By Peter C. Earle

Just after Thanksgiving 2021, international warnings began circulating that a massive Russian troop buildup along the eastern border of Ukraine might not be a matter of simple posturing. The deployment of blood transfusion units and military equipment typically associated with invasion forces raised suspicions that were confirmed on February 24, 2022, when Russian military forces stormed into Ukraine. Framed as a liberation of the eastern, Russian-speaking oblasts, the attack was the apotheosis of years of dueling accusations, diplomatic wrangling and territorial encroachment.

At the time of the 2022 invasion of Ukraine, Russia was already the target of a wide range of international sanctions. The seizure of the Crimean region in 2014 triggered a global response which sent Russia’s economy into a tailspin. But if sanctions were already in effect against Russia for eight years, why hadn’t they forestalled the recent escalation? Were the existing sanctions insufficient in size or breadth? Did they miss their targets? Or is there something about sanctions as a policy tool which is flawed at a fundamental level?

Sanctions

The use of sanctions—punitive measures imposed by one or a group of countries to enforce compliance with international agreements or treaties—dates back to at least 432 BC, when the Athenian Empire imposed the Megarian Decree in the lead-up to the Peloponnesian War. Sanctions can also be used to influence behavior more generally; for example, to influence state policy choices outside the realm of established international laws. The modern era of sanctions dates roughly to the end of World War II and the founding of the United Nations. Between 1950 and 2019, more than 1,000 sanction initiatives were imposed by individual states, international organizations or ad hoc coalitions.

Russia and Ukraine

In early 2014, Russia annexed Crimea, the eastern peninsula of Ukraine on the northern coast of the Black Sea. A large number of nations quickly responded with sanctions, including some notably far from Europe (Japan, Australia) and some with historically strong ties to Russia (Albania, Montenegro). The measures imposed included an embargo on military equipment and dual-use technology; a freezing of the assets of groups and individuals supporting the annexation of Crimea; and restrictions on engaging with major Russian firms including Sberbank (the largest Russian financial institution), Rostec (a Russian arms manufacturer) and numerous Russian oil and gas firms. Over the subsequent year, the ruble was devalued and the Russian central bank raised interest rates from 10 to 17%. The Russian economy contracted, inflation spiked and many former republics of the Soviet Union saw their currencies and economies dragged down as well.

Now, following the February 2022 invasion of Ukraine, Russia is facing over 5,000 different sanctions, instantly becoming the most sanctioned nation in history. A full accounting of the steps taken defies concise summarization. Many of the penalties target “oligarchs,” as they are called in the Western media: business magnates whose exorbitant wealth and station are secure in exchange for supporting the Russian political elite. And compounding the moves of state actors, hundreds of multinational firms have voluntarily opted to discontinue commercial activities within Russia: Starbucks, Coca-Cola, McDonalds, Volkswagen, British Petroleum and Toyota among them.

In June, the US Treasury Department’s ban on purchasing newly issued Russian government and corporate debt was extended to include secondary market transactions, permitting only liquidating transactions (sales or transfers of said securities to non-US counterparties). The obvious objective of banning primary market transactions is to prevent the Russian government and corporations from raising funds. Banning trading of Russian securities in the secondary market brings illiquidity, mis-pricings and hampers economic calculation among Russian financial institutions and potential counterparty alike. It may also trigger defaults, hindering access to credit for generations to come.
Most significant of all, a long-threatened economic neutron bomb—the ejection of Russian financial institutions from SWIFT, the dollar-based, global interbank payments system—was finally dropped. However, only Russian financial institutions not dealing in energy trade were booted from the network, limiting the full potential impact of the banishment.

**The Outlook**

In a sense, Russia may be considered a sort of testing ground for a host of never-before attempted castigatories. What, then, are the prospects for sanctions targeting Russia bringing an end to the war in Ukraine?

Unfortunately, they are somewhat dim. The conventional wisdom is that economic sanctions are by and large ineffective diplomatic instruments. In 1998, Robert Pape estimated successful sanction programs, meaning those which satisfy their stated objectives, amount to roughly 4–6% of those levied. Gary Hufbauer and Barbara Oegg, in 2007, found that only 34% of sanction cases reviewed could be deemed successful. The builders of the Global Sanctions Database (GSDB), the most recent version of which covers more than 1,100 sanction initiatives between 1950 to 2019, find that “the success rate of sanctions ha[d] been increasing until 1995 and has fallen since then; on average, the success rate is about 30%.”

Andrew Mack and Asif Khan encapsulate their findings in 2000: “[T]he only real disagreement in the contemporary sanctions literature relates to the degree to which sanctions fail as an instrument for coercing changes in the behavior of targeted states.”

Consider the following examples, in light of the time of this writing (Summer 2022).

**Cuba**

Where used in the context of trade, the term sanction tends to imply a ban on trading a specific good or array of goods. An embargo, on the other hand, is a sanction policy contemplating a complete prohibition on trade with a specified government and its interests. The US embargo against Cuba is the quintessential example of this and is noteworthy in several respects.

The embargo, put in place by the Eisenhower Administration in 1958, actually predates the Castro-led revolution. In February 1962, after the nationalization of US-owned businesses and properties, the embargo was expanded to include food and medicine; that aspect of the trade ban was relaxed in October 2000. On several occasions it was suspected that severe external factors might magnify the impact of the US sanctions, driving Havana to embrace long-sought reforms. But the Marxist regime has survived several devastating hurricanes (over 30 since the year 2000), severe flooding and earthquakes. Even the Special Period in the early 1990s, where with the collapse of the Soviet Union massive subsidies and direct aid disappeared, shook but did not topple Cuba’s collectivist government.

A detailed account of the nearly 65-year history of the US embargo is beyond the scope of this writing. But while aspects of the trade restriction have been tweaked over the years, two outcomes stand clear. First, that the impact of the embargo has fallen squarely on the citizens of Cuba, missing—if not consolidating and strengthening the position of—the political elites. And second, that the ban on trade has given the Cuban government a potent, if duplicitous, scapegoat for its moribund economy. Indeed, seldom mentioned is that Cuba has full trading relationships with scores of other nations and has been a member of the World Trade Organization since 1995. As with all centrally planned economies, it is the substitution of bureaucratic guesswork where prices and markets typically function that accounts for misallocations, waste and privation. Nevertheless, despite the embargo Communism endures 90 miles off the coast of Florida, over three decades after the Soviet Union’s implosion.

**Iran**

Until Russia’s invasion of Ukraine, Iran was the most sanctioned nation on Earth. Since the 1979 seizure of the US Embassy in Tehran and the subsequent hostage crisis, the US and Iran have seen declining relations punctuated by round after round of Presidential Executive Orders and Congressional Acts targeting it. Between 2006 and 2015, the United Nations additionally passed no less than nine Security Council Resolutions targeting Iran’s efforts to develop nuclear weapons. The July 2015 Iran nuclear deal framework (United Nations Security Council Resolution 2231, also known as the Joint Comprehensive Plan of Action) struck between Iran, the permanent members of the UN Security Council (US, UK, Russia, France and China), Germany and the broader European Union led to the withdrawal and suspension of many of the sanctions that had been in force against Iran. In return, it agreed to a rigidly structured set of limitations, in particular regarding its uranium enrichment programs. Among many other stipulations, Iran agreed to a tripling of the number of International Atomic Energy Agency (IAEA) inspectors, as well
Sanctions on Trade and Welfare:

Felbermayr are at best an ineffective device. Gabriel Empirically, it seems clear that sanctions point to the end of apartheid in South Africa as a success story where sanctioning senior Iranian political officials, scientists and financial institutions were put in place. Notwithstanding, in mid-July 2022, Iran announced it had achieved the "technical ability" to build a nuclear weapon.

North Korea

Technically speaking, the United States and North Korea are still at war. The 1953 armistice represents a ceasefire, rather than a peace treaty, and military forces remain arrayed along the demilitarized zone between North and South Korea.

The United States has had a sanctions program in place against the "hermit kingdom" since 1950, but in the subsequent decades North Korea has continually engaged in small-scale military harassment and cyberattacks against its South Korean nemesis. Further, agents of the North Korean government have engaged in terrorism against Japan including abductions, espionage and a 1987 airline bombing. All of this was troubling enough, but after demonstrating its nuclear capability in 2006, an international array of sanctions was unleashed. The United Nations has passed no less than 20 Security Council resolutions against the flegding nuclear power, to seemingly little avail. The third generation of the Mount Paektu bloodline is in command of North Korea, and its Intercontinental Ballistic Missile (ICBM) testing program restarted in May 2022. Additionally, in mid-June 2022, a new underground tunnel at its Punggye-ri Nuclear Test Facility was apparently being prepared.

(In fairness, many political scientists point to the end of apartheid in South Africa as a success story where sanction campaigns are concerned.)

A Flawed Implement

Empirically, it seems clear that sanctions are at best an ineffective device. Gabriel Felbermayr et al offer several explanations in their 2019 paper, “On the Effects of Sanctions on Trade and Welfare”:

First, the types of sanctions used may be “inadequate” for the specific objective(s) considered. Second, the imposition of sanctions may prompt vociferous opposition in the target country by uniting citizens and domestic interests in “rallies behind the flag.” Third, powerful allies of the sanctioned country may intervene (as “black knights”) to counteract the damaging effects of sanctions. Fourth, uneven sharing of the costs of sanctions among the sender’s allies and business interests may impair unity in multilateral relationships thereby “undermining” their effectiveness. Last, but not least, those policy leaders may choose to deploy sanctions because they perceive them as a less damaging substitute for military interventions.

Despite frequently employed metaphors, punitive economic policies are not a precision weapon. Even those which target specific individuals—such as oligarchs, high-ranking military officers or political officials—can be evaded without much difficulty. Internationally dispersed assets, bank accounts and real property held in other’s (indeed, false) names and the artful use of non-governmental organizations (in particular, those ostensibly focused upon poverty relief) make the impact of targeted economic punishment somewhat easily deflected. For example, Iran has reportedly adopted cryptocurrencies to skirt international financial restrictions.

Additionally, a world characterized by scarce resources amid unlimited wants and needs will tend to see opportunistic relationships form. A newly anointed pariah state may be an enviable trade partner, especially if the sanctioning powers are viewed as unreasonable or biased. While the degrees of connection may have varied, none of the most reprehensible moments of the 20th century were undertaken by a state acting completely alone. And often, they backfire:

[S]ome sanctions may unintentionally benefit targets by causing “siege morality” and mobilizing people, thereby contributing to the growth of domestic productive sectors (as reportedly happened in Iran) or possibly stimulating industrialization (Zimbabwe)… [T]he pre-2014 sanctions on North Korea “deepen[ed]” business relations between Korean and Chinese companies and made their interactions more efficient.

Shifting back to the specific case of Russia’s assault on Ukraine, the University of Wisconsin Law School recently offered five points regarding the prospects for sanctions. They are, out of order:

1. Sanctions are less likely to work on authoritarian regimes that can easily shift blame and transfer the economic burden;
2. Autocrats facing sanctions can rely on other autocratic regimes;
3. Personalist regimes—or those that are essentially one-man rule with a high concentration of power in the hands of one leader with the military and party apparatus severely limited under his power—are the most vulnerable;
4. Sanctions applied to aggressor states during a conflict may impact that state’s military effectiveness.

Clearly, points one and two apply to Russia; in fact, Russia has reported that trade with China and a variety of other nations had increased 38% since the post-invasion sanctions landed. And owing to a requirement that “unfriendly” nations purchase oil in ruble-denominated transactions, the Russian currency is actually stronger now than before the February invasion; after spiking from 70 to 140 rubles per dollar in early March 2021, the ruble now trades at about 55 rubles per dollar. Point three also describes the political regime in Russia quite precisely, yet the proposed vulnerability has not yet materialized. So too with point four. Clearly the military effectiveness of Russian forces have been more impacted by NATO’s unprecedented arming of Ukrainian forces. But the most important point made by UW Law is the following.

5. Sanctions work best when the target state is economically weak and, in some way, dependent upon the sanctioning state.

And there, as Hamlet said, is the rub. Russia’s economy is quite small—roughly the size of Texas’ economy—but it is a major exporter of oil, natural gas and wheat, thus a global commodity powerhouse. Political concerns, in particular, mounting inflation, have led Western powers to exempt certain energy-proximate Russian financial institutions from the SWIFT ban. (In the sanctions literature, these exemptions are known as “carve outs.”) So, while Russia is dependent upon the rest of the world for machinery and industrial products, the world is far more reliant upon it for oil and grain.

Moreover, with inflation and conflict-driven shortages pushing prices to levels not seen in over a decade, crude alone is generating revenue for Russia climbing into the hundreds of billions of dollars annually, which provides some insulation against the raft of sanctions arrayed against it. There are ongoing discussions about capping the prices paid to Russia, and the EU plans to ban Russian oil imports completely on December 5, 2022, but politically and economically the situation remains fluid.

Conclusion

This leads to the most important question of all: why, with such a mediocre record and predisposition for generating unintended consequences, are sanctions so readily deployed? There are several reasons. First, because—at least initially—the costs are low. And it’s important for political leaders to appear decisive in the face of challenges. Doing something, anything, even with as tatty a record as imposing sanctions, tends to be preferred to inaction by voters and other political constituencies. Enacting punishing measures also signals to the international community that certain actions may not result in paratroopers descending upon airfields, but neither will they be overlooked.

But the most important reason why sanctions remain a key tool in the armamentarium of diplomacy is tied directly to their post-World War II efflux. In the wake of two horrifically destructive world wars, the idea of using political and economic measures as a substitute for military force remains a welcome one. The modern world is intricately interconnected and interdependent. On a chessboard dotted with nuclear powers, and in light of the lessons the Soviets learned in Afghanistan and the United States learned in Vietnam, even in nominally low intensity conflict the stakes are extraordinarily high. So even in the unlikely event that sanctions bring about the desired outcomes, let alone within a reasonable period of time, they remain an infinitely better option: more palatable politically, and vastly less costly than war. Peace is by far the preferable option, but the vicissitudes of international disputes may sometimes call for other solutions—even if merely a placeholder in the game of politics. $