



Cornhusker Economics

How Effective Are the Russian Sanctions?

Russia's invasion of Ukraine has led to extensive economic, financial, trade, and other types of sanctions directed at individual Russians and the Russian economy. Most European and North American countries as well as Australia, New Zealand, Japan, and Korea have enacted sanctions and many of them are also supporting Ukraine with military and economic assistance. Many other countries including China, India, and Brazil do not support the sanctions although 141 countries belonging to the United Nations (out of a total membership of 193) voted to condemn the war (Piatetsky 2022). Since the end of the Cold War, sanctions have become a prominent foreign policy tool aimed at altering the behavior of governments in other countries without taking the drastic step of going to war. Their effectiveness at changing the undesirable behavior of political leaders in countries such as Russia, Iran, or North Korea has generally been unimpressive. While economic sanctions did eventually result in an agreement with Iran to control its development of nuclear arms, an agreement with which the Iranian government was complying, the Trump Administration withdrew from that compact, and it has proved difficult to re-instate it. Meanwhile, Iran may be resuming its efforts to acquire nuclear weapons. Past experience with sanctions calls into question the likelihood that the current measures taken against Russia will result in early termination of the war in Ukraine.

During the Cold War, sanctions were difficult to deploy because when one side applied them to a particular country, that country could turn to the other side to

offset the effects of the sanctions. With the end of the Cold War, however, the use of sanctions skyrocketed. Initially, comprehensive sanctions covering virtually all trade and financial relations, including food and medicine, were applied to countries such as Iraq, Haiti, and Yugoslavia with devastating consequences for civilian populations. The collateral damage caused by these comprehensive sanctions led the United Nations and most regional alliances to shift to targeted or "smart" sanctions applied to specific economic sectors such as energy or military equipment or to individuals conducting the objectionable policies through the use of travel bans or the freezing of personal assets held abroad (Peterson and Haugen 2016). In 2000, The United States adopted the Trade Sanctions Reform and Export Enhancement Act making it illegal to apply trade restrictions to medical and agricultural goods (Cohen 2002). Sanctions are generally ineffective without support from a large number of countries. The United States has applied sanctions to Cuba since 1960 with little effect on the behavior of the Cuban government in part because the sanctions are not recognized by any other country. In fact, the U.S. policy has often served as a convenient excuse for Cuba's poor economic performance deflecting blame from the Cuban government (Perez 2022).

Researchers at the Peterson Institute for International Economics have carried out a number of studies of the effectiveness of economic sanctions finding that they have been "... at least partially successful in 34% of the cases [they examined]" (Hufbauer et al. 2007). This relatively low rate of success is at odds with widespread per-

ceptions that sanctions are entirely ineffective at achieving the goals for which they are implemented. Gorden (2011) and Drezner (2011) argue that the shift from comprehensive to targeted sanctions has not resulted in improved efficacy noting that even targeted sanctions often have unintended effects that harm the citizens of the sanctioned countries. It is important to note that the use of sanctions is not costless for the sanctioning countries. In the case of the Russian sanctions, for example, the dependence of many European countries on petroleum and natural gas imports from Russia places those countries in a particularly difficult situation as energy prices rise dramatically due to the sanctions themselves as well as the reaction of the Russian government as it attempts to divide the allied countries and undermine their economies by restricting natural gas shipments.

The sanctions on Russia generally fall into one of four broad categories (BBC 2022). First, various financial measures that aim to cut Russia off from international banking and financial systems have been implemented. Second, Russia's primary energy (petroleum, natural gas, and coal) exports have been targeted although the Russian government has found other markets for these commodities and reduced energy supplies from Russia and the nations belonging to the Organization of Petroleum-Exporting Countries (OPEC) have led to price increases for these commodities allowing Russia to continue earning foreign exchange to finance both civilian and military imports. The third set of sanctions includes the seizure of assets owned by Russian oligarchs and other measures targeting specific individuals who support Russia's war effort. Finally, other sanctions have been implemented targeting Russia's imports of goods that could be used to support its military action in Ukraine, banning or restricting imports of Russian goods such as gold and vodka, and refusing to allow Russian airline flights to enter the airspace of the sanctioning countries (BBC 2022; see US State Department 2022 and European Union 2022 for detailed information on the sanctions). All of these sanctions are targeted at specific industries and individuals in an effort to minimize the impact on civilian populations although the general economic hardships they may entail will not leave those populations untouched.

According to the U.S. State Department (2022), the Russian sanctions are intended to "... ensure the Russian

Federation and the Lukashenka regime in Belarus pay a severe economic and diplomatic price for Russia's aggression against Ukraine." It is also likely, of course, that the governments of the sanctioning countries would like the sanctions to contribute to an early termination of the hostilities. That does not seem very likely, but the goal of causing economic and diplomatic harm to Russia appears to be within reach. Sonnenfeld et al. (2022) argue that the sanctions are "crippling" the Russian economy noting such immediate effects as a collapse in Russian imports. They also note that many foreign businesses have withdrawn from Russia and foreign investment in general has declined substantially. The BBC (2022) reported that the war and foreign sanctions have caused Russian inflation to reach 17% this year while GDP is predicted to fall by almost 8% in 2022 with some suggesting that it could decline by as much as 30%. Reports by the PBS News Hour (2022) point out that it took more than a year for the impacts of sanctions applied to Russia in the aftermath of its 2014 seizure of Crimea to be felt and it is likely that the full effects of the current sanctions will only become apparent as time passes. In addition to the impact of the sanctions themselves, many young and educated Russians have left the country to avoid being drafted to fight in Ukraine or because they oppose the war. This loss of human capital could have significant negative impacts on future economic growth in Russia.

The impulse to take some sort of action in response to such atrocities as Russia's invasion of Ukraine is understandable and the use of sanctions may well be preferable to all-out war. Unfortunately, these sanctions are unlikely to cause the Russian president to change course and they may well lead to significant economic adversity for innocent individuals in both Russia and in other countries. One side-effect of the war has been the interruption of agricultural exports from Ukraine and the subsequent rise in global food prices that have caused great hardship in several low-income African countries that traditionally import a lot of wheat and other commodities from Ukraine. Although the Ukrainian economy seems to be surprisingly resilient, reconstruction costs, once the war is ended, will be enormous requiring further assistance from foreign supporters. The long-term negative effects of the war on the Russian economy may be even more severe and the broader impacts of the conflict mean that it will have

serious repercussions for future global economic, political, and diplomatic relations.

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