Yale SCHOOL OF MANAGEMENT
Chief Executive Leadership Institute

The Unprecedented Exit of 1,000+ Multinational Businesses from Russia

Investing in our Rivals: Examining U.S. Capital Flows to Foreign Rivals and Adversaries Around the World

Professor Jeffrey Sonnenfeld
Yale School of Management

Prepared for the House Financial Services Committee

Subcommittee on Investor Protection, Entrepreneurship and Capital Markets

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Table of Contents

Brief Introduction and Background 3
Washington Post: "How a Yale professor's viral list pressured companies to pull out of Russia" 5
Fortune: "The great business retreat matters in Russia today – just as it mattered in 1986 South Africa" 9
Washington Post: "Taking stock of politics: it pays to exit Russia"" 13
Business Insider: "Leaders at America's biggest companies all listen to one man. Meet Jeffrey Sonnenfeld, the 'CEO whisperer" 18
Foreign Policy: "Actually, the Russian economy is imploding" 23
Foreign Policy: "How to take down a tyrant – pushing out Putin" 31
Politico: "Using US defense leverage to re-balance lopsided Saudi relations" 40

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Brief Introduction and Background

Chairman Sherman, Ranking Member Huizenga, and the distinguished members of the Subcommittee: thank you for the opportunity to testify today; and thank you to Chairwoman Waters and Ranking Member McHenry for your leadership.

I am Jeffrey Sonnenfeld, Senior Associate Dean for Leadership Studies, Lester Crown Professor of Management Practice at Yale School of Management, and Founder and President of the Yale Chief Executive Leadership Institute, a division of Yale University and the world's first school for incumbent CEOs – well before the WEF/Davos and CEO-targeted events by Forbes; FORTUNE; BusinessWeek; The Wall Street Journal; and The New York Times. I founded this institute when I was a professor at the Harvard Business School 30 years ago and migrated it to Yale 22 years ago. We have continued to hold over 150 CEO forums hosting thousands of top leaders around the world including events in Washington DC, New York City, Atlanta, Beijing, New Delhi, Shanghai, Mumbai, Mexico City, Montreal, and Phoenix. These events are all non-commercial; educational; informal; non-partisan forums bringing together business leaders and leaders from across civil society, including political leaders from both sides of the aisle including Presidents Joe Biden and Donald Trump.

I have been working in the corporate social responsibility space for 45 years; my first book was entitled Corporate Views of the Public Interest, published in 1981, and since then, I have published 200 scholarly journals and 7 books. I have advised thousands of CEOs on corporate social responsibility challenges and am a weekly corporate governance commentator for CNBC with additional regular appearances on MSNBC, CNN, PBS, CBS, NBC, and ABC.

I am appearing before the Committee today to offer some insights on the historic exits of 1,000+ major multinational companies from Russia after Russia invaded Ukraine. I have been credited by media outlets for having had some role in catalyzing this mass stampede from Russia, but my testimony today and the readings in this compendium will provide a more comprehensive explanation over how this unfolded, what the impact has been on the firms which exited, and the impact upon our adversary Russia – as well as transferable lessons towards other adversarial countries. If time permits, I will also discuss our research on the unappreciated, unparalleled tech transfer of our most sophisticated, sensitive weapons systems to the Saudi – who are now colluding with Russia. The readings in this compendium contain both articles written about our work on this front as well as articles written by my team and I.

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https://www.washingtonpost.com/business/2022/03/11/sonnenfeld-russia-ukraine-corporations/

BUSINESS

How a Yale professor's viral list pressured companies to pull out of Russia

A longtime advocate of corporate social responsibility gets a boost as Americans rally behind sanctions

By Tracy Jan

March 11, 2022 at 3:00 a.m. EST

Jeffrey A. Sonnenfeld at the last in-person CEO summit in December 2019 in New York. (Yale School of Management)

Share

The sheer volume of companies clamoring to join the list of corporations withdrawing business from Russia after President Vladimir Putin's invasion of Ukraine came as a shock to Yale management professor Jeffrey Sonnenfeld.

Founder of the Chief Executive Leadership Institute, Sonnenfeld has spent four decades pushing CEOs to act to benefit society, not just shareholders, on social issues ranging from gun control to voting rights. But nothing has drawn as much attention or support from business leaders, media or the public as his inventory of companies that have cut ties with Russia.

"So many CEOs wanted to be seen as doing the right thing," Sonnenfeld, 67, said in a telephone interview. "It was a rare unity of patriotic mission, personal values, genuine concern for world peace, and corporate self-interest."

The list, updated hourly by his research team, has grown to more than 330 as of Friday. "What these lists do is give courageous CEOs the confidence to keep going, and the wannabe courageous ones the reinforcements to deal with their boards so they come off as responsible business leaders when they can see a stampede of their peers leaving Russia," Sonnenfeld said.

His latest list started with a dozen corporations spanning oil giants BP, Shell and ExxonMobil, consulting firms McKinsey, Bain and BCG, as well as Big Tech companies IBM, Dell, Meta, Apple and Alphabet, right after the Ukraine invasion on Feb 24. Many companies pulled out in response to employee outrage over the exposure of the firms to Russia, leaving billions of assets and revenue on the table, he said.
Technology companies race to extract their workers from Russia

Sonnenfeld said the "laggards" followed this week, when the public relations arms of more than two dozen consumer products, fashion, fast food and packaged goods companies contacted him in a single day to be included.

The rapid growth of the list in contrast to Sonnenfeld's earlier efforts could be explained as an economic decision amid increasing instability in Russia, or as a sign of American public support for a tough stand against Putin. A large bipartisan majority of Americans support sanctions against Russia for its invasion of Ukraine, according to a Washington Post-ABC poll.

But as the numbers seeking to join the list grows, Sonnenfeld's team is scrambling to categorize how exactly companies are curtailing business activity in Russia. His team planned to cull the list into three buckets: companies that shuttered their operations in Russia, those that temporarily suspended them and those that made cosmetic promises about future investments without changing their operations.

"The public is getting confused about who to celebrate and who to shame," Sonnenfeld said. Still, some critics say even the corporate activism with the best intentions can imperil democracy.

Vivek Ramaswamy, an entrepreneur and author of “Woke, Inc.,” sees companies cynically weighing in on “whatever is most politically convenient to accomplish their power aggregating goal,” be it voting rights, Black Lives Matter, climate change or Ukraine.

“It tells everyday citizens that their voices do not count the same as those who exercise market power when settling a moral question,” Ramaswamy said. “Whether it’s the truckers in Canada or protesters in Western Europe or people who attend rallies in the U.S., they are saying that we deserve to be heard every bit as much as some CEO sitting in a corner office.”

Internet watches with glee as yachts of Russian oligarchs are seized
From the time he was a doctoral student interviewing corporate executives imprisoned for price fixing, Sonnenfeld has focused his research on corporate social responsibility. That was the late 1970s, long before a powerful group of CEOs known as the Business Roundtable in 2019 distanced themselves from the idea that companies must maximize profits for shareholders above all else.

As a young Harvard Business School professor, Sonnenfeld wrote his first book, “Corporate Views of the Public Interest,” about the broader role of business leaders in society. In the 1980s, Sonnenfeld said the withdrawal of 200 Western companies from South Africa in protest of apartheid galvanized him. He recently argued in a Fortune column that such divestment should provide a “powerful road map for why and how CEOs should affirm American values amid global challenges.”

He started the first school for CEOs in his 30s, amid skepticism from senior Harvard Business School faculty that executives would want to spend their time listening to each other. He moved the enterprise to Emory University in Atlanta in 1989, the start of regular powerhouse gatherings of business leaders to address social issues and business challenges.

Former Atlanta Mayor Andrew Young, a civil rights leader alongside Martin Luther King and former ambassador to the United Nations, told CEOs at an early Sonnenfeld summit that the business community held more influence over doing the right thing than clergymen or activists. “He was my inspiration,” Sonnenfeld said.

Since then, Sonnenfeld has convened chief executives, virtually for the past two years, to take a stand. Business Insider has dubbed him the “CEO Whisperer.” After the 2018 Parkland school shooting, executives discussed their plans to sever ties with the NRA and promote gun safety.

In a meeting days after George Floyd was murdered by Minneapolis police in 2020, Kenneth Frazier, then chief executive of pharmaceutical giant Merck, spoke personally about how Floyd could easily have been him had somebody not invested in him. Sonnenfeld said that conversation prompted CEOs to hold town hall meetings with employees to discuss how to promote racial justice.

Corporate America makes a $50 billion promise on racial justice
On Jan. 5, 2021, the day before supporters of President Donald Trump attacked the Capitol, Sonnenfeld gathered nearly six dozen CEOs in a virtual meeting amid increasing fears that Trump would interfere with the transfer of power.

The Post had just published the transcript of a call to Brad Raffensperger, Georgia's secretary of state, in which Trump repeatedly urged Raffensperger to alter the outcome of the 2020 election in the state. The CEOs discussed suspending donations to members of Congress who had said they would not certify the votes for President Biden.
At another Sonnenfeld meeting, held over Zoom last April, two Black executives, Frazier and Ken Chenault, former chief executive of American Express, launched their drive to get fellow CEOs to sign onto a letter opposing restrictive voting rights bills being considered in dozens of states. Hundreds did in full-page ads published in the New York Times and The Washington Post. Some Republicans derided them as "woke CEOs." Sonnenfeld said he received death threats. Skeptics said the business leaders overstepped when they became involved in political debates.

"The purpose of a corporation is to produce a superior good or service at a fair price," said Charles Elson, founding director of the Weinberg Center for Corporate Governance at the University of Delaware. "When you get beyond that into tertiary areas, it affects the primary mission of the business itself because it's naturally divisive anytime a CEO takes a stand. Inevitably you lose customers, you lose employees, or you anger investors."

Some activists decried the corporate efforts as too little, too late. The Georgia bill had already been signed into law. Lawmakers in Florida and Texas also approved legislation imposing new rules on voting and new penalties for those who do not follow them.

"They literally did it a day late and a dollar short," said Malia Lazu, an entrepreneur and former bank executive who teaches at MIT Sloan School of Management. "If they were really willing to stick their necks out and take a little more risk, they would have come out strong four weeks earlier when activists were asking them to join the fight."
The voting rights campaign was Sonnenfeld's highest-profile effort until now. His next forum will be held in Washington on March 21. At the top of the agenda is Gen. Mark A. Milley, chairman of the Joint Chiefs of Staff, who will address the corporate response to Russia.

"Fortifying world peace, just like fortifying democracy, is absolutely a part of corporate duty," Sonnenfeld said.

By Tracy Jan
Tracy Jan covers the intersection of race and the economy for The Washington Post, a beat she launched in December 2016. She previously was a national political reporter at

https://fortune.com/2022/03/07/great-business-retreat-matters-russia-sanctions-1986-south-africa-putin-ukraine-world-politics-jeffrey-sonnenfeld/

FORTUNE

COMMENTARY UKRAINE INVASION

The Great Business Retreat matters in Russia today–just as it mattered in 1986 South Africa

BY
JEFFREY SONNENFELD

March 7, 2022 6:59 AM EST

Closed self-service checkouts at an Ikea store in St. Petersburg. Dozens of Western companies have suspended their operations in Russia until further notice.IGOR RUSSAK - PICTURE ALLIANCE - GETTY IMAGES

All major company boardrooms are reconsidering their Russian presence–but does it even matter?

The 1980s voluntary withdrawal of 200 major companies from South Africa, in protest over apartheid, in combination with U.S. Congressional sanctions, reinforced U.S. foreign policy successfully at the time.

In an oft-cited 1996 pronouncement, *New York Times* columnist Tom Friedman offered his "Golden Arches" theory of conflict prevention. Friedman proclaimed when a country "has a middle class big enough to support a McDonald's, it becomes a McDonald's country, and people in McDonald's countries don't like to fight wars; they like to wait in line for burgers."

Nevertheless, military conflicts between India and Pakistan in 1999 or Israel and Lebanon in 2014 were not prevented by Big Macs. Sadly, the presence of 108 McDonalds in Ukraine and 847 McDonalds in Russia has done little to prevent war. Thus, it is disappointing that McDonalds has chosen to remain in Russia.

In fact, scores of prominent brands owned by groups such as Estee Lauder, Coty, Hilton, Hyatt, and Unilever are keeping their presence in Russia. At the same time, over 230 other major Western companies have curtailed their business with Russia. Experts have suggested varied explanations for why some companies have pulled out and others have stayed.

Despite the cost of abandoning major investments and the loss of business, there is a strong reputational incentive to withdraw. Companies that fail to withdraw face a wave of U.S. public resentment far greater than what they face on climate change, voting rights, gun safety, immigration reform, or border security. A new Morning Consult survey reveals that over 75% of Americans demand corporations cut business ties with Russia after the invasion of Ukraine. These results show rare and equal support across parties and independents.

Differences in the pattern of corporate disengagement can be attributed to differences in public understanding of the situation in Russia versus the West. The general Russian citizenry is in the dark, especially the older population who rely heavily on censored traditional media. The average Russian consumer is (for now) more susceptible to Putin's propaganda that blames the West–and is more likely to punish consumer goods companies.

Disengagement may also be a little easier for finance and heavy industry than for consumer products firms. Fashion and packaged goods firms usually lead the pack in social justice and human rights causes because their brands are susceptible to public condemnation. In Russia's case, Western heavy industry, business-to-business tech, and professional services are leading the boycott.

The far better-informed oligarchs and leaders of major enterprises in Russia are the primary clients of heavy industry, big tech, and professional services. They know the truth and understand the boycott–and will likely re-engage with these Western enterprises without resentment when the crisis ends.

By contrast, U.S. sanctions against South Africa in 1986 passed with a crushing 76 to 21 Congressional override of President Reagan's veto. Senator Mitch McConnell and Senator Bob Dole led the GOP majority which defied Reagan. As McConnell explained: "I

think he is ill-advised. I think he's wrong, and I think we've waited too long for him to come on board."

Reagan’s argument was that sanctions would in fact hurt South African Black people and not solve the problems of Apartheid, while we lose positive influence. Those are the same counterarguments echoed today about not hurting Russia’s population. The purpose of sanctions, however, is to impose pain without the violence of war. Historian Norma Cohen explained this week that blockades of capital were essential for Allied victory in World War I.

The sanctions against South Africa included a ban on new U.S. loans and investments in the country, a prohibition on the importation of South African coal, steel, iron, uranium, textiles, and agricultural products, and a halt to direct air links between South Africa and the United States.

These sanctions alone were not sufficient. Within months of the bill’s passage, several leading companies such as GM, IBM, Ford, GE, Kodak, and Coca-Cola all announced their complete and collective withdrawal from South Africa when the Apartheid regime continued to prove intractable. Even as they made clear they were withdrawing because, as Coca-Cola stated, “so little progress [was] being made toward the dismantling of apartheid”, the companies simultaneously re-affirmed their commitment to the people of South Africa through civic-minded human rights initiatives. For example, Coca-Cola established a $10 million “Equal Opportunity Fund”, administered by a board of prominent South Africans including the late Bishop Desmond Tutu, to open up opportunities in business, housing, and education for Black South Africans while pledging to sell its South African facilities to a local investor group which included Black South Africans.

In total, after the passage of the sanctions bill in 1990, well over 200 Western companies cut all ties with South Africa, resulting in a loss in excess of $1 billion in direct American investment. The companies remained unified through collective action despite a barrage of criticism. Nobel Peace Prize winner Bishop Tutu told me over a private lunch I had with him in Atlanta in September of 1996 that the message of this U.S. corporate blockade “was essential to reach the larger public that systemic change was vital or there would be no future.”

Just as the Russian withdrawal is likely to cost participating corporations billions, an underappreciated aspect of the collective withdrawal from South Africa was that it came at great economic cost to these companies. Although South Africa’s population represented only about 12% of the U.S. population at the time, South Africa exerted significant control over critical raw commodities that gave it much more economic heft than its population would suggest. South Africa was the world’s largest gold producer, holding over 75% of all global reserves at the time. The country was also the world’s largest supplier of platinum and chromium, both heavily used in industrial and chemicals manufacturing. The withdrawal of almost every major Western company from South Africa led to an immediate surge in the price of

these critical commodities that affected global supply chains and industrial manufacturing.

The hardline government of PW Botha fell, succeeded by FW De Clerk who immediately negotiated the release of African National Congress leader Nelson Mandela after 27 years of imprisonment, erasing the blight of Apartheid from the nation's history.

Vladimir Putin, the most vicious autocrat of this century, rules through tyranny and fear. As he continues to fail, people will lose their fear and he will lose his power.

The collective withdrawal of 200 Western companies from South Africa in protest of the Apartheid government's violations provides a powerful roadmap for why and how CEOs should affirm American values amidst global challenges.

Jeffrey Sonnenfeld is a senior associate dean and Lester Crown Professor of Leadership Practice at the Yale School of Management, and author of The Hero's Farewell (Oxford).
Jeffrey Sonnenfeld (@JeffSonnenfeld) / Twitter

More must-read commentary published by *Fortune*:

Opinion | Businesses that refuse to leave Russia are experiencing the greatest costs - The Washington Post

Opinion

Taking Stock of Politics – It Pays to Exit Russia

By Jeffrey Sonnenfeld, Steven Tian and Steven Zaslavsky

Today at 12:46 p.m. EDT

Russian President Vladimir Putin appears on a television screen at the stock market in Frankfurt, Germany, on Feb. 25. (Michael Probst/AP)

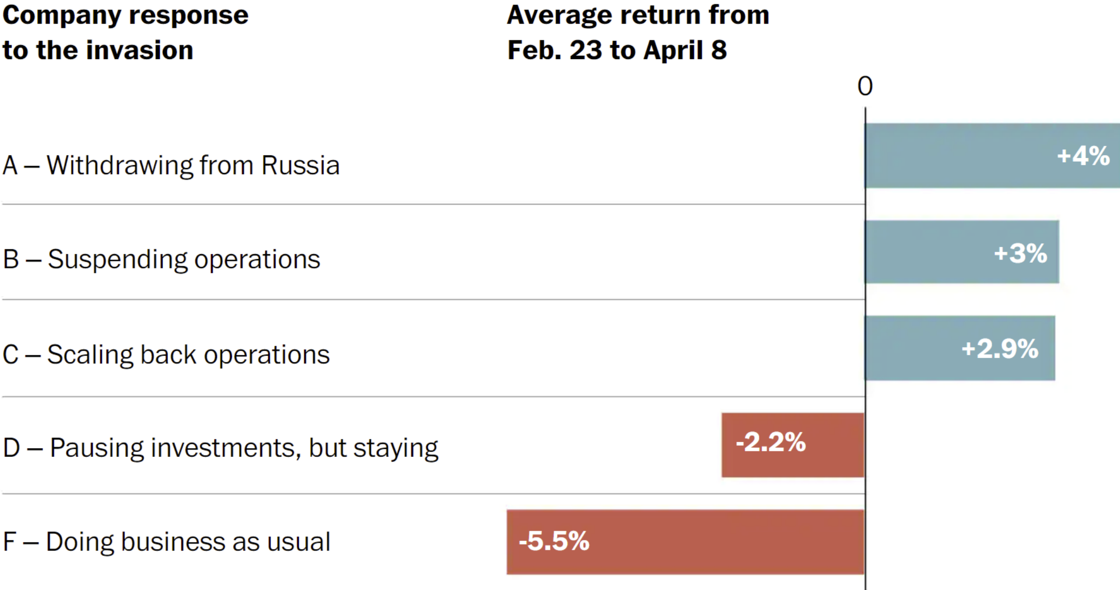
Jeffrey Sonnenfeld is a senior associate dean and the Lester Crown professor of management practice at the Yale School of Management and president of the Yale Chief Executive Leadership Institute. Steven Tian is director of research for the institute. Steven Zaslavsky is deputy research director for the institute.

A spate of misleading headlines in recent days have harped on the supposed heavy financial costs that companies are bearing for withdrawing from Russia. This has it exactly wrong. Companies that have exited Russia are not only accruing substantial costs; they are also showing financial benefits. And those that refuse to leave are experiencing the greatest costs.

One recent, much-discussed case illustrates this well: Societe Generale’s stock price jumped 5 percent earlier this month after it announced it was leaving Russia despite incurring a $3.4 billion write-down. This is only the tip of the iceberg.

By looking at the market-capitalization-weighted returns of about 600 publicly traded companies, we found that since Russia invaded Ukraine on Feb. 24, companies that curtailed operations in Russia have dramatically outperformed companies that did not

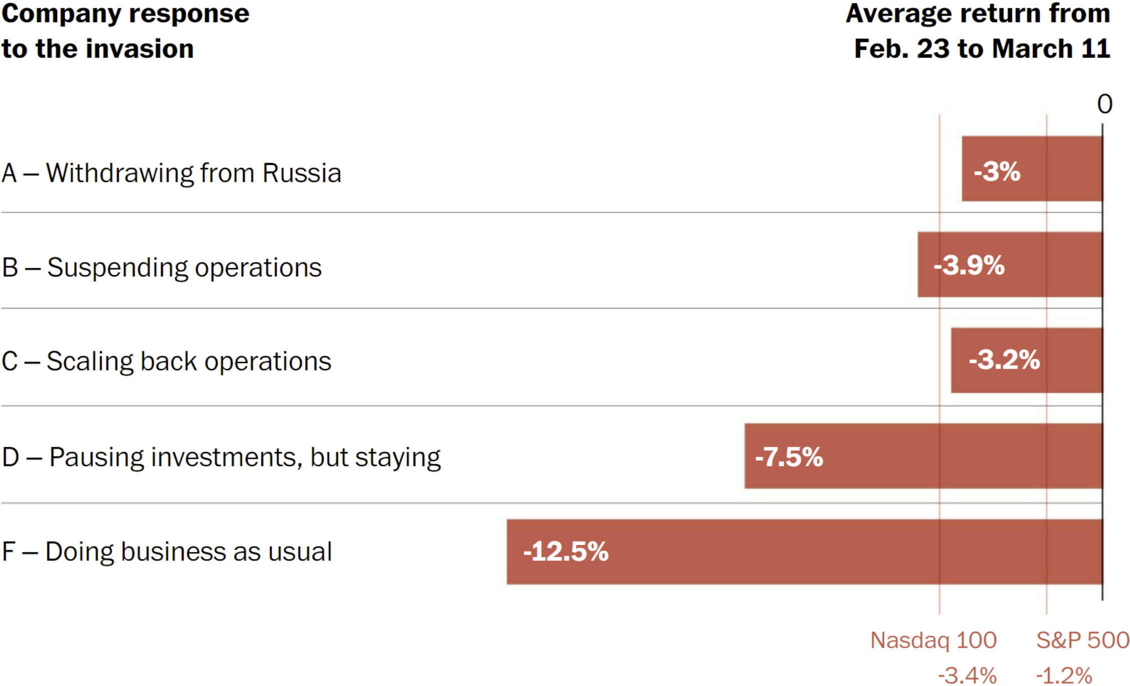
over the past two months. Remarkably, the total shareholder returns correspond precisely with the letter grades we assigned companies based on their level of withdrawal from Russia. Those with an A rating — those that have made a clean break or permanent exit from Russia — have performed the best on average, and those with an F rating — those that are "digging in" and defying demand to reduce activities in Russia — are performing the worst.



We have been maintaining an authoritative list tracking the responses of more than 1,000 global companies since the invasion of Ukraine began. As soon as our list appeared on CNBC two months ago, many of the companies we identified as remaining in Russia saw their stocks plummet 15 to 30 percent, even though key market indexes fell only about 2 to 3 percent.

We noticed the same trend play out over time, amplified by the release of investment research reports based on our list. That's why our financial and economic researchers, led by Steven Zaslavsky, Yash Bhansali and Ryan Vakil, used our proprietary database to examine this phenomena. The findings confirm that financial markets are strongly rewarding companies that withdraw while punishing those that remain.

The strong response from markets was particularly pronounced in the initial weeks following the invasion. Companies that curtailed operations to some degree over the first three weeks generally tracked the broader market sell-off of about 3 percent across major market indices, while companies that refused to withdraw were down a startling 7.54 percent for those with a D rating and 12.54 percent for those with an F rating.



Further analysis reveals that this pattern of outperformance by companies that withdrew held true across multiple factors, including the regions and sectors of the companies included. We saw the trend remained consistent even across different market capitalization segments, suggesting that even smaller, less well-known companies that remained in Russia were not immune to strong investor backlash.

Even smaller companies that remained in Russia saw investor backlash

Average return from Feb. 23 to April 8.

Company size	Response to the war	
	A – Withdrawing from Russia	F – Doing business as usual
Small cap	+6.5%	-12.2%
Mid cap	-2%	-7.8%
Large cap	+4.2%	-5.3%

Source: Yale Chief Executive Leadership Institute.

THE WASHINGTON POST

Some have suggested that companies that draw large proportions of their revenue from Russia might be more hesitant to leave Russia or that these Russian-reliant companies would suffer more financially, yet our research shows that companies that draw upward of 5 percent of revenue from Russia have not differed in total returns from those that draw less.

Indeed, many of the companies that are most reliant on Russian revenue are commodity producers that have been more than offset by rising global commodity prices. For example, ExxonMobil stock has increased by 13 percent since the invasion despite writing off billions in Russian assets and forswearing its profitable Russian operations. Meanwhile, Kinross Gold has gone up by 13 percent even though it exited its investment in the Russian Kupol gold mine, which accounted for 20 percent of its revenue. Even BP, which took a hefty $25 billion hit by writing down its holdings in Rosneft, is in the green.

Thus, contrary to media narratives, when it comes to companies exiting Russia, the focus should not be on their lost revenue or the assets they had to write off. Russian revenue makes up a small percentage of most companies' revenue. And even for the multinational companies that previously drew significant revenue from Russia, investors are clearly much more concerned with the far more important reputational risk of funding the Putin regime and with the potential for large-scale corporate boycotts around the world.

In other words, the far more dangerous financial threat to shareholders is remaining in Russia — not with writing off Russian assets. Those companies that have stayed their course should take note.

BUSINESS
INSIDER

Leaders at America's biggest companies all listen to one man. Meet Jeffrey Sonnenfeld, the 'CEO whisperer.'

Brandon T. Harden
Dec. 1, 2021

https://markets.businessinsider.com/news/stocks/jeffrey-sonnenfeld-the-ceo-whisperer-2021-11

From left: JPMorgan CEO Jamie Dimon, Starbucks Chair Mellody Hobson, Yale School of Management professor Jeffrey Sonnenfeld, and Merck & Co. Chair and CEO Kenneth Frazier.
Kimberly White/Getty Images for Fortune; David Livingston/Getty Images; Noam Galai/Getty Images; Spencer Platt/Getty Images; Samantha Lee/Insider

More than a distinguished Yale professor, more than an accomplished author, more than a leadership guru: Jeffery Sonnenfeld is corporate America's biggest open secret.

When events like an insurrection or debates on voting rights threaten our society, Sonnenfeld activates his clout and gathers hundreds of business leaders and dignitaries for an impromptu discussion on solutions, which has earned him the moniker of "CEO whisperer."

Chief executives are notoriously elusive. Many abide by rigid, impenetrable schedules managed by a protective assistant. But Sonnenfeld is the exception; CEOs make time for him. Before the pandemic, Sonnenfeld would host regular CEO seminars worldwide, which were typically planned up to eight months in advance. But recent events have increased Sonnenfeld's cadence.

"I send out the invitations personally," Sonnenfeld, 67, told Insider. "There is a standard core to the facts, but I customize many of them to address issues relevant to their enterprise or expertise, which we will draw upon."

With his Rolodex brimming with the likes of JPMorgan CEO Jamie Dimon and the former head Merck head Kenneth Frazier, one naturally questions how Sonnenfeld is able to sustain relationships with the most important decision-makers in corporate America. Why do CEOs listen to Sonnenfeld? What happens during these off-the-record seminars? And why do CEOs continue to show up?

Sonnenfeld called an emergency forum when restrictive voting laws gripped Georgia in April. Forty-eight hours later, nearly 100 CEOs and government officials convened on a Zoom call.

In an effort led by Frazier and former American Express CEO Ken Chenault, 72 Black executives signed a letter to galvanize all of corporate America to condemn legislation that would restrict the rights of Black voters.

"The statements that they eventually formulated and published were quite courageous for that sector of executives who tend to, in times past, see their role as simply being focused on shareholder value," Faye Wattleton, a former president of Planned Parenthood, said.

Most of Sonnenfeld's career has been anchored by CEO-leadership and corporate-governance research. Since 1999, he's been the senior associate dean for executive programs at Yale School of Management. Before then, he was a professor at Harvard Business School for a decade.

Insider talked to sitting and former executives from American Airlines, 1-800-Flowers, Xerox, and others about Sonnenfeld's influence on their leadership — and how he's shaping the workplace of tomorrow.

Future of business

Sonnenfeld has earned the trust of the business elite over decades of relationship building, and by proxy, he's attained an indirect influence over corporate America, and perhaps even world affairs.

In recent years, Sonnenfeld has been a leading voice in articulating the new social and political demands of chief executives. This generation of leaders is more colloquially known as "woke CEOs." In a Wall Street Journal column published in May, Sonnenfeld said, "This business awakening shouldn't be ridiculed but celebrated as the rediscovery of a misunderstood pillar of America's industrial greatness."

With his strong belief that consumers care about the social positioning of the companies they purchase from and work for, Sonnenfeld's forums also are a space of accountability.

"CEOs and leaders will often try to give you their version of a really theoretical treatise," Sonnenfeld said. The forum demands candor. "We don't need theories," he added. "We want to know what decisions they're actually making. These things are supposed to be pragmatic."

Sonnenfeld spends hours toiling through research, news stories, videos, and other documents to prepare for his seminars. The topics he chooses — voting rights, racial and gender inequality, sustainability, government taxation, and other geopolitical issues — are those that CEOs might not otherwise talk about in their day-to-day, several attendees said.

The forums are "a genuine interchange between senior people in business," Reuben Mark, the former CEO of Colgate-Palmolive, told Insider, adding: "You're exposed to a wide selection of business opinions which you wouldn't ordinarily get."

Judy Marks, the CEO of Otis Elevator Co., echoed this: "In a short burst of time, you can participate in the exchange and walk away with trend data and a sense of how peers are assessing or dealing with a timely global business topic."

Trust and spontaneity

According to multiple CEOs, Sonnenfeld's forums always sit at the pinnacle of predictability and spontaneity. They know they might get called on to speak — they just don't know when.

Doug Parker, the CEO of American Airlines, attended his first CEO seminar five years ago. Before the event, Sonnenfeld sent Parker an agenda and indicated where he'd like Parker to chime in.

"It was something more tech-related, and I remember thinking, 'I'm not an expert on that. I'd rather be commenting on some of these other agenda items,'" Parker told Insider. "So I sat with my CIO and got up to speed on that topic, only to realize he doesn't live by that agenda at all. He ended up calling on me at a much more appropriate time."

Parker said he appreciated Sonnenfeld's discernment, and many executives have agreed. Sonnenfeld knows whom to call to the stage and, most importantly, when to call them.

While the invitation to rub elbows with other corporate executives and dignitaries, free of the press, is appealing, several executives said Sonnenfeld built trust in a more nuanced manner.

Jim McCann, 1-800-Flowers' founder, has attended several of Sonnenfeld's forums. For McCann, the events have facilitated necessary conversations, even if they're uncomfortable. During one of the forums in years past, McCann made his way to his assigned area and took a seat.

"All of a sudden, this gentleman comes walking in from behind the stage," McCann said. "He makes his way up to my row and sits directly next to me. I gave him a little poke, and he turns around and almost fainted because he's the guy that's been suing us with some harassment claims on our trademarks to keep us competing with them. That was not an accident."

McCann said he learned how to be more vulnerable as a leader through Sonnenfeld's events. Having witnessed other prominent leaders speak about their obstacles and seen how others have supported, he feels more confident doing so in his own affairs. He, like many others, credited Sonnenfeld with the ability to foster an environment of forthrightness and candor.

"And that's what Jeffrey believes, preaches, and practices," McCann said. "It's all about relationships."

An eye for talent

Sonnenfeld said a diversity in ideology, discipline, and demographics was key to the success of his events. He makes sure there are attendees from across the political spectrum. He also hosts special panels dedicated to furthering women in leadership.

About five years ago, Wattleton, the former Planned Parenthood president, didn't know what to expect when she walked through the doors of the Waldorf Astoria hotel in New York City. Wattleton had been asked to be a speaker at one of Sonnenfeld's forums.

She went in with an open mind.

"I found him to be very supportive," she said. "His intellectual agility is mind-boggling. He can spot talent and experience," often including people from underrepresented communities, she added.

Anne Mulcahy, Xerox's former CEO, has known Sonnenfeld for nearly 20 years and can attest to his eye for talent. She said Sonnenfeld was an early supporter of her career. He invited her to speak during his lectures at Yale and boosted her visibility as the CEO of Xerox by mentioning her work during interviews, she added.

"He has this capability to really see who people are and what they're doing, and he brings attention to them," Mulcahy said. "Jeff has a way of cutting through the superficial and getting to the essence of what people represent, good or bad."

It's this ability that allows Sonnenfeld to curate a guest list that will foster a genuine discussion on the obstacles that business leaders face. In many ways, Sonnenfeld is holding court for corporate America, something that's not lost on him.

"I'm pleased that people see these events to be truthful, fair, and balanced," Sonnenfeld said. "I respond to where the group wants to go. I'm not beholden to any CEO, so I'm not worried about somebody being offended."

This story is part of the Future of Executive Leadership project.

https://foreignpolicy.com/2022/07/22/russia-economy-sanctions-myths-ruble-business/?tpcc=recirc_latest062921

ARGUMENT

An expert's point of view on a current event.

Actually, the Russian Economy Is Imploding

Nine myths about the effects of sanctions and business retreats, debunked.

https://foreignpolicy.com/2022/07/22/russia-economy-sanctions-myths-ruble-business/?tpcc=recirc_latest062921

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ARGUMENT

An expert's point of view on a current event.

https://foreignpolicy.com/2022/07/22/russia-economy-sanctions-myths-ruble-business/?tpcc=recirc_latest062921

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An expert's point of view on a current event.

Nine myths about the effects of sanctions and business retreats, debunked.

By **Jeffrey Sonnenfeld**, the Lester Crown professor in management practice and a senior associate dean at the Yale School of Management, and **Steven Tian**, the director of research at the Yale Chief Executive Leadership Institute.

A view of the Russian Central Bank headquarters in downtown Moscow on May 26. NATALIA KOLESNIKOVA/AFP VIA GETTY IMAGES

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Five months into the Russian invasion of Ukraine, there remains a startling lack of understanding by many Western policymakers and commentators of the economic dimensions of President Vladimir Putin's invasion and what it has meant for Russia's economic positioning both domestically and globally.

Far from being ineffective or disappointing, as many have argued, international sanctions and voluntary business retreats have exerted a devastating effect over Russia's economy. The deteriorating economy has served as a powerful if underappreciated complement to the deteriorating political landscape facing Putin.

That these misunderstandings persist is not entirely surprising given the lack of available economic data. In fact, many of the excessively sanguine Russian economic analyses, forecasts, and projections that have proliferated in recent months share a crucial methodological flaw: These analyses draw most, if not all, of their underlying evidence from periodic economic releases by the Russian government itself. Numbers released by the Kremlin have long been held to be largely if not always credible, but there are certain problems.

First, the Kremlin's economic releases are becoming increasingly cherry-picked—partial and incomplete, selectively tossing out unfavorable metrics. The Russian government has progressively withheld an increasing number of key statistics that, prior to the war, were updated on a monthly basis, including all foreign trade data. Among these are statistics relating to exports and imports, particularly with Europe; oil and gas monthly output data; commodity export quantities; capital inflows and outflows; financial statements of major companies, which used to be released on a mandatory basis by companies themselves; central bank monetary base data; foreign direct investment data; lending and loan origination data; and other data related to the availability of credit. Even Rosaviatsiya, the federal air transport agency, abruptly ceased publishing data on airline and airport passenger volumes.

Since the Kremlin stopped releasing updated numbers, constraining the availability of economic data for researchers to draw upon, many excessively rosy economic forecasts have irrationally extrapolated economic releases from the early days of the invasion, when sanctions and the business retreat had not taken full effect. Even those favorable statistics that have been released are dubious, given the political pressure the Kremlin has exerted to corrupt statistical integrity.

Mindful of the dangers of accepting Kremlin statistics at face value, our team of experts, using private Russian-language and direct data sources including high-frequency consumer data, cross-channel checks, releases from Russia's international trade partners, and data mining of complex shipping data, have released one of the first comprehensive economic analyses measuring Russian current economic activity five months into the invasion, with contributions from Franek Sokolowski, Michal Wyrebkowski, Mateusz Kasprowicz, Michal Boron, Yash Bhansali, and Ryan Vakil. From our analysis, it becomes clear: Business retreats and sanctions are crushing the Russian economy in the short term and the long term. Based on our research, we are able to challenge nine widely held but misleading myths about Russia's supposed economic resilience.

Myth 1: Russia can redirect its gas exports and sell to Asia in lieu of Europe.

This is one of Putin's favorite and most misleading talking points, doubling down on a much-hyped pivot to the east. But natural gas is not a fungible export for Russia. Less than 10 percent of Russia's gas capacity is liquefied natural gas, so Russian gas exports remain reliant on a system of fixed pipelines carrying piped gas. The vast majority of Russia's pipelines flow toward Europe; those pipelines, which originate in western Russia, are not connectable to a separate nascent network of pipelines that link Eastern Siberia to Asia, which contains only 10 percent of the capacity of the European pipeline network. Indeed, the 16.5 billion cubic meters of gas exported by Russia to China last year represented less than 10 percent of the 170 billion cubic meters of natural gas sent by Russia to Europe.

Long-planned Asian pipeline projects currently under construction are still years away from becoming operational, much less hastily initiated new projects, and financing of these costly gas pipeline projects also now puts Russia at a significant disadvantage.

Overall, Russia needs world markets far more than the world needs Russian supplies; Europe received 83 percent of Russian gas exports but drew only 46 percent of its own supply from Russia in 2021. With limited pipeline connectivity to Asia, more Russian gas stays in the ground; indeed, the Russian state energy company Gazprom's published data shows production is already down more than 35 percent year-on-year this month. For all Putin's energy blackmail of Europe, he is doing so at significant financial cost to his own coffers.

Myth 2: Since oil is more fungible than gas, Putin can just sell more to Asia.

Russian oil exports now also reflect Putin's diminished economic and geopolitical clout. Recognizing that Russia has nowhere else to turn, and mindful that they have more purchasing options than Russia has buyers, China and India are driving an unprecedented approximately $35 discount on Russian Urals oil purchases, even though the historical spread has never ranged beyond $5—not even during the 2014 Crimean crisis—and at times Russian oil has actually sold at a premium to Brent and WTI oil. Furthermore, it takes Russian oil tankers an average of 35 days to reach East Asia, versus two to seven days to reach Europe, which is why historically only 39 percent of Russian oil has gone to Asia versus the 53 percent destined for Europe.

This margin pressure is felt keenly by Russia, as it remains a relatively high-cost producer relative to the other major oil producers, with some of the highest break-evens of any producing country. The Russian upstream industry has also long been reliant on Western technology, which combined with the loss of both Russia's erstwhile primary market and Russia's diminished economic clout leads to even the Russian energy ministry revising its projections of long-term oil output downward. There is no doubt that, as many energy experts predicted, Russia is losing its status as an energy superpower, with an irrevocable deterioration in its strategic economic positioning as an erstwhile reliable supplier of commodities.

Myth 3: Russia is making up for lost Western businesses and imports by replacing them with imports from Asia.

Imports play an important role within Russia's domestic economy, consisting of about 20 percent of Russian GDP, and, despite Putin's bellicose delusions of total self-sufficiency, the country needs crucial inputs, parts, and technology from hesitant trade partners. Despite some lingering supply chain leakiness, Russian imports have collapsed by over 50 percent in recent months.

China has not moved into the Russian market to the extent that many feared; in fact, according to the most recent monthly releases from the Chinese General Administration of Customs, Chinese exports to Russia plummeted by more than 50 percent from the start of the year to April, falling from over $8.1 billion monthly to $3.8 billion. Considering China exports seven times as much to the United States than Russia, it appears that even Chinese companies are more concerned about running afoul of U.S. sanctions than of losing marginal positions in the Russian market, reflecting Russia's weak economic hand with its global trade partners.

Myth 4: Russian domestic consumption and consumer health remain strong.

Some of the sectors most dependent on international supply chains have been hit with debilitating inflation around 40-60 percent—on extremely low sales volumes. For example, foreign car sales in Russia fell by an average of 95 percent across major car companies, with sales ground to a complete halt.

Amid supply shortages, soaring prices, and fading consumer sentiment, it is hardly surprising that Russian Purchasing Managers' Index readings—which capture how purchasing managers are viewing the economy—have plunged, particularly for new orders, alongside plunges in consumer spending and retail sales data by around 20 percent year-over-year. Other readings of high-frequency data such as e-commerce sales within Yandex and same-store traffic at retail sites across Moscow reinforce steep declines in consumer spending and sales, no matter what the Kremlin says.

Myth 5: Global businesses have not really pulled out of Russia, and business, capital, and talent flight from Russia are overstated.

Global businesses represent around 12 percent of Russia's workforce (5 million workers), and, as a result of the business retreat, over 1,000 companies representing around 40 percent of Russia's GDP have curtailed operations in the country, reversing three decades' worth of foreign investment and buttressing unprecedented simultaneous capital and talent flight in a mass exodus of 500,000 individuals, many of whom are exactly the highly educated, technically skilled workers Russia cannot afford to lose. Even the mayor of Moscow has acknowledged an expected massive loss of jobs as businesses go through the process of fully exiting.

Myth 6: Putin is running a budget surplus thanks to high energy prices.

Russia is actually on pace to run a budget deficit this year equivalent to 2 percent of GDP, according to its own finance minister—one of the only times the budget has been in deficit in years, despite high energy prices—thanks to Putin's unsustainable spending spree; on top of dramatic increases in military spending, Putin is resorting to patently unsustainable, dramatic fiscal and monetary intervention, including a laundry list of Kremlin pet projects, all of which have contributed to the money supply nearly doubling in Russia since the invasion began. Putin's reckless spending is clearly putting Kremlin finances under strain.

Myth 7: Putin has hundreds of billions of dollars in rainy day funds, so the Kremlin's finances are unlikely to be strained anytime soon.

The most obvious challenge facing Putin's rainy day funds is the fact that of his around $600 billion in foreign exchange reserves, accumulated from years' worth of oil and gas revenues, $300 billion is frozen and out of reach with allied countries across the United States, Europe, and Japan restricting access. There have been some calls to seize this $300 billion to finance the reconstruction of Ukraine.

Putin's remaining foreign exchange reserves are decreasing at an alarming rate, by around $75 billion since the start of the war. Critics point out that official foreign exchange reserves of the central bank technically can only decrease due to international sanctions placed on the central bank, and they suggest that nonsanctioned financial institutions such as Gazprombank could still accumulate such reserves in place of the central bank. While this may be technically true, there is simultaneously no evidence to suggest that Gazprombank is actually accumulating any reserves given sizable strain on its own loan book.

Furthermore, although the finance ministry had planned to reinstate a long-standing Russian budgetary rule that surplus revenue from oil and gas sales should be channeled into the sovereign wealth fund, Putin axed this proposal as well as accompanying guidelines directing how and where the National Wealth Fund can be spent—as Finance Minister Anton Siluanov floated the idea of withdrawing funds from the National Wealth Fund equivalent to a third of the entire fund to pay for this deficit this year. If Russia is running a budget deficit requiring the drawdown of a third of its sovereign wealth fund when oil and gas revenues are still relatively strong, all signs indicate a Kremlin that may be running out of money much faster than conventionally appreciated.

Myth 8: The ruble is the world's strongest-performing currency this year.

One of Putin's favorite propaganda talking points, the appreciation of the ruble is an artificial reflection of unprecedented, draconian capital control—which rank among the most restrictive of any in the world. The restrictions make it effectively impossible for any Russian to legally purchase dollars or even access a majority of their dollar deposits, while artificially inflating demand through forced purchases by major exporters—all of which remain largely in place today.

The official exchange rate is misleading, anyhow, as the ruble is, unsurprisingly, trading at dramatically diminished volumes compared to before the invasion on low liquidity. By many reports, much of this erstwhile trading has migrated to unofficial ruble black markets. Even the Bank of Russia has admitted that the exchange rate is a reflection more of government policies and a blunt expression of the country's trade balance rather than freely tradeable liquid foreign exchange markets.

Myth 9: The implementation of sanctions and business retreats are now largely done, and no more economic pressure is needed.

Russia's economy has been severely damaged, but the business retreats and sanctions applied against Russia are incomplete. Even with the deterioration in Russia's exports positioning, it continues to draw too much oil and gas revenue from the sanctions carveout, which sustains Putin's extravagant domestic spending and obfuscates structural economic weaknesses. The Kyiv School of Economics and Yermak-McFaul International Working Group have led the way in proposing additional sanctions measures across individual sanctions, energy sanctions, and financial sanctions, led by former U.S. Ambassador to Russia Michael McFaul and the experts Tymofiy Mylovanov, Nataliia Shapoval, and Andriy Boytsun. Looking ahead, there is no path out of economic oblivion for Russia as long as the allied countries remain unified in maintaining and increasing sanctions pressure against Russia.

Defeatist headlines arguing that Russia's economy has bounced back are simply not factual—the facts are that, by any metric and on any level, the Russian economy is reeling, and now is not the time to step on the brakes.

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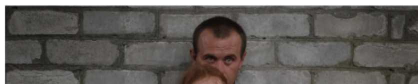

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How to Take Down a Tyrant

Three steps for exerting maximum economic pressure on Putin.

ARGUMENT | JEFFREY SONNENFELD, STEVEN TIAN

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ARGUMENT

An expert's point of view on a current event.

How to Take Down a Tyrant

Three steps for exerting maximum economic pressure on Putin.

By **Jeffrey Sonnenfeld**, the Lester Crown professor in management practice and a senior associate dean at the Yale School of Management, and **Steven Tian**, the director of research at the Yale Chief Executive Leadership Institute.

Russian President Vladimir Putin

Russian President Vladimir Putin holds a meeting at the Kremlin in Moscow on April 20. MIKHAIL TERESHCHENKO/SPUTNIK/AFP VIA GETTY IMAGES

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Cynics have been quick to sound off over the supposed inefficacy of multinational business retreats and global government sanctions in changing the behavior of brutal autocrats such as Russian President Vladimir Putin, pointing to ineffective examples such as Cuba, Iran, Venezuela, Syria, and North Korea. French politician Marine Le Pen recently called for an end to "useless" sanctions on Russia in response to its invasion of Ukraine, echoing a *Guardian* columnist who declared that "Western sanctions against Russia are the most ill-conceived and counterproductive policy in recent international history." The *New York Times*' Paul Krugman, too, selectively listed examples of ineffective economic embargoes reaching far back into the 19th century in a recent op-ed.

However, our 42-person research team, which includes teams of researchers on the ground in Russia and across Eurasia, and with crucial contributions from Franek Sokolowski and Michal Wyrebkowski, found in a comprehensive analysis that the Russian economy is already under serious strain. Yet we continue to hear that an authoritarian regime can always simply ignore the economic distress and outlast Western liberal democracies in a "war of attrition."

That economic pressure cannot change or even end authoritarian regimes is a contention simply not supported by the evidence. In fact, our research highlights that over the past several decades alone, there are at least 10 prominent examples reaffirming that when civil society crumbled through externally induced economic implosion, autocratic leaders were overthrown abruptly. In each of these cases—which include Muammar al-Qaddafi of Libya,

Slobodan Milosevic of Yugoslavia, Augusto Pinochet of Chile, Wojciech Jaruzelski of Poland, Erich Honecker of East Germany, Nicolae Ceausescu of Romania, P.W. Botha of South Africa, the military junta of 1980s Argentina, Ian Smith of Rhodesia, and British colonial rule in India—autocrats lost legitimacy when economic collapse preceded internal revolution.

Every regime collapse is obviously caused by a confluence of factors, as other experts have explored. Yet, at the same time, some patterns are readily apparent from analyzing the cases where economic implosion preceded collapse, revealing at least three crucial, transferable lessons of how economic pressure can be most effective.

1. Isolate the sanctioned nation as completely as possible.

The vexing survival of sanctioned nations, such as North Korea and Cuba, is regularly invoked by those skeptical of economic blockades. North Korea is completely economically dependent on China, which represents over 90 percent of its total trade, including most food and energy imports. Despite some limited admonitions to cool its bellicosity in the region, China has avoided any actions that would imperil North Korea's leadership regime by weakening its economic lifeline.

Of course, North Korea is a strategic defense asset for an increasingly expansionism-minded China. Some experts even believe that China may rely on North Korea's offensive strike capability to disable the U.S. early warning system, enhancing China's surprise capabilities.

The situation in Cuba echoes that of North Korea. Cuba and the Soviet Union, and later Russia, enjoyed a deep economic and military partnership since Fidel Castro's 1959 revolution. The United States imposed a naval and economic blockade of Cuba following the 1962 installation of Soviet nuclear missiles in Cuba. While tensions have subsided since that nuclear brinkmanship, U.S. sanctions against Cuba did not topple its government thanks, in part, to Soviet and Russian support. Russian-Cuban relations waned over time but intensified this year as Cuba has hosted high-level recent visits from Russian officials, showing support for Russia's assault on Ukraine while benefitting from increased humanitarian assistance from Russia—as well as Russia's newfound willingness to accept delays in Cuban repayment of billions of dollars of debt for infrastructure projects.

It is not as clear that Russia would forge a vassal state relationship with China along the lines of Cuba's and North Korea's relationships with the two larger

powers. Russia has long been a vital source of oil, gas, and other raw materials that have fueled China's growth, allowing it to become the world's second-largest economy. And just weeks in advance of Russia's February attack on Ukraine and on the eve of the Winter Olympics in Beijing, Russia and China signed an agreement expressing "no limits" to this friendship while criticizing NATO. In a phone call with Putin four months later, Chinese President Xi Jinping reaffirmed his country's renewed support for Russian sovereignty and security.

However, in recent weeks, Russia arrested three of its own top scientists, charging them with treason for conspiring with China's security services. Moreover, while China avoided condemning the Russian invasion of Ukraine and attempted to remain neutral regarding the faltering Russian economy, it has not moved to make up for an apparent significant drop in imports into Russia in recent months.

In fact, as shown by the most recent monthly releases from the Chinese General Administration of Customs, Chinese exports to Russia also plummeted by more than 50 percent for the first four months of this year, falling from over $8.1 billion monthly to $3.8 billion in April with only a slight rebound since. A studied neutrality is in China's strategic interest given it exports seven times more to the United States than it does to Russia.

2. Pair government sanctions with voluntary private sector action.

When businesses exit countries voluntarily beyond what is required by government sanctions, they make independent decisions based on moral, financial, and business risk reasons, often facing pressure from key stakeholders; as one of our studies found, the stocks of companies that exited Russia were strongly rewarded by investors.

There are some instances, such as on toppling apartheid in South Africa, when governments and businesses have directly strengthened the other's positioning. In the 1980s, over 100 multinational companies agreed to a voluntary code of conduct relating to business activity in South Africa known as the Sullivan Principles.

The apartheid regime's refusal to allow businesses to adhere to the Sullivan Principles provoked widespread backlash, which spurred Congress to pass the Comprehensive Anti-Apartheid Act of 1986, then mirrored by other nations. Although then-U.S. President Ronald Reagan initially vetoed the sanctions package, a bipartisan 78-member Senate majority overrode the veto, with even

Reagan's fellow Republicans—such as current Senate Minority Leader Mitch McConnell—saying, "I think he is ill-advised. I think he is wrong. We have waited long enough for him to come on board."

At the same time, 200 companies, including GM, IBM, Ford, GE, Kodak, and Coca-Cola, all announced their complete withdrawal from South Africa beyond sanctions compliance, hollowing out the South African economy within a few short years. There was massive private capital outflow of over $10 billion in the late 1980s, and $2 billion of trade was lost annually preceding the fall of the tyrannical Botha regime.

Not all successful instances of embargos feature such overt convergence between government mandates and business withdrawals. That's in part because there are many forms of business withdrawal from a country short of a full, trumpeted exit. Still, these are no less consequential and, in fact, often more important than government mandates, in eroding a country's economic productivity and innovation base.

For example, in confronting the military junta autocrats of Argentina in the 1980s, international sanctions applied in the immediate aftermath of the Falklands War soon rolled off as the immediate crisis passed, but multinational businesses, and particularly financial institutions, rattled by the regime's capriciousness, quietly looked for the exits, exacerbating an already-challenging inflationary debt crisis. Over the ensuing months and years, there was massive capital flight equivalent to nearly 10 percent of Argentine GDP and a 91 percent drop in stock prices. The feedback loop created by the loss of revenue soon resulted in a balance-of-payments crisis, as Argentina was saddled with $40 billion in foreign debt equivalent to around half of GDP. The country, too, was forced to devalue its currency by 93 percent—but not before spending down 83 percent of its foreign reserves amid hyperinflation of 5,000 percent, persistent rioting, and even more dramatic capital flight.

The private sector's ability to withhold and withdraw capital was also felt keenly by Augusto Pinochet of Chile. Long a controversial figure in diplomatic circles, Pinochet was accustomed to staring down periodic bouts of government sanctions, implemented with varying levels of intensity, starting from the 1970s; it was not until the rapid "hot money" private capital outflow from the 1982 debt crisis onward, equivalent to 40 percent of GDP, and associated curtailment of Western private lending in Chile that Pinochet began to feel the economic squeeze. Unemployment reached 33 percent; real wages dropped 10 percent annually, per our calculations; and foreign exchange

reserves fell by 53 percent while Chile worked off foreign debt levels equivalent to 145 percent of GDP.

Given the important economic role of the private sector, multinational business leaders have sometimes assumed the thankless but vital position of counseling truth to holed-up autocrats detached from reality. Take Wojciech Jaruzelski's Poland. After the Solidarity union movement was born from with a strike of 17,000 shipbuilders in 1980, farming boycotts and a general countrywide strike followed. This in turn created the Eastern Bloc's first independent trade union, which grew to include a quarter of Poland's population.

When the government targeted the democratic opposition, foreign businesses took it as a cue to flee en masse—even before the government declared martial law in 1981 and international sanctions were quickly implemented—with rapid capital outflows exacerbating Poland's deficits. Isolated from global capital markets, Poland struggled to service its massive foreign debt of $23 billion while refusing to declare official default. The ensuing economic chaos led to drastic rationing, food shortages, and the imposition of draconian martial law.

By the late 1980s, Jaruzelski, indebted and economically isolated, was forced to come back to the negotiating table with Western creditors. Under pressure from business leaders such as David Rockefeller to soften his political oppression, ultimately Jaruzelski was forced in 1989 to negotiate a power-sharing agreement with the democratic opposition led by Lech Walesa, which quickly led to a peaceful transfer of power and democratization of the country. Walesa replaced the discredited and isolated Jaruzelski as president in 1990.

The reverse is also true: When the private sector works at cross-purposes to government pressure campaigns, the economic effect can be diluted, helping authoritarian regimes stay in power. In one of the most egregious cases, Occidental Petroleum under its longtime leader Armand Hammer—the same Armand Hammer who frequently skirted U.S. embargos of the Soviet Union—played a role in shielding Muammar al-Qaddafi from challenges to his dictatorial rule of Libya during his early reign, interceding with officials from various governments on Qaddafi's behalf (and his own), as Libya's rich oil fields were a crucial component of his empire.

It was only when Hammer had substantively lost his grasp over Occidental in old age that it finally acceded to U.S. government pressure and suspended operations in Libya. The loss of Western exploration and production upstream technology in the years afterward, combined with international

sanctions, steadily eroded Libya's oil production and growth capabilities and, by extension, its domestic economy, through periodic fits and starts, for years prior to Qaddafi's ultimate fall in 2011.

3. Make government sanctions comprehensive, across sectors and between countries.

Sanctions experts are generally much more comfortable with precise, limited measures—what they refer to as "smart sanctions"—aimed at transforming a blunt macroeconomic hammer into surgical strikes. These target only a few presumed key industries in order to limit unintended spillover.

But the playbook of prior business retreats and consumer boycotts of international consequence embraced the opposite ethos: comprehensiveness across sectors, aimed at disrupting civil society. The Swadeshi movement, with Mahatma Gandhi's leadership, encouraged millions of Indians to stop buying all British goods—everything including textiles, tea, and steel. This had the effect of drastically cutting the value of British exports in these key industries prior to Indian independence in 1947. Similarly, the anti-apartheid movement began as an organic grassroots boycott movement, organized in 1959 by consumers around the world answering Albert Luthuli's call for an international boycott of all South African products until the abolition of apartheid. These consumer boycotts proved remarkably persistent and resonant for decades, well before the development of the Sullivan Principles and government sanctions, and cost South Africa up to a billion dollars a year in lost trade by expert estimates.

Likewise, many prior government mandates followed the same logic of comprehensiveness between countries. For example, during the Cold War, the Coordinating Committee for Multilateral Export Controls placed a blanket embargo on trade across all sensitive technologies with all countries in the communist trade organization Comecon, including East Germany, Romania, and Poland. The export controls were so tight that, as one example, even East Germany, the strongest economy of the Eastern Bloc, fell several generations behind in semiconductor design and manufacturing. At the same time as Erich Honecker was boasting about the development of a 1-megabit semiconductor chip, Japan and the United States were already manufacturing 4-megabit semiconductors many generations more advanced, with some types of chips costing 130 times less to import than to manufacture in East Germany, reflecting the comprehensive and effective sanctions regimen which degraded Comecon access to technology.

By contrast, even though the United Nations Security Council passed obligatory comprehensive economic embargo resolutions against Rhodesia (now Zimbabwe) in the mid-1960s, it took nearly 15 years for these sanctions to flow through, as, by the admission of top officials, they willingly ignored significant shortcomings in sanctions enforcement. Some major trade partners such as Portugal and South Africa outright refused to recognize the validity of the sanctions regime, while others such as France and Switzerland were chronic violators until increased enforcement finally stemmed the flow of illicit goods into and out of Rhodesia.

Clearly, these partial diplomatic compromises targeting only a few presumed key industries with significant leakages end up diluting the efficacy of economic pressure, in stark contrast to a more comprehensive approach—across sectors and with broad buy-in.

These lessons suggest that at a minimum, economic pressure is only maximally effective if it combines the full force of government mandates with massive voluntary private sector exits, and if it consists not only of partial targeting of a few perceived strategic industries but of a more comprehensive approach, matched with a proactive communications effort. This is quite the opposite approach to what many sanctions experts advocate for, but as Walesa reminds us, “The fall of the Berlin Wall makes for nice pictures. But it all started in the shipyards.”

Sanctions must not be understood as a fragmented default option when diplomacy dissolves or when military action is stalemated through sequential cease-fire violations and negotiation collapses. Instead, they must be seen as a primary strategic alternative to war as they degrade aspiring totalitarians, forcing them to surrender total control of civil society. In this way, through these steps, Putin will be revealed to be the true enemy of the Russian people, and the courageous opposition voices will be joined by disgruntled masses concealed by sham public opinion polls.

Given Putin’s open saber-rattling of the prospect of thermonuclear war and drawn-down but nevertheless ample cash cushion, some military leaders consider him to be the most dangerous person on Earth. Around 90 percent the world’s 12,700 nuclear warheads are held by Russia and the United States, with a significant portion ready for military use.

Eroding Putin's internal legitimacy is a safer path than attempting to disarm him in permanent direct battle—or ignoring his bloody imperial agenda and falling victim to the cowardly self-defeating path of appeasement. And this can only be done by broadening economic pressure toward comprehensiveness, working hand in hand with business.

This article has been adapted from original research by the Yale Chief Executive Leadership Institute on the current state of the Russian economy and case studies of economic collapse preceding the downfall of authoritarian regimes.

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POLITICO

WASHINGTON AND THE WORLD

Opinion | The U.S. Has Leverage Over Saudi Arabia. It's Time to Use It.

Sen. Richard Blumenthal and Rep. Ro Khanna propose new legislation to respond to Saudi's embrace of Vladimir Putin and to rebalance the U.S.'s relationship with Riyadh.

Opinion by SEN. RICHARD BLUMENTHAL, REP. RO KHANNA and JEFFREY SONNENFELD
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This week, Saudi Arabia colluded with Russia — deciding to cut 2 million barrels a day of oil production at the OPEC+ meeting, thus raising the price of gas to Russia's advantage. The shocking move will worsen global inflation, undermine successful efforts in the U.S. to bring down the price of gas, and help fuel Putin's unprovoked invasion of Ukraine.

The Saudi decision was a pointed blow to the U.S., but the U.S. also has a way to respond: It can promptly pause the massive transfer of American warfare technology into the eager hands of the Saudis. Simply put, America shouldn't be providing such unlimited control of strategic defense systems to an apparent ally of our greatest enemy — nuclear bomb extortionist Vladmir Putin.

That is why we are proposing bicameral legislation in the Senate and House on Tuesday that will immediately halt all U.S. arms sales to Saudi Arabia. For several years now, our colleagues have been considering similar proposals, but those measures haven't passed. Due to intense bipartisan blowback to Saudi's collusion with Russia, we think this time is different. Based on our conversation with colleagues, our legislation is already garnering bipartisan support in both chambers.

What would lead the Saudis so unwisely to err with their recent OPEC+ mistake? Stunned energy commentators have suggested that the Saudis were merely concerned about their endangered financial returns, acting rationally. Denying any political motives, Ali Shihabi, a Saudi analyst, insisted in the *New York Times* that the move was merely "to keep the price in an acceptable band."

But this claim is unjustified. OPEC has never cut production in such a record tight market and these production cuts will lead to unsustainably low oil inventories, sending the price of oil skyrocketing out of any "acceptable band." Furthermore, the G-7 oil price caps plan is not targeted at OPEC; it is strictly limited to Russian oil.

Nor can this Saudi move be justified by the non-existent global recession its leaders cite. Presently markets are very tight, with lush 73 percent profit margins for Saudi Arabia. In other words, there was no immediate need for Saudi Arabia to reduce supply unless they were seeking to harm the U.S. to the benefit of Russia.

Every OPEC member has been making massive profits recently — except Russia because it is OPEC's least efficient producer. It costs Russia $46/barrel to extract oil but, with U.S. technology, the Saudi's cost is only $22/barrel. Plus, only Russia has had to offer huge $35/barrel discounts to customers like India and China since few others want sanctioned Russian oil.

To be clear, Saudi Arabia remains important to energy security and stability in the Middle East, to global economic prosperity, and as a regional ally against Iran, but it made a terrible mistake this week. The country's support for Russia should spark a far-reaching review of the U.S.-Saudi relationship — even as the regime tries to "sportswash" its international image in the wake of *Washington Post* columnist Jamal Khashoggi's brutal murder and the humanitarian disaster caused by Saudi's war in Yemen.

Members of Congress are already talking about how best to respond. Some propose extending domestic antitrust laws to international commerce. Others propose reviving a GOP initiative to withdraw U.S. troops from Saudi Arabia. But that idea has failed previously given that the U.S. would rather have its own troops there than Russian or Chinese troops.

A simpler, far more urgent move to fortify U.S. national security would be to pause all U.S. military supplies, sales and other weapons aid to Saudi Arabia. This includes the controversial, new and hastily planned Red Sands testing facilities in Saudi Arabia.

U.S. military collaboration with the Saudi regime is more extensive than many realize, but that also gives the U.S. significant economic and security leverage over Riyadh. Today, Saudi Arabia is hugely dependent on U.S. defense assistance, purchasing the vast majority of its arms from the United States. The country cannot substitute defense suppliers unless it wishes to partner with Russia, Iran or China for far inferior systems which have no interoperability with their existing weaponry. (While Saudi does source some military technology from other countries, that's typically low-grade weaponry and small arms such as legacy grenade launchers, rifles and ammunition.)

Perhaps even more important than Saudi's reliance on U.S. arms is its reliance on U.S. companies to help build up the local defense industry through big-ticket

joint ventures. These sensitive and intensive arrangements — which have received little public attention — were largely initiated in 2017 and have outsourced U.S. sensitive technology and U.S. jobs to Saudi Arabia without any U.S. control. The U.S. doesn't have arrangements of this magnitude with any other allies.

Given the early-stage nature of these joint ventures as well as minimal interoperability between Saudi's current weapons system and potential foreign replacements, Saudi can do little to respond to this proposed legislation other than come back to the table and negotiate with the U.S. in good faith. As one expert noted, "it would take decades to transition away from U.S. and UK aircraft, for example, to Russian or Chinese aircraft. Same is true for tanks, communication and other hi-tech equipment." It would be a severe challenge, if not downright impossible, for Saudi to execute an overnight short-term sourcing pivot if faced with a ban on arms sales. And any ban could be temporary — until Saudi Arabia reconsiders its embrace of Putin.

Maybe it is worth considering some ancient Russian wisdom ourselves. Over a century ago, Russian playwright Anton Chekhov warned, "Knowledge is of no value unless you put it into practice." Perhaps the same is true about leverage. It is of no value unless used.