



RUSSIA REFORM MONITOR

The American Foreign Policy Council's Review of
Russian Government Actions and U.S. Policy

Russia Reform Monitor No. 2580

April 26, 2023 **Ilan I. Berman, Sydney Duckor, Ian Cameron**

Related Categories: Economic Sanctions; Energy Security; International Economics and Trade; Military Innovation; Warfare; Resource Security; China ; Russia; Ukraine

THE RUSSIAN ECONOMY LIMPS ALONG... FOR NOW

The International Monetary Fund (IMF) has both good and bad news for Russia: deficit-fueled government spending will likely help buoy the country in the short term, but the Russian economy will likely suffer significantly in the medium term as a result of its war in Ukraine. According to the IMF's new economic forecasts, Russia's growth prospects have increased to 0.7% from 0.4% in January. The IMF explained this revision with the assessment that Russia had "been able to maintain quite a bit of momentum in the economy by taking... very strong fiscal measures" in 2022 and 2023. However, Russia's fiscal deficit will likely reach 6.2% of GDP in 2023, and the IMF estimates that the Russian economy will be 7% smaller in 2027 than it would have been without the war. (The Moscow Times, April 11, 2023)

RUSSIA IS INCREASINGLY CHINA'S JUNIOR PARTNER

Russia's war in Ukraine has forced Moscow to radically reorient its economy away from Europe and toward Asia – a move that could have long-term strategic consequences for the country. CIA Director William Burns has stated that the war in Ukraine has been a "huge strategic failure" for Russia, because the invasion has strengthened NATO, weakened Russia economically, and drastically increased Russia's dependence on China. According to Burns, Russia now "runs the risk of becoming an economic colony of China over time." As proof, Burns referenced Chinese President Xi Jinping's recent trip to Moscow, during which Russia and China signed multi-year agreements granting Chinese firms disproportionate access to sectors like finance, technology, and space as part of the "no limits" partnership between the two countries. (Newsweek, April 12, 2023)

FOR THE KREMLIN, FOOD IS A WEAPON

Moscow is using the world's food supply as leverage once more. Russia has repeatedly threatened to reimpose its blockade of Ukrainian grain exports through the Black Sea in recent months, and Russian President Vladimir Putin has raised the issue anew after the United Nations confirmed that Russia was blocking "routine inspections" of Ukrainian vessels. Russia has justified these threats with the claim that its interests and food exports are not benefiting sufficiently from the Black Sea Grain Initiative. In late March, Moscow agreed to extend that agreement for 60 days, but the arrangement could end in May if Russia refuses to agree to another extension. (Washington Examiner, April 12, 2023)

COMPENSATING UKRAINE FOR CRIMEA (AFTER A FASHION)

Russia's annexation of Crimea in 2014 caused significant losses for Naftogaz, Ukraine's state-owned oil and natural gas company, and now Russia may finally be forced to pay up. The Hague's Arbitration Tribunal at the Permanent Court of Arbitration has awarded Naftogaz \$5 billion in compensation for damages caused by the Russian annexation of the peninsula. The ruling tees up a potentially acrimonious asset battle. According to Naftogaz, if Russia refuses to comply with the decision, then, in accordance with the 1958 New York Convention, Naftogaz has the right to forcibly seize Russian assets held outside Russia. But Kremlin spokesman Dmitry Peskov has said that Russian experts will have to analyze the decision before any action can be taken. Naftogaz began the arbitration process over the expropriation of assets in 2016, two years after Russia annexed Crimea. (Meduza, April 12, 2023)

MOSCOW IS HACKING AMERICAN MUNITIONS

American weapons, especially "smart bombs," have greatly advanced the Ukrainian war effort. But it appears that Russia has developed countermeasures to significantly decrease their effectiveness. Leaked intelligence documents show that Russia is attempting to counter American-made smart munitions by jamming their targeting systems, and that the smart bombs have experienced higher-than-expected failure rates. Part of the failures are likely attributable to technical issues with the munition fuses that Ukrainian soldiers could fix. However, according to former Pentagon official Mick Mulroy, "there may be concern that the Russians may be jamming the signal used to direct the JDAMs, which would answer why these munitions are not performing in the manner expected and how they perform in other war zones."

The problems highlight a novel – and potentially effective – Russian approach, as the Ukraine conflict drags on. In recent months, Russia has struggled to maintain its stockpiles of weapons and equipment, with its procurement of materiel requiring high-tech parts significantly curtailed as a result of Western sanctions. As a result, finding weaknesses in Western technologies may turn out to be Moscow's best bet to maintain its fighting prowess. (Politico, April 13, 2023)

RUSSIAN ENERGY FOR THE AYATOLLAHS

Against the backdrop of the Ukraine war, strategic cooperation between Russia and Iran has grown significantly, and this partnership may now be entering a new arena: energy. As part of its efforts to counteract Western sanctions, Moscow has reportedly begun shipping fuel supplies to the Islamic Republic. This year, Russia began direct rail exports of fuel to Iran for the first time, with Moscow delivering up to 30,000 tons of gas and diesel in February and March. The deliveries went through Kazakhstan and Turkmenistan on their way to Iran, which, although also an oil producing country, has recently seen domestic consumption outstrip production. Russia's Deputy Prime Minister, Alexander Novak, announced the start of fuel exports to Iran last Fall, but the actual shipments only began this year. (Reuters, April 11, 2023)