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Russia Thinks America Is Bluffing

Росія вважає, що Америка блефує

Автор статті журналу «Foreign Affairs» вважає, що для стримання вторгнення в Україну, загрози Вашингтона мають бути жорсткішими. Сполучені Штати можуть знищити зв'язки Росії зі світовою фінансовою системою: офіційні особи США обговорювали внесення до чорного списку великих російських банків, заборону на конвертацію рублів у долари та відключення Росії від мережі міжбанківських комунікацій SWIFT. Але реалізація будь-якого з цих заходів дорого обійшлася б союзникам у Європі. Це також безпосередньо зачепить Китай, найбільшого споживача російських товарів. І це може призвести до ускладнень, яких адміністрація Д. Байдена воліла б уникнути.

<https://www.foreignaffairs.com/articles/russia-fsu/2022-01-10/russia-thinks-america-bluffing>

To Deter a Ukraine Invasion, Washington's Threats Need to Be Tougher

As talks between U.S. and Russian diplomats begin in Geneva over the fate of Ukraine, Europe stands on the brink of war. The U.S. strategy is to negotiate with Russia while threatening “devastating” sanctions if Russian President Vladimir Putin decides to invade his country's eastern neighbor. Biden administration officials have outlined a range of sanctions they could impose on the Kremlin, from targeting Russia's financial system to restricting its ability to import technology.

But the West's threat of economic sanctions can work only if the proposed measures would make Russian military action against Ukraine expensive enough to alter the Kremlin's cost-benefit calculus. Putin, however, sees Ukraine as crucial to Russia's great-power status and to his own personal legacy. So for sanctions to work, they have to be costlier than the vast benefit Putin perceives in controlling Ukraine.

That doesn't appear to be in the offing: notably, after Biden administration officials escalated their threats, the Russian stock market and its currency barely budged. The markets' collective shrug mirrors the Kremlin's view that the United States will not follow through on the harsh sanctions it has discussed. Russian policymakers know that many of the tactics that could seriously hurt Russia—such as curbing Russian commodity exports or blacklisting Russian banks—would be costly to the West, too, making it uncertain if the Biden administration would follow through on those threats. Finally, economically tough sanctions will require Chinese acquiescence, and that could create a host of other problems for the United States.

In the past, Putin has demonstrated that he's willing to endure moderately costly sanctions in pursuit of reestablishing Russia's dominance of its former satellite states. After Russia seized Crimea and occupied part of the Donbas region of Ukraine in 2014, the United States and Europe imposed restrictions on several big Russian firms, denying them access to international capital markets, which according to the International Monetary Fund reduced Russia's GDP by somewhere between 1.0 and 1.5 percent. The United States also banned companies from doing business in Crimea and prohibited the export of certain oil-drilling technologies, which has reduced Russian oil output, but not by a huge amount. The Kremlin concluded this was a fair price to pay for Crimea and the Donbas and has no plans to give either territory back, no matter how long these sanctions remain in place.

This time, Russia has set its goals even higher. Rather than trying to grab two chunks of Ukrainian territory, it wants to force the entire country back into its own sphere of control. To do so, Russia has assembled a vast invasion force on Ukraine's border, one capable of driving through Ukrainian defenses all the way to Kyiv. Meanwhile, Russia maintains the ability to launch missile attacks and

airstrikes on targets across Ukraine. If the Kremlin thought one percent of its own GDP was a fair price for Crimea and the Donbas, it would surely be willing to pay more to acquire the rest of the country. Biden says he's ready to impose "devastating" economic costs if Russia invades. His administration has threatened a "high-impact, quick-action response" on sanctions, one official recently told the *New York Times*. But even the most detailed statements from administration officials have focused on steps the United States might take, rather than those it will commit to. U.S. officials have discussed severe measures such as cutting Russia off from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), but this would require European support and may therefore be challenging to implement, though some European leaders have signaled they are open to considering such measures.

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Washington's promise to work with allies on sanctions, meanwhile, may be seen as a sign of weakness, not strength. Deference to allies—in particular, Germany—is what led Biden to decline to sanction the Nord Stream 2 pipeline (which transports gas from Russia to Germany) earlier this year. Now, Germany and France are resisting a European Union effort to specify which sanctions they'd impose if Putin in fact invades Ukraine. The new German chancellor, Olaf Scholz, started his premiership with a call for dialogue with Moscow, which in German diplomatic parlance too often means "concessions." The Western allies are sending dangerously contradictory messages about their willingness to impose anything beyond a financial slap on the wrist.

Meanwhile, within the United States, Congress has focused on sanctions without serious economic bite. Some members of Congress are fixated on canceling the Nord Stream 2 gas pipeline, a measure that would impose close to zero economic cost on Russia. If Nord Stream 2 gets canceled, Russia will simply keep shipping gas to Europe via existing routes. There is already a surplus of pipeline capacity, so the volume of Russian gas sales to Europe would be unchanged. The Kremlin may see the focus on Nord Stream 2 as evidence that the United States is not serious about imposing costs.

Sanctioning Russian oligarchs and Putin's cronies, another measure that has strong Congressional support, is equally unlikely to change the Kremlin's calculus. There is good reason to prevent them from laundering money through Western financial systems, but doing so would have little impact on the Kremlin's foreign policy. Russia's business elite would prefer to continue traveling to the West and keep their foreign bank accounts. But they don't decide Russia's foreign policy: Putin does, with advice from a small circle of security service chiefs, most of whom are already under sanction.

Given that U.S. domestic debate focuses on low-cost measures, and given that Europe is divided over whether to back costly sanctions, Putin may think the United States is bluffing when it threatens tough sanctions. Washington has powerful sanctions in its arsenal, such as blacklisting Russian banks. It has applied these kinds of measures in the past against Iran and North Korea. There's no doubt the United States could obliterate Russia's connections with the global financial system: U.S. officials have discussed blacklisting major Russian banks, preventing banks from converting rubles into dollars, and disconnecting Russia from the SWIFT interbank communication network. But implementing any of these measures would be costly to allies in Europe. It would also directly affect China, the largest consumer of Russian commodities. And that could bring about complications the Biden administration would prefer to avoid.

THE CHINESE FACTOR

The United States didn't have to carefully weigh China's potential reaction to imposing sanctions on the Kremlin in 2014. This was largely because the measures didn't hit China in a meaningful way. Few Chinese-made goods were affected by the export controls, and China had no meaningful investments in Crimea. As a result, Beijing could condemn the sanctions but allow its companies to abide by them in the few instances that they had an impact on business.

But if Washington imposes much harsher sanctions, the Chinese response might be far different. China is Russia's largest trading partner, after all. It's unclear if Chinese companies would stop dealing with a major Russian firm that the United States chose to blacklist. Doing so would help strengthen U.S. financial power—and prove the potency of tools that could easily be used against China in the future. Russia and China have already collaborated to establish alternative payments mechanisms if U.S. sanctions obstruct their banking systems. If China chose to reject U.S. sanctions and its companies didn't comply, it would put Washington in a tight spot. Chinese companies would be in violation of U.S. law, but any legal action against them would require risky escalatory measures such as imposing penalties on major Chinese firms. The alternative, however, would be to accept that China need not follow U.S. sanctions, which would dramatically undermine their economic reach.

Beijing could buck U.S. sanctions and dare Washington to retaliate.

The same dilemma applies to the Biden administration's threat to cut off Russia's ability to buy semiconductors, smartphones, or airline parts. Smartphones are mostly produced in China, for example, so any export controls on smartphone components would work only if China were willing to enforce them. Beijing could buck U.S. sanctions and dare Washington to retaliate—which would open a second front in a great-power financial war.

China has previously taken humiliating steps to avoid violating U.S. sanctions. Chinese state-owned banks, for example, refused to open accounts for Hong Kong's chief executive, Carrie Lam, after the United States imposed sanctions on her. U.S. sanctions that have a chance of changing the Kremlin's calculus, however, could force a rethink in Beijing. If there were ever a time to try to undermine American financial power, this would be it.

After all, in terms of their impact on the global economy, tough financial sanctions on Russia could well be the largest use of sanctions since the United States targeted Japanese finance and oil imports before World War II. This is why Russia may think the United States is bluffing when it threatens dramatic sanctions. The Kremlin believes it has a far higher tolerance for risk than its American or European counterparts.

If Biden is serious about using sanctions to shape Russia's calculus, his administration needs to sharpen its messaging. The administration should name the Russian banks it would blacklist, the specific transactions it would prohibit, and the companies that would be in danger of going under. Then the Kremlin might start taking its sanctions threats more seriously.