

Western Reaction to War in Ukraine Plays into Vladimir Putin's Hands

The world must not repeat the mistake that the Allies made at the end of World War I.

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Russia's attack on Ukraine radically changed the global situation overnight. In the blink of an eye, Moscow turned the geopolitical clock back not to the time of "glasnost" and "perestroika," but to the height of the Cold War. The events in Ukraine are painfully reminiscent of the suppression of the Czechoslovak and Hungarian uprisings, the war between the Soviet Union and Finland and, finally, the attack of Hitler's Germany on Poland.

With half-crazed rhetoric, the Russian dictator and his coterie are declaring their right to employ massacre and destruction to establish whatever order they want in the territory of independent countries while threatening to unleash nuclear weapons against anyone who

would dare interfere. And, like a terrorist who threatens to blow himself up if his demands are not met, he begins killing the hostages to drive his point home.

"Never before in human history has a terrorist taken tens of millions of people hostage at once and threatened all of humanity with destruction. The world is facing a new level of threat, one that has clearly been gathering steam for years before suddenly and violently bursting into view. It is understandable, therefore, why the response of a stunned world community has so far fallen short. Even now it remains piecemeal and indecisive. Apparently, the politicians of the U.S., EU and NATO are still viewing the situation through the prism of their own ideas about state structure, domestic politics and geopolitical strategies."

In economically developed countries where the reins of power change hands through democratic elections, the elites are forced to strive for a healthy economy and a society in which citizens are free to work, earn a living and transfer capital. These countries' budgets are highly dependent on their ability to borrow on foreign markets. The election of their leaders implies that the citizens of that country carry a collective responsibility for the country's policies.

It is not surprising, therefore, that these same countries have refused to enter into direct military confrontation with the Kremlin for fear of escalating the situation into a nuclear war and have concluded that applying "economic pressure" is the only way to force the Russian authorities to stop. Words are spoken from presidential podiums about the desire to "make Russia pay a heavy price" for its act of international terrorism on a planetary scale.

"However, the actions of the EU, UK and U.S. fall far short of the mark and largely just play into the Kremlin's hands."

Russia is the exact opposite of a developed Western country. Power in Russia rests on the accumulated capital earned from the sale of natural resources and hordes of siloviki are prepared to brutally suppress all democratic initiatives and attempts at resistance. Kremlin leaders don't care about the standard of living or opinions of Russia's citizens. They care only that they have the loyalty of several thousand senior officials and that two million siloviki receive a regular paycheck and, in return, are ready to defend the government. With authority centralized in this way, independent business and sources of capital are unimportant by definition, as are the country's millions of managers, businesspeople and professionals. All that matters is the extraction of natural resources and the ability to convert the income from their sale into villas, yachts and military might.

The Russian authorities have seen to it that disgruntled citizens can never voice their indignation over worsening living conditions or oppose the government and replace it. Just the opposite – that decline in prosperity and freedoms is met with greater repression, ever more rabid propaganda of hatred for the whole world and militarization on a scale that

suggests Russia is making a “last stand.” Now, even Russia’s notorious oligarchs are powerless to voice their opinion about what is happening in the country, much less influence events in some way. Russia is run by individuals who couldn’t care less about assets in Europe or the U.S., opportunities to travel abroad or the upholding of humanitarian values.

"The only way to stop Russia is to deprive the Kremlin of its centrally-controlled means for building up its military potential. This can only be accomplished by depriving it as much as possible of three things: financial capital, technology and equipment, and human capital."

Therefore, EU sanctions aimed at denying visas to Russians and preventing them from depositing money in European banks are counterproductive. This is exactly what the Kremlin wants – that tens of millions of Russians who oppose the regime will be unable to leave the country and even temporarily find themselves in a world free of Russian propaganda or to withdraw capital from the country that the Kremlin could otherwise use at its discretion.

"Effective measures would do just the opposite."

Foremost, they would block the ruling elite while granting ordinary Russians expedited visas and even refugee status with the right to live and work in economically developed countries. They would provide support for the relocation of entrepreneurs and specialists, enabling hundreds of thousands of highly skilled and educated Russians to leave and stop paying taxes to this government.

"What if Einstein and other Germany physicists had been prevented from leaving Germany? Which country would have built the atomic bomb in 1945?"

The same principle applies to capital. Only about 100,000 families in Russia have savings of more than \$1 million. More people than that attended rallies in support of opposition leader Alexei Navalny. These wealthy individuals are mostly staunch supporters of peace and good-neighborly relations between states. After all, their holdings depend on unrestricted air travel and freedom to cooperate across borders. Now, the owners of these Russian bank accounts are transferring their wealth abroad en masse and withdrawing cash in foreign currency, thereby demonstrating their fears and their desire to withdraw their capital before the Russian authorities gain control over it. Under no circumstances should the West restrict this capital flow: otherwise, that \$100 billion in assets would remain at the Kremlin’s disposal.

"Western countries should facilitate this capital flight by temporarily suspending the practice of KYC (know your client). Of course, everyone transferring funds would do so knowing that

they would have to go through this procedure later and prove that the money was acquired legally."

Meanwhile, so-called "personal sanctions" only give the semblance of taking positive action while actually doing the opposite. The Russian "hawks" who orchestrated this war do not hold assets in the West and do not travel there, but long ago purchased luxury properties in Russia and "neutral" countries. Russian oligarchs might have been happy to distance themselves from the Russian authorities as much as possible and to transfer the remainder of their funds abroad, but personal sanctions would force them to return that capital to Russia where the Kremlin could use it for its own purposes.

" We need to stop pushing wealthy Russian businesspeople back into the arms of the Kremlin under the guise of battling it. "

And for sanctions to be truly effective, they must uncompromisingly block the Kremlin's access to its financial and technological resources. Despite the country's apparent wealth, the Kremlin actually has only limited funds for militarization and propaganda. This is because domestic consumption and production are highly dependent on imports, so much so that the export of hydrocarbons, coal, grain and metals and the production of most domestic consumer goods would be impossible without a wide range of imported components.

The ban on the supply of aircraft, avionics and spare parts for aircraft must be made total and extended to vehicles and other machines and mechanisms. This should also include a ban on the supply of seed stock and other necessities of agricultural production; chemical products for industrial use; radio electronics, automation systems and semiconductors for all applications; as well as all technological equipment for industry and spare parts.

Although the Kremlin gets most of its income from the export of hydrocarbons and metals, an embargo on Russian hydrocarbon exports is not even under discussion at the moment because Europe is too dependent on Russian gas and the world market is too dependent on Russian oil. However, there is plenty of gray area between imposing an embargo and giving Russia complete freedom to supply hydrocarbons and reap the rewards. If the EU and NATO really want to stop the aggressor and protect themselves from continued aggression, they can and should risk imposing significant restrictions on delivering payment for Russian oil and gas. Specifically, the West could transfer payments to special accounts from which Russia could only draw to pay for a limited range of imported goods. It could also limit the purchase price for Russian oil and gas by introducing a high excise tax; this would significantly reduce the flow of petrodollars to Russia, even from countries that have yet to join the sanctions. Yes, there is a risk that Russia would respond by halting supplies and that this would drive up prices on world markets and create fuel and energy shortages in a number of European countries.

" However, it is difficult to imagine that the fight against such a dire global threat could proceed without economic losses – the countries of Eastern Europe must choose between temporary energy problems and the threat of being forced into membership in a new Warsaw Pact of sorts. This is even a real threat for current NATO member countries. "

But they should remember that Moscow is more dependent on its export of hydrocarbons than Europe is on importing them from Russia.

Of course, all these measures will prove inadequate if Russia retains access to its \$600 billion in gold and foreign exchange reserves. That's enough for the Russian authorities to keep their military strong for many years. The economically developed countries should temporarily freeze Russia's access to at least that part of the reserves that is under their control.

Unfortunately, all of the above measures will bring economic disaster to the millions of Russians who remain in this country. Most of them do not support the crimes of this regime and bear no responsibility for them; their pain and suffering is no less important and no less acute than that of the Ukrainian people today.

" Under no circumstances should the world associate ordinary Russian citizens with the Kremlin regime, label them as war criminals or treat them as accomplices in this ongoing crime. "

Alas, this is the fault of both the Russians themselves and the “collective West” that overlooked this terrible threat when it could still have been prevented. There is simply no other way to stop the march of current events. And we must recognize that this is not a regional conflict: we are dealing with a group of terrorists who are exploiting their impunity to satisfy their insatiable appetites, making greater demands of the world every day. I hope and believe that the time will come when this terrible threat will be behind us and the perpetrators of this nightmare will have gotten what they deserve. At that time, it will be possible and extremely important to provide Russia with effective and truly large-scale assistance to speedily restore its economy, improve the standard of living and join the community of developed countries. God willing, the world will not repeat the mistake that the Allies made at the end of World War I.

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