

Tanks versus Banks: Russian Military versus EU Geoeconomic Power

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War is an instrument of policy. Those who lose sight of the policy objectives, or keep shifting them, rarely do well in war. The European Union and its Member States (and NATO) are not directly involved in Russia's war against Ukraine, but they have unleashed a major geoeconomic offensive in response to Putin's geopolitical gambit. They too, therefore, have to define precise objectives, and prepare for the new geoeconomic and geopolitical world that will inevitably result from this war. First, rerouted supply chains will create new challenges and dependencies for the EU. Second, instability in other states, as a consequence of the disruptions in the global economy, may indirectly also affect the EU. Finally, long-term relations with Russia obviously have to be reassessed, but relations with China and the alliance with the US are evolving too.

The EU is using its economic clout in a geoeconomic way: to pursue overall strategic, rather than only economic, objectives. Targeting another great power, Russia, it has never before done so at such a vast scale. This geoeconomic confrontation has major geopolitical consequences. Regardless, therefore, of whether we will eventually see a negotiated settlement between Moscow and Kyiv, or just a protracted military stalemate and an ever present risk of renewed escalation, this demands permanent major adaptation from the EU.

NEW SUPPLY CHAINS, NEW DEPENDENCIES

First of all, the EU will permanently seek alternative suppliers for critical imports to maximally reduce its dependence on Russia.

Energy is the obvious priority. The EU took too long to come to a decision on energy imports from Russia. If an immediate gas embargo may not be feasible, an oil embargo could have been enacted from the start, and tariffs introduced on gas. But even when the EU finally weans itself off Russian energy completely, it will need to import fossil fuels for some time to come. The EU has already struck a deal with the US to increase its import of liquified natural gas (LNG), and various Member States have concluded or are exploring arrangements with suppliers such as Algeria and Qatar. Nigeria and Egypt, Africa's other LNG powers, may also play a bigger role in filling Europe's tanks.

Europe thus acquires an even bigger stake in the stability of Africa, yet its current strategy is reaching its limits, and not only because here too Russia is actively undermining its influence. (Though the ousting of France and other EU Member States from Mali is a spectacular Russian success, achieved with minimal assets: a few hundred Wagner mercenaries). A new strategy is urgently needed. In the Gulf too, as its importance to Europe increases again, the EU will have to rethink its role.

Can the EU generate a positive dynamic in which its greater involvement is welcomed by the countries of both regions? And are Europeans ready to act if, in spite of this, security crises threaten their connectivity with

them? If the US continues to prioritise its competition with China (from which it sees even the Ukraine war as a distraction), American military engagement may well be limited, certainly in Africa. Moreover, the EU has to take into account the possibility of relations with the US itself becoming more volatile again if a “Trumpist” Republican gains the White House in 2024. Ultimately, therefore, the Green Deal is the real long-term answer.

The green transition too, however, demands critical raw materials, such as palladium, nickel, lithium, platinum, titanium, and vanadium, and thus creates many new dependencies and supply crunches. Depending on a negotiated outcome of the war, there might be a transitory resumption of imports from Russia, until the EU ensures diversification of suppliers. But demand is set to skyrocket: EU demand for these materials may well increase up to tenfold by 2040. The EU will thus acquire an interest in the stability of potential new “commodity superpowers”, such as Congo, South Africa, Indonesia, Brazil, Chile, and Peru, and in the security of the shipping lanes that connect them. Meanwhile, China already dominates the global supply chain of various critical raw materials, and has introduced mechanisms to curb their export.

The EU will thus remain heavily dependent on the import of resources. Moreover, many of the suppliers have authoritarian governments and/or struggle with domestic instability. Many could easily slide into the same “resource curse” as the major energy exporters: a one-sided economy, sustainability issues, and corruption, further fuelling instability. The EU must design policies to mitigate this risk, such as incorporating standards for sustainability in all of its projects and helping its partners achieve them. It also means that Brussels must carefully calibrate its narrative. There is a strong temptation to present the Ukraine war as a fight of democracy against authoritarianism, but the fact is that the EU needs other non-democratic states and should beware of pushing them in the Russian camp.

Ukraine itself loses the transit fees as the gas market between Russia and the EU evaporates. Moreover, the

Green Deal, including the Carbon Border Adjustment Mechanism, could lead to stiff tariffs being imposed on its primary exports: iron and steel. The EU must invest, therefore, in Ukraine’s own green transition, and in including it into the emerging supply chains for green technologies. Ukraine’s gas infrastructure can make it into an important player in hydrogen, for example. Reconstruction will be costly (the number of €500 billion has already been mentioned), but investing in a strong Ukraine means investing in the EU’s own security.

INCREASED VOLATILITY

Apart from gaining a direct interest in the stability of new suppliers, the EU may also face indirect consequences when the disruption of supply chains provokes instability in other countries.

The most high-risk area is food: Russia and Ukraine together account for 30% of global export of wheat, and 20% of corn, but they also produce 20% of the world’s fertiliser. Pakistan, Laos, Benin, Armenia, and Georgia, among others, import close to 100% of their wheat from the two countries. Russian export restrictions have contributed to a tripling of fertiliser prices as compared to before the invasion (and prices were high already due to Covid-induced supply shortages). The war may thus have far-reaching consequences for agricultural yields and food prices. Several members of the World Trade Organisation have already introduced limits on food exports. China’s food security policies in particular are limiting global supplies, pushing up prices further still. Particularly vulnerable countries range from Brazil and Peru to India and Thailand.

Seen from Europe, what is most worrying is the risk of instability in North Africa and the Middle East, a region that vitally depends on agricultural imports. Countries such as Egypt, Israel, Tunisia, and Turkey import from 55 to 75% of their wheat from Russia and Ukraine. The EU may have to count with increased migration from the region. Furthermore, nothing lights the spark of domestic upheaval as surely as unaffordable food – remember the French Revolution. In Egypt, for example, over 100 million

people live under a severely repressive regime. Serious unrest there could trigger security concerns across the region, including across the Mediterranean.

Once again this proves that even as the war in Ukraine fixes all eyes on the east, the EU needs to engage proactively with its southern flank. The Mediterranean does not insulate Europe, but connects it to Africa and Asia: vital sources of trade and investment, but potentially also of security concerns.

FUTURE RELATIONS WITH RUSSIA – OR NOT

A key part of the EU's adaption to the geopolitical consequences of the geoeconomic confrontation, is of course its future relations with Russia itself. The sanctions against Russia are an instrument, with the aim of pressurising it into ending the war, and of sending a strong message to potential aggressors everywhere: breaking the basic rules of the world order comes at a heavy price. In the context of a hypothetical peace agreement between Russia and Ukraine, certain sanctions could be relaxed, therefore, notably the freezing of assets of the Russian central bank and the expulsion of Russian banks from SWIFT. Without an agreement, these and other sanctions will have to be upheld, however, and will limit Russia's access to international finance in particular for a long time.

Russia is too large to be turned into a permanent international pariah, however. Indeed, sanctions are mostly imposed by EU and NATO countries plus Australia, the Bahamas, Japan (for whom this is a complete turnaround), New Zealand, Singapore, South Korea, Switzerland, and Taiwan: some, but not all, of the most powerful states, and definitely a minority. As the global economy teeters on the brink of a crisis, calls for relaxation of sanctions will surely rise among developing economies from Asia, Africa, and Latin America.

With or without a peace agreement, certain sanctions will likely be kept in place, notably export controls on technology. Even if trade and investment sanctions were undone, trade in commodities might pick up somewhat,

but by and large western firms will be very reluctant to return to Russia. The EU actually is the biggest investor in Russia: Foreign Direct Investment stock amounted to €319 billion in 2019, much of it in the energy sector. But many European investors have fled the country, though they stand to lose immovable assets that Russia is threatening to nationalise. The absolute loss of confidence means that whatever happens, investment will remain minimal for many years to come.

GREAT POWER POLITICS

If the sanctions are also meant just to punish Russia, they are not meant to sink it: a total Russian collapse might trigger even greater global instability and insecurity. By not adopting sanctions, China de facto provides Russia with a lifeline. At the same time, it is even more important that China does not fully support Russia's war. Had China chosen to back Russia to the extent that the West backs Ukraine, that would have been a tipping point for great power politics, pushing the world into a new bipolar rivalry: Americans and Europeans versus Chinese and Russians. But instead China follows a policy of non-intervention: while it does not limit its relations with Russia, it also does not appear to increase them by way of support. Indeed, prominent Chinese firms have suspended major projects in Russia, and the Chinese economy too is feeling the effects of the shockwave that the West's geoeconomic offensive sent through the world economy.

It is absolutely in the interest of the EU to keep China in this middle position, rather than to threaten it into reducing its relations with Russia, which will likely be counterproductive. The EU is in a stronger position, though, as China has surely noticed that it can inflict serious geoeconomic damage. The result may be that China decides to speed up its "self-reliance" campaign, reducing its dependence on the West. Brussels can put its geoeconomic power to positive use, though, to ensure Beijing's active support for measures to stabilise the global economy. The EU should also signal to China that it is up to the latter to make the first move towards undoing some of the damage to their bilateral relations that resulted from China's massive overreaction to the

EU's human rights sanctions over the maltreatment of the Uighurs.

China itself is in a stronger position vis-à-vis Russia, which has become even more dependent on it now that it has completely alienated the West. Perhaps in due course China will exact a price for not dropping Russia in its time of need: lower commodity prices, for example, or access rights in the Russian Arctic (though its viability as an alternative sea route to Europe may be greatly reduced if the war leads to permanently frozen relations between Russia and the West). At the global level though, as the EU and the US have demonstrated their economic might, China has rather lost some of its shine, to which the apparent failure of its domestic Covid-19 policy further contributes.

The EU and the US have to carefully assess the possibilities that the ramifications of the war may create. They can certainly strengthen their bilateral cooperation, notably in the framework of the Trade and Technology Council, and build on their ongoing cooperation on Russia to coordinate technology export controls on a permanent basis. Supply chain security in areas such as energy, critical raw materials, and strategic technologies, is another obvious focal point.

In terms of great power politics, the EU and US urge is to single out China as the power that refuses to condemn Russia, though in reality it is not alone in this, witness the role of India, among others. Instead, perhaps together they could use this crisis, and their show of geo-economic muscle, to demonstrate that all powers share an interest in maintaining a stable world order and prevent wars of aggression from disturbing the economic and financial stability they all need. At the same time, the EU must not forget to make constructive use of its geo-economic power and implement the Global Gateway as a matter of priority. Now, more than ever, it is crucial to deepen relations with key partner countries and offer a strategic vision for a global economy that is multilateral, resilient, and green.

CONCLUSION: A GEOPOLITICAL EU, FOR REAL THIS TIME

When Russia's tanks rolled into Ukraine, its banks were kicked out of SWIFT. This and the other geo-economic actions by the EU have been very successful in massively driving up the cost of the war for Russia. But the threat of sanctions was insufficient to deter Putin from invading. Putin did not even consider the EU a party worthy to be involved in the diplomatic exchanges prior to the war. Very likely he did not foresee such a huge sanctions package; indeed, few in the EU itself had expected such resolve. Future warmongers may think twice, therefore. Nevertheless, when it comes to the *great powers*, it is far from certain that geo-economic threats will be sufficient to deter them from having recourse to war.

Once the invasion had started, the massive economic cost was also insufficient to force a quick end to the war. Supplying Ukraine with American and European arms, equipment, and ammunition, became essential, therefore, and remains so, to ensure that its armed forces can sustain the fight. Activating the European Peace Facility to finance military supplies from EU Member States to Ukraine was a major move and an important precedent for its future use. The EU will also require military power of its own to safeguard new or increased economic interest in other parts of the world, as a result of the reorienting of supply chains, and to prevent spill-over of instability from third countries as a result of the global economic disruption.

Moreover, it should not be forgotten that geo-economic action may have an escalatory effect as well. Just three days after the invasion, Putin put Russian nuclear forces on higher alert. That was probably prompted by the fact that once Russia had engaged the bulk of its combat-effective forces in Ukraine, its own territory was relatively denuded. But it can also be read as frustration with the massive sanctions, to which Russia had no effective response. Europe's own nuclear deterrence, which is mainly provided by the US, with France and the UK, remains vital, therefore.



It is essential also to keep a cool head, and calibrate sanctions carefully with regard to their effect on the war as well as on the desired post-war end state. In the same vein, the emotional appeal for a fast track to EU membership for Ukraine was ill-conceived, for unfeasible in reality. That said, maintaining and deepening the existing close partnership between the EU and Ukraine, and investing in its reconstruction, must be at the heart of post-war arrangements.

In conclusion, the EU's resolute use of its geo-economic power puts it at the centre again, together with the US. But an economic power alone cannot be a great power – political, diplomatic, and military power are equally important. There is a strong momentum to step up European defence efforts. Now indeed the EU must forge ahead with its Common Security and Defence Policy (CSDP). But it ought not to forget the Common Foreign and Security Policy (CFSP): as long as the EU continues to wage diplomacy by consensus, it will never be a real player in crisis diplomacy. Tanks, banks, and diplomatic hands: the EU must combine them all.

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