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Liberty Crossing Analysis

# Strategic Intelligence and Foreign Affairs Initiative Weekly Newsletter

Liberty University

Helms School of Government Students



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# International Sanctions on Russia & the Russian Economy

## BLUF

Western sanctions have dealt significant blows to the Russian economy in the short term, but Russia may be able to lean on its regional allies and recover in the long run.

## Analysis

- Russia's allies
  - Kazakhstan has sprung Moscow since beginning of conflict
    - Denied request to send troops to UKR in support of RUS
    - Did not recognize DPR or LPR
    - Sent humanitarian aid to UKR
    - Kazakhstan has big European market – getting sanctioned by US-EU would be hurtful for them too
  - India is a calculated neutral willing to do business
    - Abstained from UN resolution condemning invasion
    - Significant defensive/weaponry ties with Russia
    - Ramped up oil purchases from Russia
  - China is more than willing to swallow more of the Russian economy, but wary of Western Sanctions
    - Valuable energy and precious metals in Central Asia and Russia's Far East
    - Both have traded hands between Chinese and Russian influence over the centuries
    - Sino-Russian trade up nearly 40% since beginning of 2022
    - Chinese banks have temporarily halted dealing with Russian commodities
- Conclusion
  - It remains to be seen if Russia's attempt to spurn the Western economic system will be successful. It's got powerful economies in its corner, but India seems to be the most committed. Furthermore, Russia likely doesn't really want to swap Europe out for China economically – stuck as an economic shell state serving Beijing.

## Sources

1. [OEC](#)
2. [Treasury Dept](#)
3. [Reuters](#)
4. [White House](#)
5. [OpenDemocracy](#)

6. [The Diplomat](#)

## Russo-Ukrainian War: A month of war

## BLUF

One month after the Invasion of Ukraine began, Russian forces have gained little ground since the first week. Russian advance fully halted; Ukrainian forces begin pushing Russian forces back.



## Analysis

- Russia's mistakes
  - Military Strategic failures
    - Failure to take out Ukrainian communications and infrastructure
    - Poor logistics
      - Ex. 40-mile convoy
    - Failure to gain air superiority
      - Russian pilots get 80-100 flying hours per year
      - US pilots get 200-300 flying hours per year
  - Intelligence or "yes man" failures
    - Believed they'd be welcomed and underestimated Ukraine
    - Failure to counter Ukrainian Intelligence
  - Strategic failures: Political, Intelligence, and/or "yes man"
    - Underestimated Western support
- Conclusion
  - What was supposed to be a lightning strike, has turned into a lengthy siege and attritional war, that Russia cannot afford. Even if Russia were to capitulate the Ukrainian Government the following insurgency would be too costly for Russia to afford.

## Sources

1. [Sky News](#)
2. [Guardian](#)
3. [United Nations](#)
4. [Al Jazeera](#)

## Russian Economy

### BLUF

Russia's economy is divided into 3 sectors, that are described by two models. Russia's primary sectors are service, industry, and agriculture, dependent entirely on oil and energy, as well as a domestic operation that is ODE-centered. The economy has taken several hits and has shown a high level of perseverance.

### Analysis

### SWOT of Russia's Economy

Strengths	Weaknesses	Opportunities	Threats
Ruble is 23% backed by gold	Developed country push for renewable energy and pivot from fossil fuels	Russia <i>must</i> get more Chinese tourists to visit the country annually	Oil is becoming phased out by developed nations and is reaching prices that alienate consumers
Russia has had several economic contractions before, in 1991, 1998, and in 2014 after Crimea sanctions	Grain is nearly 70% industrial owned and is a major component of Russian food-based exports	Russian needs to rebrand itself as an Asian nation under threat from Europe	Russia has comparatively low proven reserves for their oil production and output, Canada and Venezuela have over double
Self-sustaining food production, with \$10 billion in grain production	Western nations' commitment to withdraw from Russian oil use	East Asian oil markets are massive and under-utilized by Russia	Russian citizens have moderate internet access and use that introduces them to western ideals and products more often
Peak Crude oil trade and peak oil prices, with around 17BCM in proven reserves	India pivoting to purchasing military equipment from the west	Russia has massive ore potential and needs to up mining operations, valuable metals can better stabilize the currency if marketed correctly	Russia agriculture is majority corporation owned, which makes it reliant on the government and international dealing
Alleged \$65 billion in arms demand, with purchasing countries unaligned globally	Western European defense industry corporations beginning to sell products more widely and affordably	Russia's economy is largely self-serving and therefore will continue based off staple industries and tangibles, they should look to increase exports to China and Africa	Russian defense industry contracts are considered less desirable than western products, and therefore <u>have to</u> present themselves for less money
Metallurgical abundances and high production capabilities to continue weapons development	Steel prices have risen considerably, even despite the invasion, causing Russian domestic sources to need more loans to purchase the products, thus outsourcing the products more	Russia and Ukraine were the largest exporters of steel to Europe, Russia will likely be the only one capable of continuing that trend between the two	Ruble is entirely reliant on foreign currencies for stable value, MMT negates <u>Gold</u> holdings, which the U.S. has more of regardless
Fifth-highest Steel production globally	Mining industry is plagued by the "shadow economy" of Russia and needs to overcome graft and corruption to reach potential	The same above is true concerning wheat production and export to Europe	Russia's financial institutions cannot exist in a vacuum, debts are owed to a multitude of international holders and assets that are foreign are foreign controlled
\$75 trillion in natural resource value	Service sector accounts for a majority of GDP but is western reliant, especially in finance	Russia is forecasted to inherit the largest number of climate refugees and the largest amount of productive land by the end of the century	Withdrawing from international markets, invading neighboring nations, and driving up commodity prices makes bond yields soar, thus diminishing RUB value. Western currencies simply have more power to dominate Russia's
High level of "precious" metals mined, allowing for continued backing of RUB	Too many companies are western based or affiliated for the service industry to properly separate without nationalizing	Russia's domestic tourism means that domestic companies can takeover international holdings from the nationalization program and continue similar numbers	
Largely Independent and domestic based economy	Western service companies bring inherent western values that Russians have picked up	Cryptocurrency is unregulated and has a multitude of value-backing, Russia has increased cyber capabilities that can utilize this for financial institutions	
Generally relaxed employment laws and highest population of European countries	Russia's banking system is dominated by just two banks and specifically SberBank	Creating and using a government controlled digital asset, as they are doing, backs the currency up with user data, is un-sanctionable	
Russia's tourism is overwhelmingly domestic and cannot be effectively sanctioned	Russia's financial institutions have placed emphasis on foreign currency values and assets	High inflation of the ruble means that Russian workers can be more easily <u>paid</u> and debts can paid	
	Majority of hotels in Russia are <u>internationally owned</u>		

### Russian GDP (21st Century)

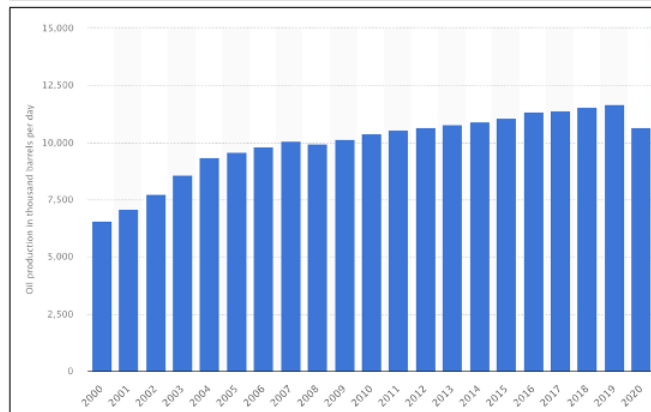
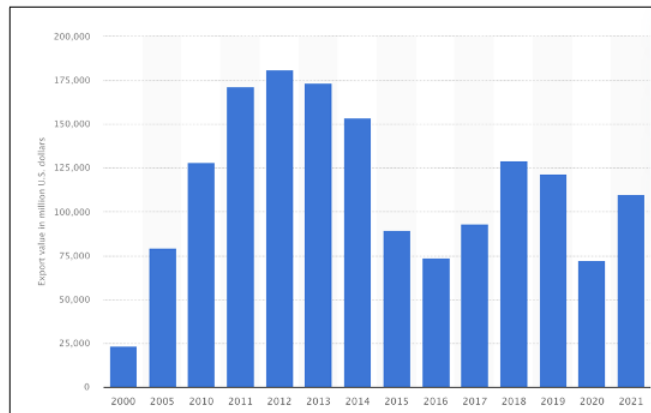
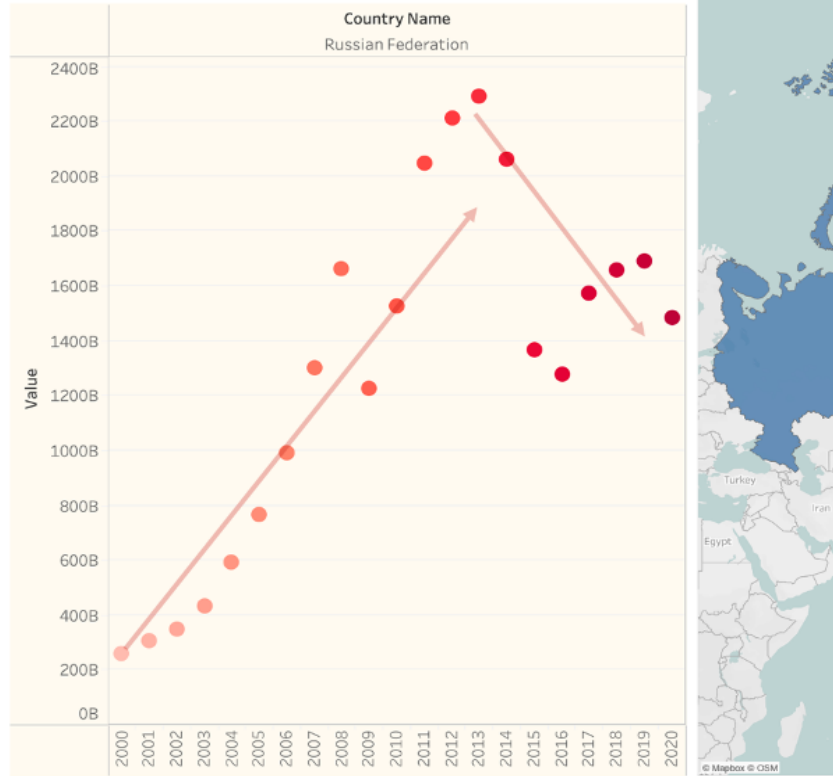


Fig. 1 Source: Statista Research Team, 2022

Fig. 2 Source: Statista Research Team, 2022

- Agriculture accounts for 3,7% of GDP, Industry for 30%, and Service for 56.3%.
- Agriculture is worth \$42 billion, Industry is \$420 billion, and Service is \$788.2 billion.
- Grain accounted for \$10 billion of the \$40 billion valuation in the Russian agriculture industry.
- Russia's peak crude oil trade came in 2021 when it totaled \$180 billion in revenue. After 2014, there is a noticeable drop in revenue.
- Defense Industry made \$15 billion and expects another \$50 billion.
- Mining underutilized and plagued by shadow economy.
- Service economy reliant on financial sector that is damaged by foreign currency strength.
- Conclusion
  - Russia's economy took massive hits in 1991, 1998, and 2014. Each time, their economy corrected on a bounce and began progressing slowly. The current sanctions will diminish Russian wealth and western demand for their products but will not deplete their economy or demand for their primary exports and tangibles.

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*“The question shouldn’t be what we ought to do, but what we can do” – Rory Stewart*

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