

Remarks by Deputy Secretary of the Treasury Wally Adeyemo at Atlantik Brücke and the Transatlantic Business Initiative Event



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As Prepared for Delivery

Thank you, Julia, for the kind introduction and thank you to Atlantik Brücke and TBI for hosting me here today. I have visited Germany more often than any other country during the Biden Administration. This speaks not only to the depth, but also the breadth of the U.S.-German partnership on economic, climate, and national security, issues. But as you all know, the foundation of our partnership is deeper than our shared interests. Our people share the same values, including a deep and abiding commitment to promoting democratic values at home and abroad.

I've come to Berlin on the back of a trip to Kyiv, where I had a chance to meet my counterparts and brave Ukrainians who have been resilient in the face of unyielding war. I was reminded that Ukraine remains a democratic country today because its people are willing to fight for freedom.

Over two years ago, when Russia launched its full-scale invasion of Ukraine, the Kremlin expected to be in control of Kyiv within days and the entire country within weeks. But Ukraine stood up, and our coalition stood beside them, denying the Kremlin the quick victory it expected. And as the Ukrainian people fought off advancing Russian troops, we put in place unprecedented sanctions that cut off Russia's largest banks from our financial systems and shackled the Kremlin's war chest by immobilizing its sovereign assets held abroad.

In response to its strategic failure, the Kremlin has now committed nearly half a million troops to this unprovoked invasion and imposed a set of draconian capital controls to prevent money from escaping from Russia. As Russia's strategy evolved, so did our approach.

On one end, the United States, Germany, and our coalition provided Ukraine with weapons to defend against Russia's aggression on the frontlines and economic support to bolster its resilience on the home front.

On the other, we took steps to isolate Russia from the global financial system and cut off the Kremlin's access to the goods they need to build everything from tanks to bombs. Simultaneously, we went after Russia's main revenue source through a price cap that reduced Russia's oil profits. Putin's own spokesmen openly acknowledged that our sanctions and enforcement actions are impeding Russia's ability to get the goods they need, limiting their profits, and further restricting their remaining financial channels.

One of our objectives in taking these steps was to force the Kremlin to make the hard choice between preserving the potential of its economy and continuing to fund its war of choice. Well, the Kremlin has made its choice. It has chosen to wage its illegal war over investing in the Russian people.

THE WAR ECONOMY

Putin has decided to turn Russia into a war economy, where the entire industrial base is geared toward his war in Ukraine. Gone is a commitment to building a prosperous Russian middle class connected to the world and expanding opportunity. The Kremlin is instead creating an economy inspired by the Soviet era—prioritizing guns over butter and military ambition over the welfare of its citizens.

Within this economy, Russia allocated 29 percent of Russia's total budget this year for defense spending, more than double its 2021 level. Production of military-industrial goods has risen by 35 percent.

To do this, Russia is depleting its economic buffers, draining foreign exchange reserves and driving up inflation. Over a million young workers have left the labor force because of conscription or emigration. The Russian economy is less diversified today than prior to the war and will continue to move backwards. Meanwhile, Russia is nationalizing a wave of companies, including the auto trader Rolf, the chemical company Metafrax, and the metals producer Kompaniya Etalon. And the international private sector exodus shows no sign of reversing as Russia has revealed itself to be an unreliable trade partner for investors.

Beyond the data, you can see the Russian economy transforming in small but illustrative ways. A Russian bakery stopped baking desserts and started producing drones. A company that made camping gear for hikers pivoted to making sleeping bags for soldiers.

Perhaps the clearest example of the fundamental change in how Putin views the importance of industry to his military ambitions is the fact that he named an economic advisor, Andrey

Belousov, to lead the Russian Ministry of Defense. What this should signal to us all is that Putin is focused on making sure the Russian economy can power Russia's war machine.

Throughout this war, our actions have forced Russia into making difficult economic choices. First, it was to accept geopolitical and financial isolation in order to wage its war. Now, it is to abandon its domestic economic priorities to prolong its war. Each time Russia has made one of these choices, we have adapted our own policies in response to further increase pressure. We must do so again.

We must recognize that while the reconfiguration of Russia's economy has real costs for the Russian people, it has the potential to make the Russian military stronger than it was before this war started. Russia's ambitions are not just to replenish its war equipment but to build a stronger, more powerful military that surpasses what it had before the invasion began. Putin's goal is to subjugate Ukraine, with his troops stationed at the border of Poland, Finland, and the Baltics. Failure to stop Putin now risks a resurgent Russia directly threatening NATO.

That's why this war is not just an existential threat to Ukraine, but to Europe and our national security. And that's why this is not a moment for incrementalism, but a time for our coalition to take decisive steps to cut off Russia's access to the goods it needs to build the weapons the Kremlin wants. This includes looking to expand our sanctions and export control regime to capture the fact that Russia's entire economy is now on a war footing.

RUSSIA'S MAIN PARTNER

To be successful, we have to be clear-eyed about how the Russian military-industrial complex works. Right now, we know the Kremlin does not have the ability to build its war economy without external support. Russia has always needed goods from abroad to support its industrial base. For many decades, companies in this room and across the G7 provided the electronics, engines, and other components that powered Russian machinery. Our decision to cut Russia off from these goods made it more difficult for the Kremlin to build the tanks and bombs it needs to sustain its war of choice.

Russia has now adapted by deepening ties with Iran, North Korea, and particularly, China. Last year, Russia imported \$5.2 billion worth of sensitive, dual-use goods from China-based suppliers, an increase of over 40 percent in just one year. The Kremlin knows it can only meet its military goals with China's assistance. This is why President Putin was in China two weeks ago. It's why he toured the Harbin Institute of Technology, which is known for research of

rockets, missiles, and UAVs, and which recently opened a joint campus with St. Petersburg State University.

No other country has the capacity to supply Russia with the quantity of machine tools, microelectronics, and other goods the Kremlin needs to build weapons. Beijing may not be sending tanks or missiles to Russia, but the Kremlin cannot produce these weapons at scale or continue its war without the assistance of companies and financial institutions in China.

In addition, many of the goods from our coalition's countries that are still being found in Russian military equipment are largely being transshipped through China. There is more we can and must do in our countries to prevent transshipment through third countries, but we must recognize that Chinese firms today are Russia's indispensable partner in building weapons.

I want to be clear: our goal is not to shut down all bilateral trade between Russia and China. Our goal is to convince China to stop sending Russia a set of dual-use goods that are actively being used to prosecute a war Beijing has told us they want to see end. We have provided China and other countries around the world with a list of these dual-use goods that are being used to make weapons for the battlefield. Many countries have stopped selling these dual-use goods to Russia, but the partnership between China and Russia has only deepened.

And this partnership may seem like a distant threat to our companies and our countries. But we should remember that before this war started, we often talked about our concerns with Europe's dependence on Russian gas and the need to diversify supply chains. That too was once a distant threat. But the consequences of inaction became apparent when Russia weaponized its energy exports. Once again, there are warning signs flashing. This time because of Chinese support for the Russian military-industrial base. We should not be blind to the fact that a growing Russian military with material support from Chinese companies will only grow in ambition.

OUR RESPONSE

That's why we must be explicit with every individual, company, and country that providing the Russian military-industrial complex with support is unacceptable.

This needs to start at home, including with companies within our countries. As Ukrainians have directly raised with me, Russian weapons found on the battlefield have American- and European-branded components. The United States is engaging with our manufacturing,

distribution, and freight forwarding firms to build out better compliance regimes to prevent our goods from ending up in Russia. We need our allies to do the same housekeeping with their private sectors, and we need companies around the world to take similar steps.

When the private sector doesn't act, we are ready to. That includes taking action against companies in countries that are facilitating transactions to help the Russian military industrial complex get these goods. We must also strengthen our domestic customs and export control enforcement in order to make sure that unscrupulous companies in our countries cannot support the Russian war machine.

Every country in our coalition and every member of NATO must also consistently and clearly communicate to Beijing that it is unacceptable for Chinese to abet the Russian military-industrial base. President Biden, Secretary Blinken, and Secretary Yellen have joined with European leaders to raise this issue in varying degrees with PRC leadership.

And while our words matter, our actions matter more. The EU as a whole is China's largest export market, and China remains the largest exporter in key sectors like chemicals and machinery to the EU. We recognize the EU's economic relationship with China is mutually significant, and we must make the choice stark for China: Chinese firms can either do business in our economies or they can equip Russia's war machine with dual-use goods. They cannot do both.

We must make clear to Chinese companies that we are all prepared to use our sanctions and export controls to hold them accountable. And the United States, Europe, and all of our allies have to act together in following through by using our economic tools so that there is no daylight between our policies.

Of course, our preference is to not have to use these tools. Our economies are intertwined with China's. We do not seek to decouple from China. We want a healthy economic relationship with China that benefits both sides. But if China does not put a stop to the trade of dual-use goods to Russia, we will have to take action to hold them accountable.

I recognize that if we are forced to take these steps, many in this room may worry about the economic repercussions to our companies and our economies. But my view is that failure to convince China to stop selling dual-use goods to Russia poses a significant threat to Europe's national security – to global security – which in turn will disrupt our economic futures. A resurgent, militarized, and mobilized Russia would mean greater geopolitical challenges to

our economies. It would mean a greater threat of economic coercion. And it would mean tough trade-offs between defense spending and other priorities at home.

When he was in China, Putin said that cooperation between the PRC and Russia “serves as one of the main stabilizing factors in the international arena.” I am doubtful that many of you think that an emboldened Russia would be stabilizing for the German, European, or global economy—that a Russian victory in Ukraine would be an economically preferable outcome for your companies. That’s why we have to take concerted actions to scrutinize our supply chains, adapt our business models, and stop Putin’s military ambitions.

And we don’t have endless time to deliberate. The Russian military-industrial complex is growing in size because Putin has gone all in. He is confident that with a reconfigured economy he can overpower Ukraine and challenge NATO. His confidence stems from the fact that he thinks he can wait us out—that our support for Ukraine will wane and that we will grow complacent in our response to his aggression. Let us prove him wrong.

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