardrooms deciding to exit the Russian market or on the homefront through disgruntled oligarchs and fleeing Russians. These effects would however also prove much more elusive. First, regarding the Western firms, their assets and consequent exposure to Russia have prominently decreased since 2014 already. The renewed emigration after the outbreak of war was not nearly as material, and the assets that are there are illiquid, meaning they will remain there at the Russian government's disposal. According to a recent study by Evenett, less than 9% of Western firms with subsidiaries in Russia have completely divested one of these subsidiaries by November 2022. These firms accounted for only 6.5% of total profit before tax of Western firms commercially active in Russia. The most economically relevant withdrawal is presumably that of oil giants British Petroleum and Shell. As such, direct exposure in Russia of western firms is limited for now. With the withdrawal of renowned Western consumer brands, there also came the expectation of stoking the Russian population against the war. According to the latest reports of the Levada Center however, a steady 80% of the population approves of Putin and his policies. All organised resistance has been systematically curbed, and of those which disapprove of the war, hundreds of thousands have left. These mainly include the young, educated, and semi wealthy; A demographic necessary for the creative destructive forces of an economy, but not for the immediate maintenance. This demographic has also not fully witnessed the turbulence of the 90s, implying that the remaining population provides the Russian government with an exotic asset: The ability to handle hardship and abide by authority, a boon also publicly remarked by Lavrov, the Russian minister of foreign affairs. Thus, there remains a last strata which could upset the authority of the state, namely the Oligarchs. As The Economist points out however, the targeting and seizure of private assets of these oligarchs serve as little more than publicity stunts. Most influential individuals of the higher echelons of Russia have been sanctioned by the West over the year, giving them little incentive to defect. Putin has also proven that loyalty is rewarded above everything, and that the consequences for anything opposite is littered with examples. This is especially exemplified in the armed forces which are notoriously incompetent but devoutly loyal so far. As such it may be concluded that the initiative of private peoples could also not dent the economy.

Impact a year later

The aforementioned measures and conditions all share the fact that they do not pose an imminent threat to the war effort. The initial aim of Western sanctions has effectively failed. As the RCB meekly reported in its final quarterly report in 2022, *"GDP will decline by less than previously expected"*. The attitude of Nabiullina in the final yearly press conference of the RCB is accordingly one of fortitude and adaptation despite *"tensions"*. She describes a large reorientation towards the *"Far Eastern seaports"*. The Russian populace has generally proven itself complacent, and at worst, supportive of the war effort. All this provides a sobering lesson to the uni-polar economic order of the West in regards to the limit of its power. Globalism allows for circumvention as much as for integration. According to the IMF, Russian GDP will probably have remained stable throughout 2022. While the short term measures have not had their desired effect, Russia will now enter the long-run game, a battle of economic attrition. Given the circumstances, this will be the last arena in which Western policy may prevail.

Trundle

Amongst all the mentioned measures, there is one type of sanction which is expected to bite very soon as minor tears are already appearing: Export controls. As Evenett states, *"this is the deciding front of Western sanctions"*. In all things tech, Russia has already shown slight signs of turbulence: Grounded aircraft are cannibalised for parts, safety standards for car manufacturing are eased to allow for production without airbags or anti-lock brakes. The strongest bite will come from the Western hegemony in semiconductors. By excluding China as well from Chip technology, the West spearheaded by the US will create a Eurasian block of poor electrical engineering. In an exemplary solidification of geopolitical blocks, Taiwan (where the chip-champion

TSMC is headquartered) has also adopted export controls against Russia already in February. The innovation necessary for the flourishing of a domestic chip industry has been choked by autocratic mire in cronyism as well as the exodus of the necessary demographic. This provides an eerie echo of the GDR which rode itself into fiscal ruin trying to gain an edge in semiconductors. The absence of Western tech will lead to an economy which will not crash but instead whither the economy; The output will be *"good-enough"*.

The Russian populace might not thrive, but it will survive under these conditions in the medium run. As long as the Russian media can maintain an air of Western siege, the population will not see fault lying with their own government. Even if Russia triumphs against Ukraine, the dead young will not return to innovate the economy, and the remaining ones will be mired in partisan warfare in their new territory and face debased quality of life at home ; Conditions which will not facilitate optimism for a baby boom. Within the same period of demographic expiration, the petrostate model will become obsolete by virtue of ecological necessity. This expiration will make the Russian leadership erratic, leading to a geopolitical risk-premium for all bordering states of Russia, especially Georgia and Moldova. - However, it must be noted that while the long run is bleak, the long run also bears a lot of potential for adaptation and changes in direction.

Conclusion

The economic confrontation with Russia has imparted a trove of insights for Western policy makers. The primary realisation is a sobering lesson: Foes can no longer be subdued without the accumulation and expenditure of hefty political capital; Political capital which the West must now garner under ever more pressing circumstances; Political capital which will require the forging of renewed social contracts to tackle collective problems with renewed vigour. What some private minded economists will label a Keynesian bloating over the past years will become a new reality for the collective issues pressing the west, be it environmental or geopolitical. The Asian and – with increasing acceleration – the African economies will parallel the heft of the Western economies, which may then use the globalist infrastructure as much to circumvent the West as to integrate with the West. Economic interdependence is not a panacea against war, but a great foundation for peace. In terms of resilience, Russia and Ukraine alike have proven that during war, the state has a myriad of interventionist tools to sustain a war economy which have long become alien to Western policy. When combating thuggish states, the usual rules of dandy international trade can no longer be relied upon. In affecting the direct course of the war, the most effective policy of the West has been the supply of weaponry. As Evenett concludingly remarks: *"The economic front is a third wheel in combating Russia [...] failure of the government is much more likely to come on the military front"*. It is with the late supply of battle tanks that Russian policy may be decidedly swayed, not with diplomatic slaps on the wrist. With growing realisation, the West will need to conjure its leviathan spirits to tackle geopolitical rivals and environmental issues alike, all the while balancing this impetus in order not to become a Hobbesian nightmare themselves; This will be the decisive challenge of the 21st century.

References

Figures

- Figure 1: Global Trade Alert Database
- Figure 2: FRED Economic Data, St. Louis Fed
- Figure 3: FRED Economic Data, St. Louis Fed
- Figure 4: FACTSET
- Figure 5: Bank of Russia: https://www.cbr.ru/eng/hd_base/KeyRate/
- Figure 6: FACTSET
- Figure 7: OEC: https://oec.world/en/profile/country
- Figure 8: NESTE: https://www.neste.com/investors/market-data/urals-brent-price-difference#29c8e6b8

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