Western business is still sustaining Russia's war

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How is Russia still fighting in Ukraine? Nearly a year into the "special military operation" against its western neighbor, Russian President Vladimir Putin's military misadventure has exacted enormous costs on the country's armed forces and transformed Moscow into a global pariah with precious few dependable international partners. Over time, knowledgeable observers have predicted, this state of affairs will dramatically impoverish the Russian state. For the time being, however, many have puzzled over precisely how the Kremlin has managed to sustain its war of choice.

Part of the answer lies in energy.

The country's current account surplus hit a record high of $227 billion last year in spite of Western pressure, as a result of continued oil and gas exports abroad and a reduction in imports. Quite simply, Moscow has managed to stay afloat, at least so far, by selling its energy to willing consumers (like China), while bringing in fewer goods from abroad. As a result, it still has money to burn on its war machine.

But another significant reason for this continued solvency has to do with Russia's commercial ties with the West. That's because, despite extensive international sanctions and widespread commitments from politicians and corporate leaders, only a tiny percentage of Western firms have actually ceased doing business in the Russian Federation.

A new study carried out jointly by researchers from the IMD Institute, a Swiss management school, and the University of St. Gallen has found that, in spite of the prevailing narrative that the West is pulling back from commerce with Russia, there has in fact only been "a very limited retreat of EU and G7 firms" since the start of the war in late February of last year.

"In effect, many firms headquartered in these nations have resisted pressures from governments, the media, and NGOs to leave Russia since the invasion of Ukraine," the study, authored by scholars Simon Evenett and Niccolo Pisani, concludes.

The details are damning.

At the time of Putin's decision to "demilitarize" and "denazify" Ukraine, the report lays out, there were 1,404 EU and G7 companies, with 2,405 subsidiaries, active in Russia. As of late November of 2022, when the study was carried out, only 120 of those companies had divested at least one of their subsidiaries in Russia. That is equivalent to "less than nine percent" of all Western firms, the researchers note.

American business has been a tad more accountable, and U.S. companies have pulled back from commerce with the Kremlin to a greater degree than their European counterparts. Even so, the difference is modest. All told, less than 18 percent of American subsidiaries in Russia have sold off their assets and ceased operations since the start of the Ukraine war: "In other words, while U.S. companies have divested more often than their EU and G7 counterparts, to date fewer than one in five have completed exits."

The resulting picture is bleak.

"In principle," Evenett and Pisani note, the small number of Western firms that have left "could constitute the lion's share of Western investment in Russia." This, however, is not the case. Rather, they account for just 6.5 percent "of total profit before tax of all the EU and G7 firms with active commercial operations in Russia" tracked. In other words, Western commercial ties with Russia remain largely unchanged.

These findings rub against the conventional wisdom that a veritable exodus of firms and funds has taken place in response to Russia's offensive against Ukraine. To the contrary, as the Evenett-Pisani study eloquently shows, nothing of the sort has transpired — and Western companies have continued to prioritize profits over the imperative of defunding Putin's war effort.

That, in turn, puts the United States and its international partners on the horns of a serious dilemma.

Since the start of the war in February 2022, Western nations have leveled an unprecedented raft of sanctions on Moscow in a bid to force Putin's government to cease its efforts to dominate and subjugate Ukraine. It's increasingly clear, however, that the success of that effort hinges greatly upon the private sector truly paring back its business with the Russian Federation — and the relevant companies don't seem to be playing ball, at least so far.

All of which suggests that, in order for Washington and Western capitals to dial up the pressure on Moscow still further, they'll need to force Western firms to sever their connections to the Russian market. Otherwise, they will continue to sustain Russia's economy — and, by extension, the Kremlin's war of aggression.

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