In 2015, Bank of Russia Governor Elvira Nabiullina was named the best Central Bank Governor by Euromoney magazine. In 2017, a similar award was given by The Banker. One can read the justifications for these decisions, but in short, she was praised for neutralising the effects of the sanctions imposed on Russia after the annexation of Crimea. Professional journals, as the voices of the Western financial establishment, rewarded her for successfully circumventing sanctions imposed by… the West. The Euromoney award was received by President Nabiullina in Lima during the IMF and World Bank annual meeting; she elegantly thanked them: "This award is an honour for me, and I want to thank everyone for the high rating of the Bank of Russia, my colleagues in Russia and abroad during this difficult period" (per Prime Agency).

How effective are the sanctions

In the years that followed, the Governor prepared her country for tougher times: the Mir payment system – the equivalent of Swift and payment cards – was created. With these moves, Russia has been able to maintain the core functions of its banking and payment system in isolation from the rest of the world. Foreign exchange reserves of around USD 640 billion were accumulated, reducing the share of the dollar while increasing gold and Chinese currency. We are now seeing a test of the system she co-created. The strengthening exchange rate of the rouble and the foreign trade surplus, which by the end of April 2022 amounted to USD 96 billion according to the Bank of Russia and could reach up to 250 billion in the whole year (IIF), is presented by some sources as evidence of the success of the Russian strategy and the ineffectiveness of sanctions.

This is an illusion that stems from two very popular views: the old mercantilist view – the strength of a country's economy lies in achieving a trade surplus, and the modern opinion about the role of finance – everything important in the economy is locked up in the realm of finance, nothing important happens outside it. However, warfare requires real resources in the possession of the country waging it: armaments, medicines, food, not bullion money or electronic records. These resources can be produced locally or imported. Russia is accumulating a trade surplus, but is nevertheless unable to spend it due to sanctions on the export of key technologies. That is why, in June 2022, it cut gas supplies to Italy, Germany and France in a bid to exacerbate these countries' economic problems and rip up the sanctions policy. The aim of the April 2022 game around gas payments in roubles was not only to gain real benefits, but to become a rule-setter and unseal the

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unified position of the importing countries (which the Kremlin succeeded in doing).

The success in the form of a strengthening rouble is due to the currency restrictions imposed on Russian citizens and companies, the winding down of operations in Russia by more than a thousand foreign companies (CNAS, Sanctions by the Numbers, 16 June 2022) who thus cease importing goods, and precisely the sanctions covering the export of advanced materials and technology (Japan, Korea, Taiwan and Singapore's participation is all the more valuable).

Russia faces a progressive deceleration of its economy. Observers from our part of the world focus in this context on the decline in GDP, which affects the living standards of citizens and thus the ability of governments to continue their policies. The estimated drop in GDP in Russia this year will be between 10% and 15%, but due to the country's social value system, more significant is the gradual degradation of sectors essential to the continuation of the war: arms, machinery and transport equipment, communications and connectivity, logistics, and supplies. The crisis in typically civilian industries is also deepening, with car production down 82% in June 2022 (Reuters), civilian flight operations down around 20% (per Flight Aware). These processes have a gradual dynamic. The sanctions are therefore not only an effort to help Ukraine win the current war, but are primarily aimed at preventing Vladimir Putin from starting another one.

Argument from history

During the First World War, the UK imposed a blockade on the import of goods necessary for war production into Germany, but did not prohibit exports from Germany. Unable to supply the goods necessary for war production from imports, Germany responded by introducing a plunder economy in the occupied territories, including central Poland: forests were cut down on a large scale, animals were slaughtered, and metals were confiscated. Ersatz production also developed, which worsened the quality of armaments and food. During the Second World War, the Germans had already looted almost everything, even the clothes of the civilians they killed.

In the 20th century, Russia lost three conventional wars while outnumbering its opponents. These were the war with Japan 1904-05, with Germany 1914-18 (the Eastern Front of the First World War), and with Poland 1919-21. It also lost the asymmetric war in Afghanistan, and paid for its victory over Finland in 1940 with high losses.

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Its reputation as a military power stems from its victory in the Second World War. Indeed, in December 1941, the USSR single-handedly stopped and pushed back the German army from Moscow. Mobilisation in the face of danger and a harsh winter were the deciding factors. However, we can hypothesise that without the material support of the US, this conflict would have ended with a similar outcome to the clash of World War I: Germany would not have conquered the USSR due to manpower losses, while the USSR would not have reached Berlin due to shortages in materiel. This hypothesis cannot be verified with 100 per cent certainty, but the available data on the volume of US supplies reinforce it. In addition to the thousands of aircraft, tanks, steam engines, radios, machine tools, etc., the USSR received 15 million pairs of shoes, 400,000 cars, 2.7 million tonnes of petroleum products, and 4.5 million tonnes of food (Coalson, 2020). In view of this, it can be concluded that the Red Army reached Berlin in American boots, if not walking, then riding on American Studebaker trucks, and eating canned pork Made in USA.

Long Conflict Strategy

Is the argument that by buying oil and gas we are financing Putin’s war valid? The answer is multi-faceted. We are increasing the country’s trade surplus, which improves the psychological well-being of many Russians, strengthens the currency, and allows the country’s authorities to claim that sanctions are having no effect (picked up by a segment of global public opinion). But the surplus may remain a mountain of useless computer hard drive records (money), useless for war purposes if sanctions on what Russia can buy (product embargoes) are maintained and if it cannot pay (cutting off Russian banks).

The shift away from Russian oil and gas should also take place for other reasons. The first is independence from an unreliable counterpart that poses a military threat to Europe. At the same time, the psychological factor on the Ukrainian side is not negligible. Its resilience depends on many factors, including the belief that it is not alone. This conviction may weaken if the countries that support it in words, at the same time conduct normal business with the aggressor.

The aim should also be to keep this surplus as small as possible (however unconvincing that phrase sounds in the context of tens of billions of dollars). This is because Russia can use it to buy war materials from other countries (despite all the problems of delivery and payment), or to rebuild its economy after the war (the bigger the surplus, the stronger the push to get back into the Russian market quickly). The palette of activities should include:

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- development of nuclear energy and clean coal combustion technologies
- concluding agreements with Iran and Venezuela and returning these countries to world markets, getting Saudi Arabia to increase production
- Increased oil and gas production in NATO countries curbed by pressure from green groups
- intensifying efforts to increase the discount for Russian oil from the Brent price with countries that will not introduce sanctions (freight market, insurance, port services)
- maintaining sanctions on critical technologies for oil and gas production (pumps, drilling and reservoir measurement systems, etc.).

For its part, the Kremlin, aware of its weakness in the longer term, will seek a favourable military settlement before its war economy is obliterated. At the same time, knowing the vagaries of public opinion in democratic countries, it will claim to be immune to sanctions (while demanding that they be lifted) and that sanctions do more harm to the countries introducing them. If, on the other hand, a military settlement does not take place in the summer, then in the autumn Russia will suspend gas supplies to Europe, or rather to whichever country is most likely to collapse and will bring the greatest political bonus due to its size (Italy or Germany).

After the war

Russia’s war against Ukraine will not end with the conclusion of a peace agreement, in the sense of a comprehensive document resolving the issues of security guarantees, borders, compensation, exchange of prisoners of war, and criminal liability. This will not happen because of the Russian side’s lack of credibility (what is the point of signing something with a state that has lied about its intentions until the last minute?), and the parties’ fundamentally different expectations.

The Russian side could only be treated as a credible negotiating partner after President Putin leaves office. The contacts with him maintained by President Macron and Chancellor Scholtz are having an unintended effect opposite to the intentions of Western politicians. They will not convince the Kremlin to end the war, but they will reassure it that it is still a legitimate actor in diplomatic relations. Russia’s fate will therefore be glued to Putin, which means, the country will face a long isolation, it will be much more difficult for Russia’s supporters to argue for the lifting of sanctions with Putin in the Kremlin.

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Instead, there will be an end to military action, and without taking its wishes as reality, let us remember that Russia has lost a number of conventional wars. Israel has won wars against numerically superior Arab countries with three factors that Ukraine also possesses: determination to defend its country, intelligence and modern technology. It is therefore necessary to consistently provide Ukraine with the latest armaments, financial assistance and to already design a model of real economic relations introduced after the war without the consent of the Kremlin.

This model would consist of the following pillars:

- Earmarking of seized Russian reserves of around USD 300 billion for the reconstruction of Ukraine. The funds should be non-refundable, proposals to facilitate Ukraine's access to credit mean imposing a debt burden on a weakened country. The argument put forward recently by the Swiss President that such a solution is impossible must be rejected, as it would amount to a breach of the existing rules, that it would constitute confiscation without legal basis. Well, Russia was informed even before the aggression that the possible sanctions would be unprecedented and severe, it took a conscious risk.
- Introduce, under the aegis of the UN, the following rules of payment for Russia's oil and gas exports: the exporter would receive a portion of the price corresponding to the equilibrium price set in the Russian Federation's budget (for example, in 2021, this was USD 45 per barrel of oil and USD 156 per 1,000 cubic metres of gas), the surplus would be transferred to war reparations.

Sanctions covering new technology exports to Russia should also be maintained after the end of hostilities. A return to normal relations should be contingent on Russia's constitution reaffirming the sovereignty and territorial integrity of all former Soviet states, an unequivocal reversal of Putin's claim about the greatest geopolitical disaster of the 20th century.



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