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Ryan Bourne: The huge scale – and implications – of the private sector boycott of Russia

By Ryan Bourne

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How deep will the economic effects of sanctions be on Russia? It's a tough question to answer, in part because the size and scale of coordinated measures from the US, EU, UK, Japan, Australia, Singapore, and even Switzerland are unprecedented.

But it's become even more difficult to parse given the flurry of private boycotts or company withdrawals from Russia too.

During the first Covid-19 outbreak, many erroneously ascribed the economic downturn entirely to state-mandated lockdowns. They ignored that, voluntarily, businesses, customers, and workers across the world changed behaviour dramatically when the pandemic hit – be it by working from home, going out less, or closing stores.

While some of this reflected an anticipation of government mandates, much was a purely spontaneous reaction to a novel pathogen.

Analogously, a bottom-up, private sector response to the Ukraine invasion has seen consumers, investors, and civil society institutions deliberately decoupling from the Russian market.

Yes, the international community's curbs on Russian financial flows, central bank trading, the SWIFT system, and air travel have severely disrupted business and certainly influenced many decisions. But a range of private firms are winding down Russian plants, divesting from projects, cancelling associations or contracts with entities and performers, or ceasing sales in Russia far beyond these effects.

Ikea, for example, has paused all trade, production, and Russian operations. Shipping giants Maersk, MSC, and CMA CGM stopped cargo bookings in and out of Russia, at least for nonessential items. Nike has suspended all product sales, as has Apple, which also banned Russian media apps on its App store. Toyota has ceased producing in St Petersburg, Honda has suspended Russian exports, and Volkswagen has paused exports to and production in the country.

It's not just physical manufacturing being disrupted by supply chain woes either. The withdrawal has reached cultural economies. Spotify has "indefinitely" shut down its Moscow office. Netflix has stopped future projects and acquisitions. Disney and other film companies will not release new movies there, Adidas suspended relations with the Russian football team, and Google has halted selling online advertising in Russia.

To highlight the breadth of the reaction, the Glasgow Film Festival has even dropped anti-war Russian filmmaker Kirill Sokolov's new movie, as other venues cancelled ballets and musicals from Russian performers.

What explains these decisions? Talking to the companies, some certainly reflect the cascading effects of government sanctions. For one thing, the SWIFT ban and capital controls make it difficult for companies to financially support their local Russian operations, even before we consider the impact of the ruble's collapse.

Visa and Mastercard admit that shutting down their network entirely followed directly from regulators mandating several institutions be thrown off their payment systems. Restrictions on Russian banks likewise disabled Apple and Google Pay services for thousands of Russian customers before those businesses' drawback decisions.

Judging where the true impacts of government sanctions end and private boycotts begin is therefore difficult.

Yet multinationals sell and produce in countries with volatile currencies and primitive banking systems all the time, so this is not the full story. Nike's Russian website implied the ability to actually ship goods into the country was their key constraint. That is something other multinationals told me off-record.

When your supplies face disruption, and Russia is a small part of your market, "withdrawing" on stated moral grounds can be a free PR boost for something already out of your hands.

But the effects of political fear and loathing of war actions should not be underestimated. The moment brings future business risk, both from Western countries and Russia.

Meta (*aka* Facebook), confirmed that EU governments specifically requested the company take a hard-line stance against Russian state media on its platforms, all the while the company faces severe regulatory scrutiny in the West. If a business trades, directly or indirectly, with the Russian government, or the energy and commodities sectors, there's a risk of being ensnared by future sanctions.

Likewise, multinationals operating within Russia worry about threats and reprisals against their employees. Google workers facing threats of personal prosecution over an app's existence on its platform spooked major Western companies last year. Businesses are therefore exercising their right to exit – a key feature of a free society that punishes, economically, authoritarian behaviour.

It's clear from reading company statements that many capitalists and customers are responding to the sentiments invoked by a conflict playing out live across social media too, which changes tastes and moral frameworks. Are arms sales now "ESG" given Putin's actions? Some seem to think so.

The key point is: a confluence of self-interest and moral revulsion is leading to market actors severely punishing Russian government aggression. The implications are significant.

Sanctions typically fail in fomenting internal opposition to dictators because despots can claim foreign governments' actions are driving hardships. That propaganda-driven anger at, say, the

US and UK, is presumably more difficult to generate when Russians are losing both physical and cultural products and services they have previously enjoyed from a wide range of countries.

This episode and the Black Lives Matter reverberations show online video footage can generate corporate herding for "social sanctioning" too, which can often then trickle down too far. Individual Russian performers in the West have been cancelled, despite no obvious Putin connection.

This is regrettable, but does raise the future stakes for nations with relatively small economic footprints. If global markets can wipe out much economic activity if your country's politics goes off the rails, some leaders and their populaces will become more inward-looking, while others will see a cautionary tale against electing or backing belligerent dictators.

For Russia, the effects of this market boycott could be large and long-lasting. Government sanctions can be lifted, but typically focus on market plumbing. That creates rapid incentives to find workarounds and alternatives. Indeed, the obvious downside of the SWIFT ban is that Russia is turning to an alternative Chinese payment system.

But the Russian government cannot recreate popular consumer brands from scratch, nor is there a switch that can be flicked to reverse these private decisions. This effective North Koreanisation of Russia by western multinationals could therefore cast a long shadow.

Knowing this, the Russian government is trying to ban some Western companies from divesting at all. That desperate move just worsens the long-term incentives for foreign companies to locate there though, deepening the initial impact on Russia's economy of this enforced autarky.

In the coming weeks it will be important to remember then that the sanctions and their blowback, while important, are not the full story. We will hear much about "economic war," as if all the dislocation is a consequence of government mandates. But the private sector has struck meaningful blows too.

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