Can Commerce Tame Russia? What the Crisis Tells Us about the Nature of Warfare in the Modern Era

Dr. Rebecca Harding
Independent Trade Expert/Economist

Abstract:

Russia has been using trade to balance its domestic and foreign policy interests in a world where the prospects of Mutually Assured Destruction (MAD) have limited the prospects for direct military confrontation between great powers. This article looks at the role of trade, or more broadly commerce, as it is being used strategically to constrain Russia. It suggests that Russia has turned trade into a domain of warfare, and to this end, the question of whether or not it can constrain Russia is the wrong one.

Key words: Russian Economy, Weaponisation of Trade, Sanctions, Deterrence

Introduction: Trade and Commerce as a Component of Strategy

"That trade has been weaponized has become mainstream thinking. It is acknowledged widely that the politics of trade are now overriding economic rationales. This argument may have seemed like crazy sensationalism two years ago when *The Weaponization of Trade: The Great Unbalancing of Politics and Economics,* (Harding and Harding, 2017) was first published. However, when a front cover of *The Economist* (The Economist, 2019) bears the headline 'Weapons of Mass Disruption' and its accompanying image is of a bomb falling through the sky with 'Tariffs', 'Tech Blacklists', 'Financial Isolation' and 'Sanctions' written on its side, the idea that trade has become a weapon in states' arsenals for the maintenance of national security is no longer just hyperbole" (Harding and Harding, 2019).

The attempt to constrain Russia using economic rather than direct military means is a test case in the use of trade and commerce strategically to constrain the actions of another state. Trade has become a tool of the 'all means' approach to warfare in a great power conflict that is multidimensional and multinational in origin. These are characteristics that derive from the inter-dependencies between nations that developed through the post-Cold War era of globalisation (Farrell and Newman, 2019).

The battle lines are drawn, not just between Russia and the 'West' (the United States, NATO, the European Union, and allies such as Japan, South Korea, Taiwan, and Australia), but also between China and the 'West.' They are drawn across finance, technology, commodities such as oil, and wheat supply chains, and increasingly over human rights and climate change. As such, these battle lines challenge the very nature of market economics and trade itself. In short, who we do business with, how we do business, and what that business entails has become the concern of national strategy in a way that has not been seen on this scale before; in short, trade has become strategic, as the concept of military power alone has diminished in importance.

This is the battle for the 21st century. Nation states are using trade to balance their domestic and foreign policy interests in a world where the prospects for Mutually Assured Destruction (MAD) have limited the prospects for direct military confrontation between great powers. As we can see with Russia at present, the nuclear peace is fragile. So how do Nation States protect national interests, build power and constrain aggression in an adversary and can it ever be successful?

This article looks at the role of trade, or more broadly commerce, as it is being used strategically to constrain Russia. It suggests that Russia's own approach to deterrence has turned trade into a domain of warfare, and to this end, the question of whether or not it can constrain Russia is the wrong one. Rather, we should be looking at the motivations for using it as a weapon, the means that are being used (sanctions and export controls in particular), and the credibility of the threat that it represents.

Over the course of the months since Russia's invasion of Ukraine, the United States, NATO and the EU have learned much, not just about the use of trade to achieve strategic objectives, but also about its limitations. It has not been without collateral damage on both sides, the evidence that it has indeed starved the Russian military of cash is limited, and what is absolutely clear is that it has accelerated the separation of the economic, technological, and financial world into an 'eastern' and a 'western' sphere of influence. While it will have excluded Russia from the globalisation of the last 30 years, it will not have excluded it from any new system that emerges. Whether or not the 'West' will have control over that new paradigm is moot, but its actions now have made sure that power relations in the next 30 years will be very different in their construction from the past 30 years.

Russia and Trade as a Domain of Warfare

At the start of the Russia-Ukraine crisis, President Putin put Russia's nuclear forces on high alert (Seddon et al. 2022). This did two things: it made NATO and its allies aware, if they were not before, that Russia would take a 'hair trigger' approach to nuclear deterrence – a nuclear response would be justified if there was a non-nuclear or even a non-military attack on Russian interests (MFARF, 2020).

The second thing was to bring trade, trade finance, and economics directly into conflict as a domain of warfare. Russia is the 10th largest exporter in the world, accounting for some $602 billion of world exports in 2021. While this is dwarfed by the $3.6 trillion of global exports accounted for by China, and by the $1.9 trillion and $1.7 trillion accounted for by the United States and Germany respectively, Russia accounts for nearly 9 percent of all oil and gas exports trade in the world, making it systemically important to the global economy in general and oil markets in particular. More pertinently from a Western perspective, however, Russia's oil and gas sector has contributed between 17.3 percent and 21.7 percent to GDP between Q1 2021 and Q2 2022 (Statista, 2022) and historically overseas trade has contributed some 46 percent to its GDP (Chon, 2022). As only 9 percent of Russia's exports went to China in 2021, while nearly 52 percent went to the EU, the United States or Turkey, NATO and EU members were able to exact a heavy influence over revenues to the Russian economy. Similarly, the United States, the EU, the United Kingdom, and Turkey constitute around 45 percent of Russian imports, including critical electronic components for the production of its military hardware. In other words, by restricting trade, particularly exports of oil and gas and imports of electronic equipment, the strategic advantages of limiting revenues available to fund Russian military were seen as outweighing the strategic disadvantages to the West.

The other domains of warfare, such as maritime, land, air, space, information, and cyber are acknowledged components of 'multi-domain warfare' (UKMoD, 2020), but trade and economics have always only implicitly been aspects of conflict. The current crisis has been fought using sanctions on businesses and individuals, export controls to limit trade in certain products from toasters through to semi-conductors, limits on Russian central bank access to markets, and exclusion from the SWIFT payments system. This is the explicit use of economic weapons directly to constrain the actions of another state. Putin's reaction has escalated their use into an existential threat.

It is almost trite to say that this is a seismic shift in the post-war structures that have guaranteed peace for more than 70 years now. The fact that Germany has committed to spending more than 2 percent of its GDP on military and has agreed to send weapons to Ukraine is the ultimate testimony to how it views its role in Europe's future now that its role as a civilian rather than a strategic power can no longer be sustained.

This demonstrates just how the nature of modern warfare has changed and has been changing since the Global Financial Crisis. From a Russian perspective, the current war in Ukraine is pure geopolitics: strategic access to resources and re-uniting cultural and linguistic ties that are misrepresented by current borders. This is an old industrial war and is currently being fought as such.

From the perspective of the rest of the world, however, it is a war being fought in a multitude of domains, from football sponsorship to military and traditional 'industrial war' to global trade and finance; its endgame is control of the 21st century, economically, militarily, politically and culturally. The weapon of choice is the trade, investment, and the trade finance system.

Within this, the economic domain becomes one where the core weapon is to contain threats by shutting off trade and finance that enables technology to move into military contexts, that allows finance to be raised to buffer the effects of enforced financial isolation, or by limiting capital flows and investments to make sure that there is no Western money supporting the Russian economy.

The aim of course has been to starve Russia of cash, create a run on Russian banks and rouble liquidity, and thereby to cause the collapse of the Russian economy. Financial markets – currencies in the short term but over the longer term, investments as well – are being used as the nuclear option to constrain the actions of its political leaders.

This is a new paradigm. It is a world in which peace and war can co-exist; it resembles a game of "Go" where strategic encirclement is the goal rather than a zero-sum absolute victory.

In short, the West can no longer ignore the economic domain because the thinly veiled nuclear threats point out exactly how Russia might react to anything it does not like. This is not a game that can be won – it is a strategic game where all the outcomes are sub-optimal. If we exclude Russia entirely from the SWIFT system, then there is a likelihood, not just that Russia switches off oil and gas supplies to Europe, but also that Russia accelerates the expansion of its equivalent to the SWIFT inter-bank messaging. This is an economic nuclear option – two separate electronic financial systems built on separate technologies and internets with banks in the front line as they fight to implement ever-changing exclusions, sanctions, and regulations. Dollar hegemony will be consigned to the history of lost empires, not least because the renminbi is increasingly being used to price trade transactions in China, and because oil and gas contracts between Russia and China are increasingly priced in renminbi (Harding and Harding, 2019).

During the Trump era, it became clear that no-one won from a trade war. However, it was equally clear that trade weaponisation ran the risk of escalating into full-blown conflict between increasingly nationalistic countries (Harding and Harding, 2017; 2019). The risk has always been that economic nationalism would break down international structures of the post-war era and re-balance political power from the global era.

Is Russia Constrained, and If So, For How Long?

Despite early indications to the contrary, the Russian economy has not collapsed. The most recent predictions suggest that Russian GDP fell by around 4 percent in the last quarter compared with a drop of around 4.1 percent in the previous quarter (Mosolova, 2022). Around 1,000 Western businesses are assumed to have ended their Russian operations, and inflation was 12.9 percent in October. Some $300 billion of Russian foreign exchange assets have been frozen during the process of economic tightening since February 2022. The MOEX Russia Index has fallen by more than a third over the same period. Around 1,500 new sanctions and 750 amended sanctions have been imposed on Russian entities, including strategic defence businesses, and supply of critical technologies to Russian businesses has been prevented as a result (OFAC, BIS and DoS, 2022).

However, even though the Russian economy is in a technical recession now, and even though this is the biggest recession in 20 years, it is important to note that in spite of the cost to the domestic economy for individuals in the form of lower standards of living (Norrlöf, 2022), the impact from a geoeconomics point of view has not been as severe as the initial estimates suggested. Overall, the IMF predicts that Russian GDP will fall by 3.4 percent this year, compared to forecasts of over 8 percent in April. (IMF, 2022) The value of the rouble has not collapsed, and evidence from shipping data is coming through suggesting that Russian oil trade is alive and well, albeit functioning through ‘dark’ ships and shipping routes, therefore benefitting from higher market prices even if the trade volume is lower (S&P Global Market Intelligence, 2022).

Reliable Russian economic data has been limited since the early stages of the crisis. The country ceased to publish trade or economic data for public consumption, and this makes it hard to assess with any degree of accuracy what is happening precisely on the ground. However, we can learn from the last time that substantial economic sanctions were imposed on Russia – in 2014 after its annexation of Crimea – and what becomes clear is that Russian economists will have been modelling the impact of sanctions and export controls on the country for a long while, building up its resilience to counter those deleterious effects. Russia, although some 45 percent of its revenues come from oil and gas, has a strategic advantage in that it controls nearly 8.5 percent of world oil and gas exports in 2021 and nearly 20 percent of all EU27 imports of fossil fuels. Its capacity to influence the global price of oil, as well as EU oil and gas supply, is therefore substantial, as was shown at the beginning of the COVID pandemic when Russia walked away from OPEC discussions and triggered a major collapse in the oil price.

Interestingly, since 2014, Russia has also worked on other fronts to increase its influence over global trade and supply chains. For example, according to Comtrade data: first, Russian imports of fish from Belarus more than doubled in 2014 after the EU imposed sanctions on fishery and agricultural products that limited direct trade between the EU and Russia; second, Russia became the world’s largest exporter of wheat in 2017 after restrictions on agriculture trade finance by the EU and the United States and oil embargoes resulted in a pivot of its sectoral export strategy from 2014 onwards; third, Russia’s imports of gold grew from $35 million to $538 million between 2020 and 2021 ahead of the invasion of Ukraine. Fourth, Russia’s trade with China has increased from $40.1 billion in 2015 to $72 billion in 2021, reflecting a strategic eastward pivot. Trade in fossil fuels has risen from $19 billion to $49 billion, which is 68 percent of its total trade with China.

Russia’s alternative to the SWIFT payments system, the SPFS, has been attracting new participants since its inception in 2014. While it is difficult independently to verify its size and importance, it is said to have included 23 non-Russian banks before the Russia-Ukraine crisis, including from Turkey, Belarus, Germany, Kazakhstan, Kyrgyzstan, and Switzerland. China and Russia began to develop links between their two systems in 2021 (Wikipedia, 2022). According to Russian authorities, it now has 440 entities, 100 of which are outside of Russia and some 50 who have joined in the first half of 2022 (Norrlöf, 2022).

Russia's economic management through the process of sanctions has been measured and strategic. While the country may be constrained, the economic impact has been limited and, as Rumers and Sokolsky point out, "Russia's national security establishment is careful in calculating the correlation of forces and is averse to taking undue risks" (Rumer and Sokolsky, 2020). At the outset of the crisis, Russia put up its own interest rates to 20 percent, put capital controls on outflows of capital by individuals, and required 80 percent of assets owned abroad by Russian businesses to be converted into roubles. Oil and gas contracts were also converted to roubles while the sanctions regime permitted, meaning that the restrictions placed by the West on the Russian economy generally and the rouble in particular had a limited economic impact.

Major Western opposition, such as NATO and the EU, the United States, and the United Kingdom, were limited in the extent to which they could use military tactics to constrain Russia. Direct military engagement in Ukraine would have threatened Europe and the world with nuclear conflict, and while it is still something that cannot absolutely be ruled out, the explicit motivation for any action at present is simply to limit the funding of and technological aspects of the Russian war machine. The aim therefore was not to "sink" the Russian economy, but to disconnect its access to the means it had of maintaining or expanding its military operations.

Can Anyone Win?

No one can win in the current conflict. The West will hold Russia to account so that its actions in Ukraine are seen as a "strategic failure" so its reputation is damaged. China will not overtly come to its aid because it cannot win from explicit involvement at this stage. The Allies cannot win because military intervention would have unimaginable consequences. Everyone's best plan is to know and understand the behaviours, beliefs, and strategic cultures of their opponents. We must hope that all sides recognise that a strategic game is one which lasts for a long time, if not forever, and in which power ebbs and flows between strategic competitors because the alternative is MAD.

But it is the unintended consequences of modern conflict that define it. As the Russia-Ukraine crisis progresses, it is possible to look at the collateral damage caused by economic measures in the same way that analysts would assess the effect of military weapons.

Here, the results are ambiguous. For sure, it will be very hard to reintegrate Russia into the global financial system in the same way that it was integrated before the crisis. There has undoubtedly also been an impact on how daily business is conducted in the country; however, due to a lack of data and statistics, it is hard to be precise regarding the impact that externally imposed sanctions have had. But we do know that the rouble has remained remarkably strong, and that Russia's oil sales outside of the EU have remained robust, meaning that its exports have not been damaged to the extent that might initially have been expected.

More concerning is the impact of the crisis, as well as the subsequent sanctions and trade restrictions, on inflation in the EU, the United Kingdom, and the United States. Between February and March 2022 alone, trade values increased by an unprecedented 51 percent with some components, such as base metals, rising by 92 percent, copper and nickel by over 70 percent, oil seed by 76 percent, and clothing and footwear both by more than 70 percent. The value of oil and gas trade rose by 53 percent. The trickle through into prices in shops is being seen as a result.

Foreign policy began to seep into trade with US tariffs on iron and steel in 2018 as a means of constraining Chinese economic influence. US restrictions on high-tech businesses working with or in China deepened the use of trade in national strategy, and this has been followed by sanctions and embargoes by the EU, the United States, the United Kingdom, and allies restricting global trade with Russia to constrain its military power using economic means. However, the unintended consequence of using trade in foreign policy has been to create an inflationary backlash that affects people on the ground all around the world.

Trade, in the sense that it has been used strategically in foreign policy, has been weaponised. Inflation is the result and this affects everyone.

So, Will Russia be Tamed?

The motivation for using economic and trade means rather than military ones is clear. It alludes to something much more significant about conflict in the modern, digital era. Military options are extremely limited – not least because Russia's "Basic Principles of the Russian Federation on Nuclear

Deterrence' (MFARF, 2020), which loosen the circumstances under which Russia might feel sufficiently threatened to launch a pre-emptive nuclear strike. Its scope is vague, but it includes in its list of potential threats, military activity in adjacent territories (such as Ukraine) and conventional weapons like short and medium range missiles without a nuclear warhead (Starchak, 2020). MAD is more likely if NATO overtly uses conventional means to limit Russia's ambition in the region, a concept that Russia may also be testing.

If we are asking ourselves about the "taming of Russia," we need to ask whether we are looking at ameliorating its nuclear threat or looking at limiting its capacity to fight conflicts in the future. From the Russian nuclear doctrine, there is sufficient ambiguity to suggest that an economic threat could be seen as an existential threat, and therefore, as President Putin suggested back in February 2022, a nuclear reaction is justified. The current action quite clearly does not tone down the rhetoric surrounding the potential use of nuclear weapons, and to this extent, there is no sense in which Russia has been tamed.

A key feature of deterrence rests in the credibility of the threat that has been issued. Does Russia credibly intend to use nuclear weapons to combat economic measures? As previously stated, the answer to this question would be a qualified no, as the risks that the Russian security establishment takes tend to be measured; its economic reaction has been carefully calculated and has minimised the risk to the Russian economy, if not to the Russian people's standard of living.

However, the credibility of a threat must also be equally applied to the use of economic and commercial weapons. This is where the question around how far the West can limit Russia's long-term capacity to fight conflicts becomes relevant. As long as there is dollar hegemony in international markets, the measures imposed by NATO and its partners are a potent means of maintaining an international rules-based order.

However, as the case of Russia demonstrates, they constrain in the short term rather than the long term in a world that has been restructured of the principles of global interdependence over the last 30 years. China and Russia control large parts of the rare earth metal supplies, for example, that dominate electronics and digital sectors around the world, as well as military supply chains and production, and of course the transition away from fossil fuels and towards "clean" energy. Interestingly, it is these base and rare metals that have seen the biggest increases in price since the start of the crisis.

In other words, as Russia is aware, NATO and its allies have a limited window during which access to funds can be restricted. However, in the longer term, the global economic system will adapt. Russia has already sought new allies in China, India, and the Middle East, and while many of these appear to be marriages of convenience, they are nevertheless important in ensuring that the Russian economy can stay afloat while it adapts to a new paradigm where the influence of the dollar and international markets is tempered by a growing digital, technological, military and financial world driven by China. Where Russia presents an "immediate threat to the free and open international system", China is the only strategic competitor with "the intent and the power to reshape that system" (Fontaine, 2022.) As such, Russia's power is "tamed" only for as long as it takes it to adjust to this new paradigm.

And it will certainly adapt. Russia's strategic culture is based on a long history of tensions with Europe, and the narrative that the West is hostile to Russia is one that pervades public discourse and political culture – especially since 2014, when Russia has grown increasingly dissatisfied with the status quo of globalisation. Since President Putin's return to power ten years ago, the strategy has been to expand Russia's global reach through the tools and economics of globalisation itself. The approach is to disrupt from within a system rather than from without – doctrines that have been self-evident since the 19th century (Humink, 2022).

Nowhere is this disruption clearer than in its current approach to economics as a domain of warfare. Inflation strikes at the heart of Western market capitalism because it is the essence of market failure: too much money (in this case, dollars) chasing too few goods (in this case, oil and gas). Of course, there is collateral damage, as the Russian economy bears its own inflationary cross, but the Russian sense of injustice at the effects of Western influence on its own strategic position in the world makes it a price worth paying while the economic model adapts to a new paradigm.

Modern conflict is multidimensional, but so is modern peace, as the zero-sum nature of winning or losing is no longer relevant in a world where war and peace coexist, and where foreign policy and influence are defined as much in economic and trade terms as they are in military terms.

In the words of the new NATO strategic doctrine, "Euro-Atlantic security is undermined by strategic competition and pervasive instability" (NATO, 2022). This is currently due to Russia's actions in Ukraine, but there is no indication that the strategic competition with China will diminish in the near term, and it will create a new strategic paradigm in the future. The current crisis will take time to resolve, and Russia's role in the emerging new era will be no less significant. Taming Russia implies that there is a conflict to be won, and that economic measures will be sufficient to result in victory for the West. There is currently no explicit conflict between NATO and Russia in that no-one has declared war, still less a definitive outcome.

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