

Does Russia Have “Black Knights”?

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In 2022, Russia turned out to be the biggest-ever target of economic restrictions, both quantitatively and qualitatively. The World Majority abstained from them. However, calling them “black knights” is still premature.

The concept of the ‘black knight’ is well-covered in the literature on sanctions. As a rule, it is understood as a state that, despite the sanctions regime of individual initiating countries, continues to cooperate with the target country. Ultimately, such cooperation helps the target country adapt to the sanctions, reduce the damage from them and overcome some or all consequences of isolation from the economies of the sanctions’ initiators.

Historically, the “black knights” have relentlessly followed in the wake of sanctions. In international relations, cases are common when a competitor of the initiator helps the target country. Russia has played a similar role many times. In the early 19th century, Alexander I, in fact, sabotaged the Continental Blockade—a system of sanctions used by France and the countries that joined it against Great Britain. Earlier in the 18th century, France itself supplied weapons to the American rebels, bypassing the British blockade. During the Cold War, U.S. sanctions often led to assistance from the Soviet Union. China, North Korea, Cuba, Vietnam, and many others received it in large volumes. After the end of the Cold War, the “black knights” seemed to have faded into the shadows. Not a single power directly challenged the United States and did not seek to help sanctioned countries at all costs. China carefully built economic relations with the DPRK, Venezuela, and Iran, but honored UN Security Council resolutions, avoiding confrontational steps. Russia began to regain the role of the “black knight” only in the mid-2010s. The most striking episode could be its support of the Syrian government. But Russian assistance was more military than economic.

Since the start of the special military operation in Ukraine in February 2022, a coalition of Western countries has imposed significant sanctions on Russia. The country turned out to be the biggest-ever target of economic restrictions, both quantitatively and qualitatively (Timofeev, 2022). The World Majority abstained from them. However, calling them “black knights” is still premature. Businesses in countries which are friendly towards Russia are very cautious, fearing secondary sanctions or prosecution by the U.S. authorities and their allies.

Russia’s relations with potential “black knights” are determined by the structure of the sanctions imposed against it. They can be divided into three large blocks. *The first block* is financial sanctions. They imply a sharp narrowing of financial transactions with foreign counterparties due to blocking sanctions against domestic banks and similar sanctions against a wide range of individuals and legal entities. This can also

include the disconnection of some financial institutions from SWIFT, sectoral financial sanctions, bans on investments, on the import of the currency of some Western countries, etc. **The second block** is export control. This includes a ban on the supply to Russia of a wide range of industrial equipment, electronics, dual-use products, and consumer goods. Basically, such restrictions are aimed at curbing industrial and military modernization. The bans also apply to third countries, that is, they often cannot transfer their products to Russia if they are in any way connected with the jurisdiction of the initiating countries (licenses, technologies, equipment, etc.) **The third block** is import control, that is, a ban on supplies to countries importing key Russian commodities—oil and oil products, coal, iron and steel products, gold, etc. The goal is to deprive Russia of export earnings. To these three blocks, we can add informal corporate boycotts as well as hundreds of frozen Western deliveries.

Russia itself did not expect any help from the “black knights” and made vigorous efforts to adapt to the new restrictions. Preparations for the worst-case scenario began long before the start of the special military operation. The de-dollarization of foreign trade was launched, Russia’s own financial infrastructure was created (in the spring of 2022, it saved the economy from financial collapse in the first weeks of the “sanctions tsunami”), and import substitution was underway.

However, the scale of sanctions after February 2022 clearly exceeded worst-case expectations. Many measures had to be taken on the go.

They have included parallel imports, concessions for business, and a quick search for new markets and suppliers. Business itself has played the most important role in adapting to the sanctions. Relations with friendly countries helped Russia adapt, but each case had its own limitations and specifics.

China is becoming the largest and most promising partner for Russia among the friendly countries. During 2022, Russian-Chinese trade grew by more than a third (Ibid). The share of the yuan in Russian export settlements has increased significantly. While in January 2022, the share of the Chinese currency did not exceed 0.5%, in December

2022, it increased to 16% (RBK, 2023). It is too early to talk about the transformation of the yuan into a universal means of payment for Russia in transactions with third countries. However, given the growing Western pressure on the Russian financial sector, the yuan has every chance to strengthen its role in Russian transactions both with China itself and with other counterparties. However, Chinese banks fear secondary U.S. sanctions or the loss of Western markets. It will not be easy for Russian individuals under Western sanctions to make settlements with third countries, even with the help of the yuan. Such caution was observed even before the start of the conflict in Ukraine. The Chinese payment system UnionPay appears to be avoiding transactions involving sanctioned Russian entities (RBK, 2022a).

New political realities create unprecedented favorable conditions for Chinese business in the Russian market. But for now, China is hardly ready to act openly as a “black knight,” challenging regulators in the U.S., the EU, and other Western jurisdictions.

The growth of Russian-Indian trade has reached even higher levels. Compared to 2021, bilateral trade has almost tripled (Kommersant, 2022). However, trade with India is a mere one-tenth the value of Russia’s trade with China. The growth is generated mainly by Russian oil supplies. In itself, this is a step forward, especially given the embargo on Russian oil in the U.S., the EU and other countries that initiated the sanctions. But there are problems with balancing. The imbalance of exports and imports makes it difficult to use rubles and rupees in mutual settlements. Indian business is also very cautious about dealing with Russian counterparties. The Indian market is important for Russia, but India itself, like China, can hardly be considered a “black knight” yet.

The same can be said about Turkey. Trade volumes have shown significant growth (Bainazarov, 2022). Turkey has become an important hub for the supply of goods to Russia by companies that have left the country, as well as for the re-export of Russian goods. Turkish banks experimented with the MIR card. But there are pitfalls here, too. In September 2022, Turkish banks, as well as financial institutions in such

friendly countries as Kazakhstan, Armenia, Uzbekistan, and others, paid attention to the U.S. Treasury Department’s warning about possible sanctions for use of the MIR system in the interests of sanctioned Russian entities. Threats from the U.S. authorities are a significant factor for banks in friendly countries. Turkey will remain an important partner in the supply of those goods and transactions that are not yet covered by the sanctions of the United States and other initiators. The expansion of sanctions will also affect Turkish business, although the extent of this impact is still difficult to assess.

Russia’s natural partner is Iran, which has been under sanctions for a long time. There has been an increase in trade between the two countries (Kommersant, 2023). Russia has also moved forward in the development of a system of mutual financial settlements with Iran (RBK, 2022b). Work is underway on the ambitious North-South infrastructure project. But there are problems, too. The Tehran Chamber of Commerce has warned the Iranian business community about the need to exercise caution in working with Russia (Ibid).

The bottom line is that friendly countries have played an important role in reorienting Russian exports and replacing missing imports. Trade with friendly countries has helped mitigate the effects of the sanctions. However, many problems remain. For example, the transfer of Russian oil products to Asian markets will be more difficult compared to trading in crude oil. Replacing Western imports in the consumer sector will be easier than replacing industrial equipment or high-tech goods. Most importantly, friendly countries are still unlikely to be ready to act as “black knights” in the form which was acceptable in the 20th century. So, Russia must rely on itself and its own resources.

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