

Time to Ease Sanctions on Russia

Sanctions have largely failed to thwart Russian aggression in Ukraine since 2014. In search of diplomatic solutions, it is high time to adapt the strategy and allow for a gradual easing of sanctions – if Russia takes de-escalatory steps.

By Andreas Beyer and Benno Zogg

Russia under President Vladimir Putin's leadership has increasingly challenged key international norms and treaties, most prominently by supporting Ukrainian separatists and annexing the Crimean Peninsula. The EU, the US, and other Western states responded with sanctions. These constrained Russian actions to some extent and displayed unity in the Western camp. However, they failed to push Russia to the negotiating table or to implement the Minsk agreements. Sanctions even strengthened Putin domestically. Consequently, Europe should allow for a gradual easing of sanctions if Russia takes first de-escalatory steps in Ukraine.

Sanctions feature prominently in current news. How do they work in theory and how effective are they in practice? Sanctioning states want to change the targeted state's political behavior, usually by inflicting economic damage. Sanctions can pursue three goals: they can 1) *signal* dissatisfaction to the sanctioned country or domestic audiences, 2) *constrain* the target's further actions, or 3) *coerce* the sanctioned state to change its policies. The latter two involve mechanisms that deprive key actors of resources they need to conduct or buy support for the targeted policy.

Research suggests that sanctions reach their goals when they are tailored

to the particular political economy of a target country. Economic sanctions succeed most often in the early phase of adoption. They should be implemented swiftly, their effects noticeable, and be part of a broader, clearly defined strategy with realistic goals. So-called 'smart' or 'targeted'

Key Points

- Since their adoption in 2014, the EU, the US and other Western states regularly extended sanctions against Russia without a clear strategy or assessment of whether they are succeeding.
- The Russian population bears the costs of sanctions, not the oligarchic elite. This inner circle now depends even more on state support. Russians perceive sanctions as humiliating; they have thus stirred nationalist sentiment and helped boost Putin's popularity.
- There is no majority in the EU supporting a tightening of sanctions. Fully lifting sanctions will embolden Putin and give away a bargaining chip. Sanctions targeting Crimea should remain in place to ensure Russia does not benefit from the annexation.
- Hence, sanctioning states should abandon the current approach of only lifting sanctions for Moscow's full compliance with the Minsk agreements. Europe should allow for a gradual easing of sanctions, which enables and requires Russia to make first de-escalatory steps in Ukraine.

sanctions aim at key individuals or institutions, and try to avoid hardship for the population. The effectiveness of sanctions regimes varies and is hard to predict.

Russia: Sanctions and Countersanctions

After Russia annexed Crimea, the West was weighing its options. It dismissed military strikes or lethal support to Ukraine. Inaction was not an option, as it would have left a breach of international law and international relations unacknowledged, would have displayed internal discord in the Western camp, and may have emboldened further Russian escalation. Given Europe's dependence on Russian energy, completely severing economic ties was also untenable.

Hence, a coalition of the US, the EU, and states like Canada, Japan, and – supporting without adopting them – Switzerland introduced two rounds of targeted sanctions related to Crimea in March 2014. Reacting to escalations in the Donbas, they tightened sanctions further. Sanctions have been prolonged since, without much political or academic debate. Additionally, the US toughened its sanctions regime in April 2018 after Moscow's meddling in the 2016 presidential election.

The restrictions currently in place include diplomatic measures, like excluding Russia from the *Group of 7* of advanced economies. 150 individuals – mostly Russian and Crimean politicians and officials – and 38 entities are subject to an asset freeze and travel bans. Most business with Crimea is prohibited. Specific measures severely restrict access to capital markets for certain, mostly state-owned Russian banks and companies. Sanctions further entail an arms trade ban, an export ban for dual-use goods, and curtail Russian access to sensitive technologies used for oil production and exploration.¹

Fully crippling Russia's economy or hurting its population was never envisioned and never had a political

majority in the EU. The sanctioning states did not expect an instant reversal of Putin's policies in Ukraine – rather, sanctions should signal moral disapproval, serve as a bargaining chip in an upcoming diplomatic solution, and incentivize compliance with the Minsk agreements.

Moscow responded by stating that it was not party to the conflict in Eastern Ukraine – despite proof of its involvement supporting separatists –, by increasingly relying on trade with and loans from China, and by imposing countersanctions. Russia barred the import of Western foodstuffs; some however were rerouted through third countries like Belarus, which on paper turned into a major producer of kiwis and seafood.

The Effects of Sanctions

Overall trade between the sanctioning coalition and Russia fell by about 25%, comparing 2013 to 2017. The EU estimated its costs at 0.25% of GDP in 2015, whereas Russian sources estimate Moscow's losses at 1% of GDP annually during the first years, and now at 0.5%.² Outflows of Russian capital doubled in the first year of sanctions. However, these effects are hard to detangle from the coincidental drop in oil prices (from mid-2014) and the weakening of the Russian ruble by over 40% since the annexation. This devaluation boosts Russian import substitution and exports, and thus serves as an automatic stabilizer. Currently rising oil prices might offer a further respite for Moscow.

Technological and financial sanctions were designed to have long-term effects. Russian companies had to put several energy-related projects like the exploration of some Arctic gas fields on hold. Budget and technology constraints already affect the modernization of Russia's military, for example its ambitious naval fleet expansion.

For these reasons, EU officials have repeatedly claimed that 'the sanctions work' – notably without adequate mechanisms to measure their impact. The coalition so far has *signaled* internally and externally that it can stand united and that it counters escalatory steps by Russia. The recent hasty expulsion of Russian diplomats after the Skripal poisoning allegations followed a similar signaling logic. The implementation of sanctions alleviated Eastern European concerns about Russian 'divide and rule' attempts.³ In addition, it has eased the pressure on the West to respond militarily.

Sanctions have not inflicted enough pain to *coerce* Russia to reverse course. However, one may convincingly argue that they have *constrained* Russia from escalating the Ukraine conflict to some extent though, for example when Russian-backed separatists did not seize the coastal town of Mariupol in August and September 2014. Yet the imposed

Further Reading

A Year of Sanctions against Russia – Now What?

Simon de Galbert, CSIS Report, 2015

This paper comprehensively assesses Russian sanctions, both in terms of political signals and their immediate economic impact.

Societies Under Siege – Exploring How International Economic Sanctions (Do Not) Work

Lee Jones, Oxford: Oxford University Press, 2015

This book gives a good overview over the literature, detailed case studies, and a scathing critique of the lazy politics behind some sanctions

Sanctions and the Future of EU-Russian Economic Relations

Tatiana Romanova, Europe-Asia Studies, 68:4, 2016

Consult this journal article for an account of wider EU-Russian relations and the particular economic impact of sanctions.



Russian President Vladimir Putin and German Chancellor Angela Merkel answer journalists' questions during a joint news conference in Moscow, 2012. *Maxim Shemetov / Reuters*

sanctions hardly hurt the political and economic elite they were targeting.

The Russian Political Economy

As sanctioned companies saw their access to capital restricted, the Russian state stepped in. The already high share of the state in the Russian economy further increased. Moscow's coffers enabled companies with close ties to politicians to substitute private financing. The Kremlin even rerouted many contracts for public projects and services to these companies, in some instances more than offsetting the costs sanctions had inflicted.⁴ Additionally, some Western competitors have left the market, for example in banking and agriculture. Accordingly, there were no elite protests that put pressure on the regime to change course, as sanctions theory assumes. Within Putin's administration, no liberal contender has emerged. No opposition to the Kremlin's interventionist course in Ukraine has been strengthened.

The actual costs of sanctions are borne by other groups. Small businesses suffer from even scarcer sources of financing, and a contracting state budget for health care, infrastructure, or pensions affects Russia's population. Real incomes have shrunk by around 10% since 2014. The effects of *countersanctions* were actually most visible to the Russian population, notably on shelves and price tags in supermarkets. Additionally, Moscow dissolved the Reserve Fund in 2017, after having depleted it for many years to cover for budget deficits.

Putin's previous social contract with his people involved accepting soft authoritarian rule in return for economic prosperity. The effect of the sanctions regimes did make that contract void. However, instead of protesting, large parts of the population remain depoliticized or increasingly support Putin's course, as a new nationalist social contract emerged.⁵ Consistently, around 70% of Russians say that the West's intention behind sanctions is to

weaken and humiliate Russia.⁶ Sanctions have provided proof that the West is an enemy, and were blamed for some of the economic woes. Putin's personal popularity, at 63% during the invasion of Crimea, surged to 89% by June 2015 (and remains at 81% today). His victory in the March 2018 elections – even though they were manipulated in his favor – further strengthened his position.

What Now?

Sanctions have been a partial success. They displayed Western unity and constrained Russia from escalating further in Eastern Ukraine. However, they have alienated a majority of the Russian population, strengthened Putin's popularity and reinforced the economic elite's dependence

on his government. Decreased ties with Russia reduced the West's leverage for further actions and pushed Russia towards China. The implementation of the Minsk agreements and thus a resolution of the conflict in Ukraine have not become more likely. Hence, today, policy makers ponder options: *tightening*, *maintaining*, or *easing* sanctions.

Tightening would mean diving deeper into the sanctions toolbox. Comprehensive financial sanctions would prohibit international banks from providing liquidity, swap lines, or trade credit. For example, the EU and US considered excluding Russia from the SWIFT financial transactions network in summer 2014. However, there is still no political majority in Europe for tougher sanctions. Simply extending the list of sanctioned individuals for mostly domestic reasons, as the latest round of US sanctions did, will prove to have similarly detrimental effects: It would weaken economic ties and further increase oligarchs' dependency on the Kremlin's favor. Following this path would be purely punitive and have no discernable strategic benefit.

Maintaining sanctions without much review and strategic assessment has been the default option in the past years to demonstrate resolve and avoid debate – for both parties. Imposing sanctions was once a better option than inaction, but they have proven only partially successful. Currently, Russia does not believe the West will lift all its sanctions even if it gave Crimea back to Ukraine, so there is no inducement to change course. The sanctions regime did not change Russia's policy in Ukraine nor incentivize diplomatic moves. A continued disengagement between Russia and the West, and a further politicization of economic relations is in neither party's interest – nor in Ukraine's.⁷

As a third option, we advise to *ease* sanctions in a tit-for-tat manner. The reason to introduce sanctions in the first place remains unchanged: Russia's breach of international law in Ukraine. This a priori poses a formidable nor-

mative obstacle to any easing in the sanctions regime. The least costly yet effective sanctions on arms trade and against entities in Crimea must be kept to hamper Russian military modernization and make sure Russia does not benefit from the annexation. The West must remain firm in condemning the annexation of Crimea. The other sets of sanctions were tied to the implementation of the Minsk agreements: Full implementation would lead to full lifting of sanctions. This condition is illusive. The Minsk accords are flawed and will never fully be implemented. Russia denies being a party to the conflict in the first place. Some of the provisions would fundamentally undermine Ukrainian sovereignty and thus Kyiv will never fully comply either. Kyiv, Moscow, and the separatists fundamentally disagree on the sequencing of implementation.

Western policy thus has to change, and Europe has to lead the way. As sanctions were gradually tightened when the situation in Ukraine escalated, they need to be lifted gradually as a reward for de-escalation on the ground and the implementation of some provisions of the Minsk agreements. Only incremental steps, like lasting ceasefires, the withdrawal of certain types of weapons and troops, or humanitarian or OSCE access, that are followed by easing of certain sanctions, can offer the possibility for both sides to scale back their rhetoric and hardened positions. Russia would have to initiate such steps: No sanctions should be lifted without prior Russian concessions. First measures would most likely be informal and slow, but the West's conciliatory reaction would then induce de-escalation that is more substantial. Reaching the right time for first steps will require some patience.

Pragmatism is the only way to achieve progress in Ukraine without either side losing face. If the sanctions regime is not modified soon towards that end, the Western coalition may erode, or more confrontational actions will increasingly dominate. Neither would serve Ukraine.

Meanwhile, monitoring Russia's economy and assessing the effect of sanctions, while supporting and pushing for reforms in Ukraine, should remain obvious priorities.

Realistically, a lasting change in Russia's posture on the international stage must come from within and will not be induced by outside actors. A Russian population that is currently getting poorer and more alienated from the West will not be an agent of change, nor is an oligarchy that is ever more reliant on the Kremlin's favors. However, sanctions are not a tool for such deeper change. They can and must be used in a realistic manner to help achieve progress in Ukraine.

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6. All data taken from Levada Center, Indicators (www.levada.ru).
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