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No, the U.S. Can't Bring Russia to Its Knees (Op-ed)

Russia's economy continues to grow, despite the fallback of sanctions.

By Leonid Bershidsky

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Alexander Avilov / Moskva News Agency

The U.S.'s sanctions policy against Russia is evolving from trying to nudge the Kremlin in a desired direction to inflicting maximum pain. This is a slippery slope, and it's time to consider the most extreme consequences for Russia, as well as the U.S. and its allies.

During a Senate Banking Committee hearing this week, a telling exchange took place between Republican Senator John Kennedy and the Trump administration's senior sanctions officials.

Kennedy demanded to know what they would do if the president ordered them to bring the Russian economy "to its knees."

They wouldn't give a straight answer, saying instead that the ramifications of such a goal would need to be assessed and that current sanctions were already aggressive. Irritated, Kennedy insisted: "But the economy hasn't been brought to its knees!"

His frustration is understandable. The U.S. has levied sanctions, or said it will, in response to a series of Russian actions: the annexation of Crimea, the fomenting of a pro-Russian rebellion in eastern Ukraine, the attempted poisoning of an ex-spy in the UK and a string of cyberattacks. The list could go on — but President Vladimir Putin's Russia has gone on doing all those things.

Treasury Undersecretary Sigal Mandelker said in her testimony that she believes Russia's "adventurism" has indeed been checked by the economic pain the sanctions have inflicted.

That, however, looks like a statement of faith rather than fact. There is no evidence the sanctions have affected Putin's thinking or plans. That he might like them to be lifted isn't such proof.

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Obviously, the U.S. measures are a nuisance on several levels. They have triggered a drop in foreign direct investment from which Russia, despite its recent economic growth, hasn't recovered. Some big energy projects have been set back by at least a few years. Then there's the damage to wealthy Russians and their companies. It's unclear how many of their assets have been frozen, but a U.S. Treasury Department report to Congress this month put the number in the "hundreds of millions of dollars" in the U.S. alone.

Anyone would like such problems gone. But Russia's unapologetic stance, and the absence of any steps by Putin that could be interpreted as a peace offering, show that the Kremlin isn't prepared to give any ground to get the U.S. to step back. That creates the temptation in Washington to make such pressure overwhelming. Even if the Trump administration doesn't want to go there, many legislators do.

Kennedy isn't alone in wanting to try. Six other senators have drafted a bill that would punish investments in Russian energy projects, government bonds, as well as, essentially, any dealings with its tech industry that could facilitate malicious cyber activities. This, as well as the sanctions threatened against European companies involved in Nord Stream 2, a gas pipeline Russia is building to connect with Germany, would be close to the extent of what the U.S. can do.

In the most extreme case, Washington could impose the same kind of embargo as it did on Iran. That would make it impossible for any company with ties to the U.S. to have any dealings with Russia. It could cut off all Russia's banks from the dollar-based financial system and punish buyers of the country's oil and gas.

Not even the most hawkish are willing to consider the oil and gas part of this option. Russia is the biggest natural gas exporter in the world and produces about three times as much crude oil as Iran. Removing it from the market would unleash a global energy crisis. Sanctioning all $486 billion of Russia's foreign debt would also roil markets and cause deep losses to

investors — including ones based in the U.S.

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The Senate bill goes about as far as is possible without setting off such cataclysms.

Further restrictions against Russia's energy and tech industries would likely mean reprisals for U.S. companies operating in the country. The biggest 50, among them Philip Morris International Inc., PepsiCo Inc. and Procter & Gamble Co., have sales of about $16 billion there, according to Forbes Russia. The Kremlin has been as hesitant to declare war on these businesses as the last two U.S. administrations have been to use maximum economic force against the Russian energy and finance sectors.

As the U.S. begins to consider an all-out economic war, the two strategic questions it needs to answer are: what it is willing to pay to extract any concessions from the Putin government at all, and how long it is prepared to wait.

Macroeconomically, Russia, with unemployment at a record low, modest inflation and $400 billion of international reserves, is unlikely to collapse before the U.S. unleashes a global energy or debt crisis that could prompt its allies to desert it.

If less than maximum pain is applied, Russia could manage for years with relatively low growth. That is the basis for Putin's calculations. It bodes badly for the current direction of U.S. policy. If Washington inflicts as much pain as it can — and nothing changes — it will be a painful failure for the superpower.

Leonid Bershidsky is a Bloomberg Opinion columnist covering European politics and business. He was the founding editor of the Russian business daily Vedomosti and founded the opinion website Slon.ru. The views and opinions expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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