Statement by Daleep Singh[1]

Hearing on Russia's Waning Global Influence

House Foreign Affairs Subcommittee on Europe, Energy, the Environment, and Cyber

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Thank you, Chair Keating and Ranking Member Fitzpatrick, for the opportunity to testify before you and the Subcommittee. In my testimony I'll address four topics: (1) the goals and mechanisms of economic sanctions deployed against Russia after its invasion of Ukraine; (2) the impact delivered; (3) potential next steps for sanctions; and (4) looking ahead to the future of economic statecraft.

Goals & Mechanisms of Sanctions

Sanctions are designed and deployed to serve a higher geopolitical purpose. Before February 24, the objective was simple: to deter Russia from invading Ukraine. By signaling our capacity and readiness to impose the most severe sanctions at our disposal, in lockstep with allies and partners, our aim was to shape Putin's expectations on the cost of war, to change his calculus, and to prevent an invasion. Throughout this stage of planning and signaling, we were mindful that sanctions are a blunt instrument; the best kind are those that never get used.

The rest is history. Once the invasion began on February 24, the purpose of sanctions adjusted and evolved with the unfolding tragedy on the ground, along three dimensions: in the short term, we sought to maximize the costs on Putin for the continuation of the war, subject to an acceptable amount of spillovers to the US and global economy; over the medium term, our aim was to degrade Putin's ability to exert influence and project power on the world stage (i.e., ensure his "strategic failure"); and, long term, our objective was to generate a negative demonstration effect for any autocrat that might consider redrawing borders by force to create his own backyard.

In our pursuit of these objectives, we unleashed within hours and days the full arsenal of sanctions we warned Putin about in the months prior to the invasion – itself the product of intense collaboration with counterparts from the EU, the G7, and beyond. Our mindset from the start was to identify and attack pressure points: where we could impose overwhelming and immediate economic force by acting at once, with determination, and in unity; where our collective strengths intersect with Russia's vulnerabilities; and where we and our allies produce something that Russia needs and can't easily replace by itself or from anywhere else.

Five channels stood out.

Channel one was the immediate delivery of a capital account shock unlike any seen before. Together with the issuers of the dominant reserve currencies in the world, we denied foreign

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capital to and blocked any transactions with the Kremlin's largest state-owned banks, representing about 80 percent of Russia's total banking assets. Almost concurrently - and apparently to Putin's surprise - we then immobilized about $300 billion held by its central bank, disarming the financial fortress that Russia had built to record size as a buffer for crisis.[2] The ripple effects were clear to see (see next section for further details): a wave of capital outflows, an initial nosedive in the value of the ruble, and spiking inflation – all of which Putin could only counter with self-defeating capital controls and emergency interest rate hikes that pushed Russia into deep recession.

Channel two was the denial of cutting-edge technology Putin needs to sustain the invasion of Ukraine and the sophistication of his military-industrial base. Semiconductors, artificial intelligence, quantum computing, robotics, biotech, and hypersonics are the foundational technologies that define the frontier of every modern economy and military, and by denying these critical inputs we could degrade Putin's war machine in Ukraine, and anywhere else, for generations to come.

Channel three was the methodical removal of the benefits that Russia once enjoyed as a full participant in the international economic order: its ability to receive a bailout from the International Monetary Fund or the World Bank as its economy fell into crisis; its most-favored nation trading status; its reputation as an investment-grade borrower and market economy; its standing in the G20 and other multilateral fora of leading nations. In our judgment, these are privileges that must be reserved for countries that respect the most basic principles that underpin peace and security around the world and lie at the heart of the UN Charter - including the right of sovereign nations to set their own course, to choose their own destiny, and to be free from having its borders redrawn at the barrel of a gun.

Channel four was the downgrading of Russia's status as a dominant energy supplier over time. To be clear – in the short term, energy was not an area of asymmetric advantage, but rather one of interdependence: oil and gas receipts are Russia's largest source of export and budget revenues, which means Putin needs the G7 and our partners as energy consumers at least as much as the world needs Russian energy. Against this backdrop, the US and our allies pursued a multi-pronged strategy with the ultimate aim of eliminating any reliance on Russian energy: first, degrade Russia's long term energy production capacity by shutting down Putin's prized Nordstream 1 pipeline[3] and denying next generation energy technologies to Russia[4]; second, ban any imports of Russian energy[5]; third, offset the loss of Russian energy supply by releasing an unprecedented amount of oil from our collective strategic reserves,[6] by encouraging a ramp up of private domestic energy production, and by nearly doubling our LNG exports this year to

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[2] https://home.treasury.gov/system/files/126/20221014_russia_alert.pdf
[3] https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/23/statement-by-president-biden-on-nord-stream-2/
[4] https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/02/fact-sheet-the-united-states-continues-to-impose-costs-on-russia-and-belarus-for-putins-war-of-choice/
[5] https://www.whitehouse.gov/briefing-room/press-briefings/2022/03/08/background-press-call-on-announcement-of-u-s-ban-on-imports-of-russian-oil-liquefied-natural-gas-and-coal/
[6] https://www.cnbc.com/2022/03/31/us-to-release-1-million-barrels-of-oil-per-day-from-reserves-to-help-cut-gas-prices.html

Europe[7]; fourth, build a global 'price cap coalition' to ensure Putin doesn't profit from the war and to protect our consumers, especially the most vulnerable; and finally, make generational investments in our own renewable energy production capacity to secure more reliable energy supply into the future.[8]

Channel five was our launch of a global campaign to expose and hold to account the Russia kleptocracy by seizing their ill-gotten gains – superyachts, fancy cars, luxury apartments, and private jets – mostly as a demonstration to the Russian people that they've been getting ripped off by Putin and his cronies for a long time. In doing so, we put to work cutting-edge data analytics, cryptocurrency tracing, and intelligence sharing across the world to follow and prosecute the trail of corruption.

Taken as a whole, these five channels were designed to reinforce each other and generate intensifying impact over time. With less capital, less technology, and less talent, the endgame for Putin's Russia would be a descent into isolation as a smaller, weakened, pariah state.

Impact of Sanctions

In terms of the impact so far, I can summarize by saying sanctions are doing their job, and then some.

Russia's economy is projected by the World Bank, IMF, and OECD to shrink by about eight percent this year and next.[9] To put Russia's recession into perspective, it's by far the deepest of any economy in the world this year, and roughly on par with its experience after defaulting in 1998. Unlike then, however, when Russia in the process of getting integrated into the global economy, it's now in the process of being ejected, and the contraction this year and next will wipe out the past 15 years of economic gains. Admittedly, the near-term hit to Russia's GDP this year is smaller than what I expected in late February, but don't mistake this for resilience – it's yet another Potemkin façade. To limit the depth of recession this year, Putin has sacrificed Russia's long-term growth potential with capital controls, import compression, and the weaponization of energy.

Indeed, for years to come, Russia's economic prospects are bleak. As expected, the sanctions regime generated financial shock and awe, causing the ruble to crash to its weakest level on record, well below the value of an American penny.[10] The freefall of the ruble led to an immediate spike of import prices and annual inflation to a multi-decade high of nearly 18 percent,[11] forcing the Russian central bank into emergency and unprecedented interest rate hikes all the way up to 20 percent.[12] The effects of nosebleed interest rates and inflation will leave a lasting dent on Russia's growth. So will the exit from Russia of more than 1000

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[7] https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/07/joint-readout-of-u-s-eu-task-force-meeting-on-energy-security/
[8] https://www.cfr.org/blog/how-inflation-reduction-act-will-help-united-states-lead-clean-energy-economy
[9] https://home.treasury.gov/system/files/126/20221014_russia_alert.pdf
[10] https://www.reuters.com/markets/europe/russian-rouble-drops-fresh-record-low-thin-offshore-trade-2022-03-07/
[11] https://www.bloomberg.com/news/articles/2022-05-13/russian-inflation-spikes-to-20-year-record-on-war-and-sanctions
[12] https://www.reuters.com/business/finance/russia-hikes-key-rate-20-tells-companies-sell-fx-2022-02-28

multinational companies.[13] So will the flight of more than 500,000 of Russia's best and brightest that have reportedly left.[14] And so will the permanent loss of the West and its allies as consumers of Russian energy, close to half the total.[15]

Turning from the macro impact to the micro, here we have to piece together the facts since the Kremlin stopped publishing trade statistics in April.[16] Based on the data of its top forty trading partners, we know that Russia's imports have fallen by roughly two-thirds in the aggregate since the invasion, and by an even higher proportion in high tech goods restricted by our export control regime.[17]

The crippling effects of these controls on Russia's military-industrial complex are both profound and underappreciated. You've no doubt heard reports that Russia's stock of weapons that rely on western microchips, such as precision-guided missiles, is being depleted – forcing the Kremlin to rely on less advanced and less reliable equipment from Iran and North Korea.[18] It's also been reported that the Russian military is struggling to find parts that the west used to supply for satellites, rocket launching systems, night vision goggles, and avionics.[19] Russian media have indicated that production of its next-generation airborne early warning and control aircraft has stalled due to lack of foreign components, including semiconductors. Russia's major tank manufacturer halted operations in March due to the lack of high-tech Western components.[20] As of October, new car sales in Russia had fallen by over 60 percent compared to last year, suggesting to some analysts that advanced microchips for civilian vehicles are being redirected for military use.[21] Foreign vehicle production has largely stopped, and so has heavy equipment production formerly supplied by the likes of Caterpillar and Deere in oil and gas extraction, mining, and power generation.

Speaking of energy, the bottom line is Russia's role in global energy markets will never be the same. Its long-term prospects of selling energy to Europe and the West were already compromised by the transition to renewables, but the speed of the shift has accelerated to a pace that was once unimaginable. The International Energy Agency (IEA) estimates that by 2025, Russia's oil production will be two million barrels a day lower than in 2021, and its gas production will fall by 200 billion cubic meters; taken together, Russia's global share of fossil fuel exports will decline in half by 2030 under current IEA projections.[22]

At a personal level, the sad reality is Putin's war will make it harder for Russians to travel abroad. Their debit cards may not work. They may only have the option to buy knockoff phones

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[13] https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain

[14] https://en.wikipedia.org/wiki/Russian_emigration_following_the_2022_invasion_of_Ukraine

[15] https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983/WorldEnergyOutlook2022.pdf

[16] https://www.wsj.com/articles/russia-blocks-economic-data-hiding-effect-of-western-sanctions-11650677765

[17] https://www.nytimes.com/2022/06/02/business/economy/russia-weapons-american-technology.html

[1818] https://www.wsj.com/articles/why-russia-lacks-smart-weapons-11664461225

[19] https://www.nytimes.com/2022/06/02/business/economy/russia-weapons-american-technology.html

[20] https://www.forbes.com/sites/davidaxe/2022/05/25/the-russian-army-is-running-out-of-tanks-for-the-war-in-ukraine-these-60-year-old-t-62s-are-proof/?sh=9c7a2d152ece

[21] https://www.reuters.com/markets/europe/russias-october-auto-sales-down-628-year-on-year-aeb-says-2022-11-07/

[22] https://www.iea.org/reports/world-energy-outlook-2022

and clothes. The shelves at stores may become empty. We should take no pride in this outcome; it's another tragic outcome of Putin's needless and reckless war.

As a concluding point on the impact of sanctions, let me underline that sanctions were never intended as a standalone solution to the invasion. We don't impose costs as an end to themselves. Sanction work when they're embedded in a broader strategy – alongside doing all we can to support Ukraine's fight for freedom, doing all we can to help the rest of the world deal with the food and energy spillovers of Putin's war, coming together to welcome the millions of refugees fleeing Ukraine, helping Europe to end its reliance on Russian energy as fast as possible, and working with partners to finance Ukraine's future as a successful and stable alternative to Russian-style kleptocracy. Executing on all those fronts is how we'll create staying power in our sanctions regime, and staying the course is how we'll create leverage for Ukraine if and when it chooses to negotiate a diplomatic settlement.

Will this collective leverage be enough? Getting into the mind of Putin is well outside my area of expertise, but I'd submit that even an autocrat like Putin has a social contract with the Russian people. Long ago, he took away their freedom in exchange for promising stability, so the bet we're making is that the instability and insecurity he's imposing on his own people will at some point matter, if only because Putin cares about staying in power. The real question is this: if thousands of bodybags are being sent back to Russia, if there's less food on the shelves, if debit cards don't work, if hundreds of thousands of your best and brightest are fleeing the country, if over a thousand private companies have already exited, if Russia is shunned as a global pariah in bankruptcy and default - is this really the endgame Putin is playing for, and how does he weigh that endgame against the costs of pulling back from the brink? That's the question we've put to Putin.

Next Steps & Looking Ahead

As I think about potential next steps for sanctions, the most important message is we'll never run out of options. Even if we wanted to do so, there is no plausible way to disconnect a 1.7 trillion economy from the world within a matter of weeks or months.[23] So over time, if this reckless and unlawful invasion continues, we can continue to break the linkages between Russia and the global economy through trade, finance, energy, and technology. We can continue to remove from Russia the benefits and privileges it enjoyed from being a participant in the international economic order. We can continue broaden the coalition of countries imposing these sanctions as a force multiplier.

And to my mind, we should continue to do so. When sanctioning a market-based economy, signals about future actions shape expectations. Expectations shape prices and the evolution of financial conditions, both of which transmit costs to the target's economy. All of this means if you're standing still with sanctions, you're likely moving backwards. We must keep going until the job is done.

Looking further ahead – and stepping back to reflect – my judgment is we're living through the most intense period of great power competition since World War II. Both Russia and China have expressed and revealed a desire to challenge the U.S.-led international order. Both Russia and

[23] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=RU

China have the capacity to disrupt the existing order. And both Russia and China are in the process of trying to carve out a sphere of influence in their respective backyards. Meanwhile, a large share of G20 countries – India, Indonesia, Brazil, South Africa, Saudi Arabia, Turkey – are to varying degrees hedging their bets.

Against this more uncertain backdrop, I expect less scope for global cooperation to address global risks (e.g., climate change, pandemics, food and energy security, debt distress), and more frequent conflict – either directly or via proxies. Set against the alternatives of military conflict with a nuclear power, or standing by when core principles that underpin global peace and security are at stake, sanctions and economic statecraft will likely remain the path of least resistance.

In this context, I'm enormously proud of the unity forged with the EU, G7, and beyond, within hours and days of the invasion, to apply sanctions at unprecedented scope and scale. The EU stiffened its resolve unlike anything we'd seen in decades. Switzerland broke centuries of neutrality. Japan, Korea, Australia, and Taiwan were unflinching in their support and ensured that our coalition went well beyond the transatlantic alliance.

But I can also understand why the actions we took are a scary prospect for other parts of the world, and even for our own citizens, especially as these measures were often designed by faceless bureaucrats like me with no democratic legitimacy.

So in my judgment we need to take three actions, and I'll close there.

First, we should write down and articulate a doctrine of economic statecraft, at the highest levels of economic and natural security policymaking. We've spent hundreds of years on military doctrine. By comparison, we've spent comparatively little time on setting out guiding principles for the growing list of incredibly potent measures of economic statecraft – sanctions, export controls, tariffs, entity listings, investment restrictions, CFIUS, price caps, and the like. Doing so would serve two purposes: first, taken seriously, it would constrain ourselves in the conduct of economic statecraft; and second, it would give comfort to the world that we're not firing economic weapons in an arbitrary or capricious manner.

What would this doctrine look like? It would begin by laying down first principles. For example: the tools of economic statecraft should be used sparingly, and only when core international principles are at stake. They should be responsible to avoid unnecessary spillovers to the civilian population of the target and other countries. They should be calibrated to maximize the chance of coordination with like-minded partners, both to multiply the direct impact and strengthen the signal of our collective purpose. They should be designed flexibly so the impact can get ratcheted higher or lower, depending on the target's response and the impact delivered. And their implementation should be sustainable, because the impact compounds and takes effect mostly over time.

Second, we should continue building an analytical infrastructure that takes economic statecraft seriously. We could start by taking full inventory of the tools at our disposal and then assess their efficacy - when used alone or in tandem, unilaterally or multilaterally. It could include an assessment of the historical and future range of spillovers from sanctions, both intended and unintended, as well as their limitations. Central banks such as the Federal Reserve maintain and update an operating framework just like the one I'm describing for the range of tools at their disposal, and so should the U.S. government – our tools are no less potent. Importantly, upgrading our analytical infrastructure requires continued focus on attracting a collection of civil servants with interdisciplinary expertise across economics, financial markets, geopolitics, international and domestic law. Treasury's recent posting for a "chief sanctions economist" is a good step in the right direction.

Lastly, to win the global narrative, we need balance in how we deploy economic statecraft. Sanctions receive enormous attention as a "negative coercive device" with a clear message to the target: if you don't change behavior, we will cause you economic pain. As much as our cause is just and necessary in countering Putin, the truth is that sanctions rarely win hearts and minds in the developing world. That means we must the balance the increased use of sanctions and their kin – which are designed to cause economic pain - with an even greater increase in positive sum measures that offer mutual economic gain. Think of bilateral financing and multilateral lending that catalyzes the private sector – our key competitive advantage - to invest in the developing world and help fill the enormous gap in physical, digital, health, and climate infrastructure. Debt relief, loan guarantees, political risk insurance, technical assistance, and trade agreements can all serve a similar purpose.

My concluding point is this: let's see the world as it is rather than pretend we're in the world as it once was or should be. Great power competition isn't going away. Sanctions and economic statecraft are here to stay. That means national power will be increasingly measured and exercised in economic terms. So let's get on with the work of institutionalizing the practice of economic statecraft - with principles, analytical infrastructure, with complementary tools - that balance economic harm with economic good.

Thank you.