Economic Statecraft and US-Russian Policy

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ABSTRACT: This article assesses the American-Russian economic relationship, identifying how Russia exploits strategic asymmetries to gain advantage in the space below armed conflict and how the United States can modernize its economic statecraft. It draws upon a wide range of comparative research, from US-Russian military thought to the American-Eurasian economic interrelationship, to evaluate the full range of economic statecraft within a single dyad of countries in the context of coercion theory. This analysis will assist American policymakers in reforming priorities and processes according to principles of economic statecraft to sustain ongoing American coercion and set conditions for advantage upon the return to bilateral competition.

Keywords: geo-economics, economic statecraft, Russia, gray-zone warfare, hybrid warfare, geopolitics

Since the 2014 Crimean crisis, American policy has attempted to coerce Russia into abdicating its gains and to deter it from future aggression. But from armed intervention and assassination to election meddling and energy manipulation, American policy has failed to exact fundamental concessions. Russia’s massing of troops and invasion of Ukraine in February 2022 are only the most recent signals of the US government’s inability to effect Russian behavioral change.

Today, the United States finds itself in a state of economic war with Russia. The United States has mobilized its economic instruments of power against Russia, unleashing an unprecedented package of export, debt, banking, and individual restrictions. Although the cascading externalities of deploying so many economic weapons have yet to be determined, American economic action today will play center stage in future Russo-Ukrainian deescalation, bilateral competition with Russia, and the global financial system at large. The United States must exploit this opportunity to shape the international and bilateral relationship to return to future competition

on better terms. Not since the September 11 attacks has the United States been presented such an open policy window to remake domestic and partner economic relationships to improve US national security. This article looks to the past to inform this future competition by examining why the United States has been unable to translate its economic endowments into capable and credible force against Russia in gray-zone competition.

This failure stems from a strategic misalignment: The conventional paradigm of US deterrence policy is fundamentally misaligned with the core, nonmilitary means of Russia's gray-zone strategy. Chief among these largely misunderstood means is an engine of licit and illicit economic interests. The policy of the United States has largely stagnated in a Cold War paradigm of military and economic deterrence. Today, though, the dollar and tools of economic statecraft are mightier than the sword. Russian strategies of economic influence have seized this initiative. Russia's continued penchant for gray-zone aggression, according to US intelligence estimates, reflects an assessment the West is either unwilling or unable to inflict the requisite pain below the threshold of armed conflict. Coercion, the alignment of adversary incentives to induce desired behavior, is akin to a negotiation; threats must evolve to reflect both a target's interests and competencies and the coercer's changing leverage. Administrations may change in the United States, but its Russian gray-zone policy problems remain the same. Without a more robust counter to its economic statecraft, Russia will continue to reap gains in future competition with the West.

This article proposes a revised policy program to achieve the coercion the United States desires vis-à-vis Russia through economic statecraft (or the use of economic tools as nonmilitary means to promote beneficial geopolitical and domestic results). First, the article identifies shortfalls in US-Russian policy through the lens of economic statecraft—how Russia achieved its gains, how American policy stagnated, and how this asymmetry manifests in practice. The article then outlines how the United States can modernize its economic tools, improving effectiveness and efficiency to leverage the nation's capacity for economic statecraft to establish gray-zone deterrence through a triad of domestic coordination, international cooperation, and transatlantic transparency.

10. Blackwill and Harris, War by Other Means, 20.
Translating Economic Coercion in the Gray Zone

The United States’ core problem in combating Russian gray-zone aggression is one of latency. Despite both relative and absolute economic disadvantage, Russia is better at mobilizing economic means into capable and credible force for two reasons. First, the United States has failed to understand the changing nature of the Russian security dilemma and the resulting emphasis on malign economic coercion. Second, the United States has not adapted its logic and methods of economic statecraft. This misalignment carries significant strategic problems during bilateral, gray-zone competition because the United States has failed to generate the domestic unity of effort, broad international enforcement, and necessary measures of success required to deter Russia.

Strategic Misalignment and Economic Statecraft

Since the Cold War, Russian strategy has evolved based on Russia’s assessment of the American-led threat of forging greater emphasis on nonmilitary means. Russia observed a pattern of forcible regime change that exploited the changing nature of war.\(^{11}\) Interventions in Iraq, the former nation of Yugoslavia, Haiti, Afghanistan, and Libya exemplified how the United States wielded nonmilitary means, including the use of economic sanctions and isolation to converge on a state’s external and internal vulnerabilities.\(^{12}\) Consequently, Russian strategy emphasizes the continuous use of nonmilitary means. Short of conflict, Russian policy tools leverage licit and illicit methods, particularly in the informational and financial domains, to establish favorable diplomatic conditions.\(^{13}\) Russian nonmilitary action constantly seeks to suppress internal conflict from US exploitation and to manipulate other states’ vulnerabilities.\(^{14}\) During conflicts, Russia focuses on preemptive action across the country’s instruments of policy to consolidate political gains.\(^{15}\) This approach increases adversaries’ costs and enables crisis resolution on Russia’s terms, despite its material disadvantage.\(^{16}\)

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Malign economic influence underlies all components of Russian strategy, particularly below the threshold of armed conflict.\textsuperscript{17} In practice, Russian strategy functions along two tracks centered on economic statecraft. First, Russian patronage networks exert direct and indirect pressure on a target state’s decision making. Russian state entities and proxies exploit nontransparent economic structures to influence democracies without attribution; this strategy is known as “malign finance.”\textsuperscript{18} Russia exchanges financial, military, and technical support with targeted individuals and groups for regime loyalty.\textsuperscript{19} Russia also reserves a tremendous amount of resources for these networks. The country yields the world’s largest system of crony capitalism. An estimated $300 billion of oligarch money has left Russia since 2006, including at least $300 million to malign finance.\textsuperscript{20}

Second, Russia seeks dominance of strategic sectors—particularly energy, military industry, and finance—through the manipulation of corporate ownership, direct investment, bilateral trade, and private holdings.\textsuperscript{21} Together, these tracks generate a pronounced information asymmetry, a condition in which one party possesses superior understanding in one or more transactions, for Russia relative to the Western free market.\textsuperscript{22} Russia applies these measures to exploit the preferences, vulnerabilities, and resiliencies of target states, generating disproportionate influence at a relatively low cost.\textsuperscript{23} These licit and illicit measures offer carrots without the risk of uncertain capital markets or political conditionality. The measures also form the “stick” that can effectively cripple a state’s sovereignty by co-opting a target country’s sociopolitical elites.\textsuperscript{24} Russia has increasingly leveraged these tools to destabilize target countries over time, perpetrating the vast majority of world malign finance cases since 2013.\textsuperscript{25}

\textsuperscript{19} Conley et al., Kremlin Playbook, 13.
\textsuperscript{24} Conley et al., Kremlin Playbook, 2.
\textsuperscript{25} Rudolph and Morley, Covert Foreign Money, 65.
These Russian tools counter two of the West’s main nonmilitary advantages: economically interdependent alliance networks and the dollar-based sanction. Russian economic statecraft generates “underbalancing” against the country among Western allies. As a result, bilateral economic interests with Russia attenuate the tendency for smaller states to band together in the face of Moscow’s aggression. These interests also insulate Russian actors and systems targeted by Western sanctions. Cyprus exemplifies how geopolitical underbalancing generates perverse cycles of Russian influence. Russia dominates Cypriot investment inflow, securing a financial foothold that shields oligarch assets and proliferates influence across transatlantic political systems through offshore accounts. Russian nonmilitary means exploit gaps in the international hierarchy and authority to which the United States has grown accustomed, magnifying an ongoing decline in American financial, military, technological, and informational power advantages.

In addition, the American deterrence policy has largely extended the Cold War-era paradigms of coercion, misjudging and discounting Russia’s changing security dilemma, and emphasizing nonmilitary means. The Cold War emphasized military deterrence and the complementary means of economic statecraft centered on sanction—actions designed for an era of limited economic interdependence between the Soviet Union and NATO. The Cold War also emphasized a linear conception of the political utility of force between nonmilitary and military means along horizontal and vertical dimensions of escalation. Following the Soviet collapse, this paradigm drove a flawed deterrence strategy and unnecessarily isolated Russia through predominantly military instruments. This conceptual stagnation is even more damaging in the Putin era, in which Russia’s malign economic activity exploits gaps in detection, attribution, and response.

Further, gray-zone aggression during this era is often misattributed in Western studies as a uniquely Russian way of war, resulting in a lack of critical review of

the United States’ nonmilitary weaponry during competition. Without strategic empathy for Russia and the larger geopolitical context, the United States lacked the ability to sequence and vary military and nonmilitary force combinations appropriately. Thus, the sanction, one of the United States’ primary weapons in gray-zone competition, has become overused, despite the tool’s ineffectiveness, which results from its lack of precision. Unable and unwilling to adapt, the United States yielded many of the post–Cold War advantages the nation could have used in its coercion policy against Russia.

Since the 2013–14 Ukraine crisis, this outdated concept has increasingly led to a misunderstanding of Russia’s means and an overestimation of American actions. Western sanctions negatively impacted Russian gross domestic product, international reserves, and concentrated losses within the Russian defense, energy, and equity markets following the 2013–14 crisis. The purpose of sanctions is always multifaceted in practice, and US-led action raised the cost of Russian noncompliance by removing resources available for various Kremlin objectives. However, the direct effect of American sanctions on Russia after the Crimean crisis, has been overstated.

Commonly used measures of pain inflicted by sanctions (such as damage to Russian markets and gross domestic product) now appear to be driven primarily by modern oil-price volatility. Meanwhile, other tools of economic statecraft, including a wealth of financial and monetary tools (such as cross-border flows), continue to receive little attention in American literature and policy. Thus, although overt military aggression subsided, Russia continues to implement its asymmetric strategy. If coercion truly occurs “in the mind of the potential aggressor,” then American policy has fallen short. For Russia, economic sanctions, military posturing, and diplomatic isolation are modest costs compared to the strategic benefit of aggression.

Bleeding Coercion: Manifestations of the Problem in Practice

American misalignment manifests in a policy that lacks domestic unity of effort, broad international enforcement, and necessary measures of success, each of which is an important component of effective economic statecraft.\textsuperscript{41} Despite the country’s raw economic potential, the United States’ chronic inability to organize and deploy economic statecraft has continued to undercut the desired coercive effect during gray-zone conflict.

First, American policy has lacked unity of effort, resulting in reactionary and convoluted economic actions. Economic coercion for both short-term compellence and long-term containment works best if the conditions that trigger and remove sanctions are known.\textsuperscript{42} But as American policy consensus has evolved, US strategy has been applied inconsistently in response to discrete Russian behavior.\textsuperscript{43} Before February 2022, ambitious sanction packages showed all signs of political mission creep, penalizing an ever-expanding range of behaviors from Ukraine to human-rights violations and rogue regime support.\textsuperscript{44} Unlike other policy tools, such as diplomatic pressure and military deployment, economic sanction rollout has often been piecemeal.\textsuperscript{45}

Additionally, the implementation of the policy has suffered from competing goals and expectations among branches and agencies of the US government, particularly between Congress and the president.\textsuperscript{46} Though desynchronization across agencies may typify US policy, the effect of this desynchronization has been particularly insidious given the persistent nature of Russia’s malign influence. This asymmetry has allowed Russia to allocate its economic means over time more efficiently. The asymmetry has also reduced the United States’ overall coercive effect, convoluting desired objectives and drawing resources away from Russia’s most significant vulnerabilities.

A lack of broad international enforcement has also marred American policy. International cooperation enables economic coercion by minimizing third-party actors’ ability to offset or nullify intended effects.\textsuperscript{47} American unilateralism, however, is first and foremost limited in terms of modality. Although tools of

\textsuperscript{41} Baldwin, \textit{Economic Statecraft}, 143–49.
\textsuperscript{42} Drezner, “United States of Sanctions,” 152–53.
\textsuperscript{44} Welt et al., \textit{US Sanctions on Russia}, 29–35.
\textsuperscript{47} Baldwin, \textit{Economic Statecraft}, 143–49.
economic statecraft cover a wide area of financial, fiscal, trade, and monetary policy, US-Russian policy has been limited to direct economic sanctions.48

American unilateralism has also been defined by limited international cooperation. The United States’ economic actions have been increasingly independent of the initial response to the Crimean crisis. Russian economic interdependence and statecraft have exploited the unanimous consent requirements of the EU, producing collective underbalancing against Russia as states have sought to protect national energy and patronage interests.49 Multinational coordination has largely been isolated to the military sphere, centering on the NATO European Deterrence Initiative and expenditure requirements.50 Countries have fed upon each other via this unilateralism, generating further deleterious effects. Reliance on sanctions threatens partner-country sovereignty and reduces the range of cooperative policy options. Reliance on independent action reduces domestic political willingness for more substantive economic tools beyond sanctions. These fractures have weakened the intended coercive effect by reducing the breadth and depth of overall Western capability and signaling collective hesitance to use available means.

Finally, American economic coercion has lacked a nuanced method of measuring success. The confounding nature of economic coercion, among other nonmilitary means, requires a refined understanding of the effectiveness of economic statecraft.51 During the Cold War, Soviet defense spending assessments became important determinants of success.52 However, modern US policy chronically underestimates Russia’s economic resilience during gray-zone competition. For years, Russia studied the economic coercion of the United States and mitigated the former’s economic vulnerability in relation to the latter by slowly diversifying the former’s trade, reserve holdings, and payments systems.53 Licitly, Russia took deliberate action to withstand economic pressure by maintaining a large petroleum market share, low debt levels, and extensive nondollar reserve holdings.54 Illicitly, Russian patronage networks have allowed the Kremlin to bail out targeted officials and firms, compensating them with

49. Welt et al., US Sanctions on Russia, 39–44.
contracts, subsidies, and other rents.\textsuperscript{55} Russia’s successful use of nonmilitary means to resist American sanctions reveals the symbolic and ineffective nature of US economic policy.

Coercion is a form of negotiation in which an adversary signals its willingness and capacity to hurt.\textsuperscript{56} Russian behavior signaled the country could withstand the tools the West was willing and able to use below the threshold of armed conflict. If the United States does not change its coercion strategy, the country should only expect continued policy failure.

\textbf{Modernizing US-Russian Policy through Improved Economic Statecraft}

The United States must refocus its economic statecraft policy vis-à-vis Russia to realign nonmilitary means and counter the illicit activities at the core of Russia’s economic advantage. In short, the United States must create and signal additional capacity to hurt Russia economically. This policy modernization achieves one overarching goal—to build and focus economic means toward “latent force,” or the withheld threat of violence.\textsuperscript{57} A more holistic and effective US strategy requires a reassertion of three mutually supporting policy principles: domestic coordination, international cooperation, and transatlantic transparency.

\begin{figure}[h]
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\includegraphics[width=0.5\textwidth]{policy_response_triad.png}
\caption{Policy response triad}
\end{figure}

\textbf{Domestic Coordination}

For decades, American economic statecraft has taken a back seat, lacking vertical integration with jurisdictions spread across multiple agencies and

\textsuperscript{55} Carpenter, “Sanctions on Russia.”
\textsuperscript{56} Thomas Schelling, \textit{Arms and Influence} (New Haven, CT: Yale University Press, 2008), 3.
\textsuperscript{57} Schelling, \textit{Arms and Influence}, 3.
horizontal integration to generate the holistic capability necessary to combat a wide-ranging threat like Russia’s malign influence.  

Better domestic integration requires a realignment of Russian policy talent. Although the Biden administration recently created a short-term Task Force KleptoCapture aimed at the wealth of Russian oligarchs, a more sustained effort is needed. One mechanism of improved integration could feature a standing National Security Council task force that focuses on Russian influence due to its increasing centrality to US executive action. The United States’ combatant commands, such as United States European Command, represent another way to promote coordination. Both options provide the cultural, diplomatic, and intelligence expertise to build economic statecraft preemptively into current, future, and contingency operations.

Regardless of the format, these structures should join members of the Department of Defense, the Department of State, the Department of the Treasury, the Department of Energy, the Department of Justice, the Committee on Foreign Investment in the United States, and the Office of the US Trade Representative. This interagency group serves three core roles:

- Assess the changing Russian vulnerabilities to American economic leverage.
- Evaluate the effectiveness of US policy allocations over time.
- Ensure the coordination of economic statecraft in interagency campaign planning during competition and crisis.

Economic tools must remain dynamic in response to changing licit and illicit economic market forces. These policy and theater-level constructs (for example, closing loopholes in existing policy or preemptively establishing triggers for implementation) can synchronize the intended goals of economic coercion and tailor policy over time to improve effectiveness.

60. Undermining Democracy (statement of Michael Carpenter); and John Gants, White House Warriors (New York: W. W. Norton & Company, 2019), 209.
63. Fishman, “How to Fix.”
Another mechanism for improving unity of effort is organizational priority. Unlike in the defense, intelligence, and diplomatic communities, no standing interagency process for publishing documents related to reoccurring, national, economic statecraft strategy exists. Such a process would allow the relevant agencies to signal, coordinate, and assess a major pivot in economic statecraft—for instance, to begin prioritizing the countering of authoritarian influence over the countering of the financing of terrorism, thereby transitioning the interagency from a legacy policy developed after the September 11 attacks.

A final mechanism of integration is by way of legal process. The US legal code inhibits sharing financial information related to law enforcement and national security—a gap readily exploited by Russian actors seeking to obfuscate any ties to the Kremlin or its proxies. The United States needs a more suitable way of negotiating anti-money laundering (AML) consistent with citizens’ data privacy protections. Currently, federal agencies operate through a patchwork of laws to navigate restrictive and outdated provisions, such as the 1974 Privacy Act. Legal code reform is necessary for enabling whole-of-government AML processes that extend civil-liberty protections to cover the data protection needs of modern society. Designed to support federal law enforcement and private-business needs, the Foreign Intelligence Surveillance Act represents a reform model for building an apparatus that improves financial intelligence gathering within the American banking system without infringing upon civil liberties.

When coupled with a coordinating interagency body and proper prioritization, legal process reform offers an impressive tool against malign economic influence within the broader American financial system. Consider the example of negative Committee on Foreign Investment in the United States externalities. The committee’s reforms are widely credited with limiting potentially subversive foreign direct investment inflow into the United States. Although restricting foreign direct investment inflow is sometimes an appropriate policy goal, it is not an unalloyed good. Preventing licit foreign direct investment inflow also generates the negative externality of licit but unattributable or illicit inflows. Without

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64. Drezner, “United States of Sanctions,” 152.
65. Rudolph and Morley, Covert Foreign Money, 60.
70. Rosenberg, Harrell, and Feng, New Arsenal for Competition, 16.
proper assessment and monitoring, this dynamic might generate an offsetting effect representing a net loss for American interests.\(^\text{71}\) Armed with a legal process similar to that codified in the Foreign Intelligence Surveillance Act, an interagency coordinating body could assess and refine policy over time.

Improved domestic coordination demonstrates national determination and the capacity to deliver economic pain consistently over time. Relative to the United States, Russia benefits from the longevity of its senior civilian and military leaders, enabling the pursuit of consistent strategy. On the other hand, Russia has long believed US policy is erratic due to the US electoral process and political incentive structure, thereby creating vulnerability to political warfare.\(^\text{72}\)

A more sustainable model of domestic coordination that is aligned to both interagency requirements and national values delivers a powerful coercive effect by addressing these perceived weaknesses.

### International Cooperation

Improved international cooperation is essential for generating broad enforcement of strategy vis-à-vis Russia. The United States must be realistic, developing politically feasible options for partner countries to minimize underbalancing. First, the United States should seek unity of effort within like-minded structures—both established international organizations and incipient regional organizations. Second, when the United States must challenge economic paradigms, it must ruthless prioritize them.

Improved financial regulation and intelligence sharing represent one avenue of international cooperation. Today, the global AML system suffers from critical structural flaws because most governments have unsuccessfully outsourced regulation to the private sector, leaving pockets of excellence balkanized within Western financial intelligence.\(^\text{73}\) The United States should augment the personnel and budgetary resources of the Department of the Treasury’s Financial Intelligence Unit (the Financial Crimes Enforcement Network) and partner it with similar state institutions overseas—notably, the Group of Seven’s Financial Action Task Force and affiliated regional organizations.\(^\text{74}\)

Additionally, the United States can bolster political support for the EU Directorate-General for Competition. This office’s actions against state-owned enterprises such as Gazprom serve as an emerging check on malign

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73. “Losing the War.”
74. “Losing the War.”
economic influence. In 2018, the office’s investigation of Gazprom’s gas-market monopolization prompted Russia to make concessions in its long-term gas pricing to avoid a multibillion-euro fine. These market-oriented concessions threaten Gazprom’s future domination of the Eurasian energy sector and build advance cooperation on geo-economic action (such as regulation and sanctions), thereby minimizing tendencies for political compromise or underbalancing that dilutes effectiveness.75

The United States can also improve cooperation by fostering independence from Russian gas imports. For decades, natural gas served as a critical bridge of mutual dependence from Russia to Europe.76 Thus, the United States must work with the current of European gas politics to manage the broad, international coalition required for sanction efficacy. First, the United States should adopt a “small yard but high fence” concept to protect the most critical American sanctions against Russia. This approach prioritizes the prevention of Western investment and technology transfer to Russia’s energy sector—a major, long-term liability to regime survivability because Russia requires technological innovation to access and exploit its vast reserves in the Poluostrov Yamal.77 These sanctions threaten the future market dominance of Russia’s state-owned energy firms, the Kremlin’s most controllable geo-economic asset.78

Gas independence also requires American support for European energy and investment diversification by promoting regional energy competition that decreases the Russian market share. To reduce the importation of energy, the United States can promote other European options, such as north-south connectors with Nordic and Mediterranean nations, the recently opened EU Southern Gas Corridor, or the expansion of European access to imports of liquefied natural gas.79 This short-term diversification of European energy can replace as much as 60 percent of current Russian-gas imports.80 Imports of liquefied natural gas to Europe represent a Russian economic vulnerability as Russia’s legacy pipeline delivery systems decrease in market efficiency.81

79. Blackwill and Harris, War by Other Means, 205–9.
To replace market investment opportunities, the United States can negotiate bilateral investment treaties to liberalize private capital flows and reduce the risk of Russian state economic capture. In particular, the United States can support burgeoning green-energy production by leveraging the sector’s increasing regional technological advances and political salience. Ultimately, the Europeans would best achieve this diversification. The United States should support a continental gas strategy that collectively assesses individual country exposure, shifts excess stocks within the euro area, and establishes funds to compensate countries and sectors damaged from ongoing economic sanctions.

Financial regulation improvement and European gas-trade independence will require the United States to withhold economic force selectively through other inducements. One way is leveraging Specially Designated Nationals and Blocked Persons List exemptions for key political concessions in the Russian-gas relationship. Formally known as licensing, this process temporarily suspends economic sanctions in return for progress on desired objectives. The United States should apply these tools on a bilateral or limited, multilateral basis as needed to mitigate the effects of regional underbalancing. Alternatively, the United States can selectively apply exemptions to foster competition among Russia’s burgeoning independent gas producers who increasingly threaten Russia’s state-sponsored dominance of gas exports. Another positive inducement is providing diplomatic and economic clarity for Western firms to reenter the Eurasian market as sanctions are reduced. This strategy could include clear messaging about the triggers for sanction imposition and removal as well as financial safeguards (such as capital liquidity and tax provisions). A final critical economic inducement should seek to preserve third-party country access, including that of China, to American, European, and US-dollar markets. Transatlantic market access is an important incentive for minimizing Russian sanction leakage by third parties, such as China.

Alliances and partnerships inherently come with trade-offs. Opportunity cost abounds in the prioritization of financial intelligence and energy independence. But these mechanisms are rarely used to communicate commitment. As the leader of a diverse coalition of allies, the United States must welcome trade-offs amongst allies to secure a common purpose and key coercive tools.

84. Poitiers et al., “Kremlin’s Gas Wars.”
85. Fishman, “How to Fix.”
Transatlantic Transparency

Finally, the United States can modernize its economic firepower by increasing the transparency of cross-border financial transactions. Data may not be “the new oil,” but data are the key to understanding the allocation and effectiveness of Russian economic means. As the preeminent global hub for economic transactions, the West’s privileged access to financial flows is its premier means of network power to exert international influence.89 In practice, Russia’s malign influence exploits state-level variations of financial law and regulation to avoid attribution and complicate response. Since 2006, just 17 percent of known malign Russian finance cases have been illicit.90 Transparency is also constrained by evolving financial engineering and reporting procedures (such as electronic currency procedures and alternate clearing mechanisms). Financial operations that are not dollar-denominated, such as Bitcoin, Instrument in Support of Trade Exchanges, and central bank digital currencies, threaten future American advantage vis-à-vis Russia. These forms of exchange decrease US financial access, placing bank liabilities directly within the citizenry or outside the US-dominated commercial bank structure.91 Privileged data access is a key US policy tool, and regulation-based financial transparency is essential to maintaining the strength of this tool.

Financial transparency improvement begins by closing loopholes in the transatlantic alliance structure. The New York City-, London-, and Brussels-based financial industry continues to dominate global market flows. The industry is also the hub of most global financial transparency mechanisms as states have increasingly decentralized AML enforcement to the commercial banking sector.92 The United States should work with transatlantic financial organizations to improve international financial transparency standards, such as defining the ultimate beneficiaries of limited liability.93

The Anti-Money Laundering Act of 2020 presents one opportunity. This law requires first-time disclosure of individual ownership of an underlying financial equity to the Department of the Treasury.94 The act is not without drawbacks. The law does not cover pooled investment vehicles (such as trusts or private-equity funds), nor does it augment resources to administrate and oversee the

90. Rudolph and Morley, Covert Foreign Money, 10.
92. “Losing the War.”
93. Undermining Democracy (statement of Laura Rosenberger).
reporting. Nonetheless, the act represents a major milestone for improving the financial community’s financial transparency standards and enforcement. The law is one of many ways the United States can improve the transatlantic financial system. The Biden administration could eliminate exceptions to the USA PATRIOT Act that allow exemptions from AML provisions for real estate and luxury transportation dealers. The administration could also implement section 885 of the 2021 National Defense Authorization Act, which requires beneficial ownership reporting within federal acquisition databases. Finally, Congress can pass the ENABLERS Act, which would establish more financial transparency requirements (such as beneficial ownership reporting) for US law, real estate, and accounting firms.

Transparency can also come from improved international financial institution reporting. The inability of international financial institutions to manage changing financial engineering trends over time contributes to the institutions’ increasing insignificance and enables Kremlin operations. For instance, definitions of key bilateral flows (such as hydrocarbons and military expenditures and investment) and remittance flows vary across states and institutions, making Russian means more obscure. Limited reform of international financial institutions could streamline financial flow accounting and authorize penalties for actors who violate revised transparency norms. Such reform could also support the construction of databases for law enforcement and intelligence that could contain beneficial ownership and transaction history information.

Transatlantic financial transparency is crucial to building the latent economic force required to coerce Russia and combat its malign influence. Armed with this knowledge, the United States can design more effective sanctions and market pressures or reallocate support that builds resilience in key states and sectors. More importantly, the consolidation of transparency norms among a global coalition would be a critical signal to the Kremlin and build future capability to monitor and penalize Russia’s malign influence.

97. Vittori, “Biden Must Go.”
98. Vittori, “Biden Must Go.”
100. Orsini, “Guns, Butter, and Tweets,” 34.
101. Vittori, “Biden Must Go.”
Communicating Commitment to the Financial Industry

Democracies often struggle to communicate resolve to their targets due to the strength and quantity of various interest groups.\(^{102}\) The limiting factor for US economic coercion is not capacity; instead, the limiting factor is coordination and communication. Despite its dominant position in international financial markets, the United States’ inability to control outbound investment by private citizens severely weakens its financial sanctions.\(^{103}\) Fueled by competition among transatlantic banking firms, the financial lobby has grown in strength since the 1980s, achieving a broad trend of deregulation.\(^{104}\) In many ways, this lobby exemplifies the domestic and international challenges facing the United States vis-à-vis Russian economic statecraft. The United States must work with the industry through moral suasion, market incentives, or failure of risk reform.

One way to realign incentives is by signaling the use of section 311 of the USA PATRIOT Act against Russian malign financial networks. Section 311 compels American banks to guard the sanctity of the American financial system against illicit financial activity by designated groups. Whereas market forces usually weaken conventional trade sanctions, section 311 leverages these structures as banks naturally seek to protect their access to private-market liquidity.\(^{105}\) Section 311 combines governmental suasion and market incentives into a powerful, geo-economic weapon for safeguarding the larger American financial system. Since its inception, section 311 has aligned US and industry goals as banks have moved out of self-interest to isolate the laundering and threat financing of state actors and terrorist networks.\(^{106}\) The threat of section-311 action following ongoing economic sanctions on the Russian banking system would be a powerful signal of more latent force and increased targeting of malign finance.

With proper signaling, the United States can use this tool to align state and market goals, influencing financial industry reform without formally triggering section 311. The strength of section 311 derives from potential use, leveraging market pressures to align the goals of banks and government against money laundering practices. Numerous actions could increase the perceived plausibility of section-311 action. The United States could provide planning guidance for banks to deleverage Russia-linked liabilities. In addition, the United States could create Federal Reserve liquidity provision vehicles to support banking systems. Alternatively, the United States could take on financial lobby influence.

\(^{102}\) Biddle, “Coercion Theory.”
\(^{103}\) Steil and Litan, *Financial Statecraft*, 159–62.
\(^{104}\) Adam Tooze, *Crashed: How a Decade of Financial Crisis Changed the World* (New York: Viking, 2018), 79–82.
by strengthening Foreign Agents Registration Act provisions and passing federal defamation law to restrict baseless libel claims.\textsuperscript{107} Finally, the United States could promote a voluntary code of conduct amongst leading US banks to resist Russia’s malign economic influence, encouraging both public-private transparency and cooperation.\textsuperscript{108} Fundamentally, the United States signals a commitment by consistently executing economic statecraft, including herding its powerful financial system.

**Conclusion: Consolidating Economic Gains in the Gray Zone**

Acknowledgment that potential adversaries such as Russia have studied and countered the United States’ capabilities and willingness to use military coercion since the Persian Gulf War is almost axiomatic.\textsuperscript{109} Much less appreciated is potential adversaries have studied and countered the American economic playbook. For years, Russia has exploited a fundamental misalignment in the United States’ deterrence policy through licit and illicit economic means to a gain relative advantage in gray-zone competition. Although US policy has stagnated and suffered from a lack of domestic unity of effort, broad international enforcement, and transparent measures of success, Russia has continued to shape and complicate the human, physical, and informational dimensions of the modern operating environment for American strategists, military leaders, and diplomats. The United States’ economic statecraft must return the favor. A combination of mutually reinforcing domestic integration, international coordination, and transatlantic transparency tailored toward unique Russian economic weaknesses would allow the United States to organize, galvanize, and prioritize its ways and means more effectively.

As the United States participates in the largest war in Europe since World War II, the nation should heed the lessons of postwar peace. The institutions developed and refined in the 1940s—from the Bretton Woods system to the UN—fundamentally altered the political and economic context to thwart Soviet goals.\textsuperscript{110} At times, improved foreign and domestic economic coordination and transparency will strain the United States’ geopolitical position. This strain, however, is the necessary pain of long-term coalition management.\textsuperscript{111} Today, the United States stands at the beginning of an
unprecedented economic war with Russia over its invasion of Ukraine. The United States must simultaneously set conditions to sustain its coalition for long-term economic coercion and return to competition on better terms. During a conflict, the distinction between success and failure is most fragile. Good strategy, however, consolidates gains to make them endure.\(^{112}\) Largely undeterred by previous US gray-zone policy, Russia has aggressively exploited this arena to gain geostrategic advances. Under unprecedented economic strain, Russia is likely to need its gray-zone advantage now more than ever. The United States should harness the domestic and international policy window created by the 2022 Russo-Ukrainian war to consolidate the former’s economic gains, thereby denying strategic opportunity to Russia.

The United States must achieve objectives in the space between war and peace in a manner commensurate with the nation’s values and means. This imperative and the associated future coercive objectives potentially represent the United States’ preeminent foreign policy challenge in the twenty-first century. Russia is one test. On this battlefield, the dollar is stronger than the sword. The United States’ strategy must adapt and reform priorities and processes to wield its best weapons. Economic statecraft can no longer be a complementary effort; rather, economic statecraft must be the decisive force in generating the desired coercive strategy.

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Select Bibliography


