

Climbing the Escalation Ladder in the Economic War with Russia... Here's the Nuclear Option

By [Nick Giambruno](#)

Global Research, March 16, 2022

[International Man](#)

Region: [Europe](#), [Russia and FSU](#), [USA](#)

Theme: [Global Economy](#)

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The escalation ladder is a concept to describe how the severity of a military conflict can increase.

At the very top of the escalation ladder is all-out nuclear war.

While there are numerous countries with nuclear weapons, Russia and China are the only ones with sophisticated enough arsenals to go toe-to-toe with the US up to the top of the escalation ladder.

In other words, the US can’t obtain escalation dominance against Russia or China because they can match each escalation up to all-out nuclear war—the very top of the ladder.

For this reason, these countries are deterred from getting into a kinetic conflict with one another.

It’s also why the US military doesn’t hesitate to bomb countries like Libya, Iraq, Syria, or Afghanistan. It has little to fear because it knows these countries can’t climb very high in the escalation ladder.

This concept is well-understood in military conflicts.

However, the same dynamic exists in an economic war, and it’s far less understood by governments (and investors).

That’s why neither the US nor Russia are not deterred and are climbing up the economic escalation ladder and hurdling towards an increasingly imminent catastrophe.

The Economic War Escalates

In the wake of Russia’s invasion of Ukraine, the US government and EU have launched an

unprecedented economic war... with seeming little thought on how it all ends.

Russia is not a tiny, feeble country that can't punch back.

Even though many people don't realize it, Russia can escalate to the top of the economic escalation ladder. Here's why...

Russia is the world's largest exporter of natural gas, lumber, wheat, fertilizer, and palladium (a crucial component in cars).

It is the second-largest exporter of oil and aluminum and the third-largest exporter of nickel and coal.

Russia is a major producer and processor of uranium for nuclear power plants. Enriched uranium from Russia and its allies provides electricity to 20% of the homes in the US.

Aside from China, Russia produces more gold than any other country, accounting for more than 10% of global production.

These are just a handful of examples. There are many strategic commodities that Russia dominates.

In short, Russia is not just an oil and gas powerhouse but a commodity powerhouse.

Europe cannot survive without Russian commodities.

Taking Russian commodities off of global markets would cause an across-the-board price shock that would decimate financial markets, banks, and practically every industry. Moreover, Russia also has an economic nuclear option that could blow up the Western financial system overnight.

In short, Russia has powerful cards to play.

Just like in a kinetic war, Russia can match US moves to escalate an economic war to the top of the escalation ladder.

But unlike a kinetic war, neither side is deterred. On the contrary, it seems all but inevitable that things will escalate from here, which makes the situation incredibly dangerous.

Where Are We Now?

The US has sanctioned the Russian central bank, making it illegal for any American to engage with it, the finance ministry, or the national wealth fund.

The US and European governments froze the US dollar and euro reserves of Russia—the accumulated savings of the nation—worth around \$300 billion.

Certain Russian banks have been kicked out of SWIFT, the system to send international wire transfers.

A stampede of Western companies have left Russia and are banning average Russian citizens from using their platforms.

Visa, MasterCard, and American Express have cut off Russia from their networks.

The US government banned all imports of Russian oil.

In return, Russia has matched these moves with defensive maneuvers and escalations of its own.

Moscow has banned the export of rocket engines to the US, with an official saying, “In a situation like this we can’t supply the United States with our world’s best rocket engines. Let them fly on something else, their broomsticks.”

Russia and China have live alternatives to SWIFT to facilitate international financial transactions, which limits the effect of being kicked out of SWIFT.

Russian banks started issuing credit and debit cards linked to China’s global payment processing network UnionPay.

Russia has announced, or already is, doing business with China, India, Iran, Turkey, and other countries in local currencies instead of the US dollar, neutralizing much of the effect of sanctions.

In perhaps the most significant escalatory move, the Russian government has allowed all external debt obtained from unfriendly countries—estimated to be over \$400 billion— to be redenominated in rubles.

As a result, instead of paying back creditors in the US and Europe in dollars and euros at Western banks, Russian companies can now repay their external debts by depositing rubles on their creditor’s behalf in Russian banks, which are inaccessible to them because of sanctions.

This move forces the US and EU to either ease sanctions so that the estimated \$400 billion in external debt can be repaid or give massive losses to Western banks and other creditors.

So, that’s where things stand now.

It’s worth noting that Europe is still paying for Russian energy, and Moscow is still delivering it.

Nonetheless, Russia and the US are climbing the economic escalation ladder, with neither side showing any sign of slowing down. However, we are still several destructive steps away from the top.

What Comes Next

Putin recently announced a forthcoming ban on exports of certain commodities to certain unfriendly countries, with details coming soon. Given Russia’s dominance in the commodity markets, such a move will be significant.

A logical next step Russia could take if the US and EU increase their sanctions would be to force Europe to pay for its energy imports in rubles.

European buyers would have to first buy rubles with their euros and use them to pay for Russian gas, oil, and other exports. Such a move would neutralize the entire sanctions

regime because it would force Europeans to deal with the sanctioned Russian central bank or get cut off from crucial commodities.

The Europeans have no alternative to Russian energy and would have no choice but to comply.

Moscow could implement its economic nuclear option if the US really pushes Russia to the point where it has nothing left to lose. That would be demanding payment for oil and other commodities in gold. Since Russia is such a dominant player in the commodity markets, it could dictate this.

Such a move would send gold skyrocketing and blow up the entire Western financial system overnight. Moreover, the dollar and euro would likely suffer an [enormous loss in purchasing power](#) as commodities would be repriced in gold.

That's Russia's financial nuclear option, and if the US continues up the escalation ladder, this is where it will ultimately lead.

With neither side backing down, escalation appears inevitable.

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