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Cadmus

THE WAR IN UKRAINE

Global Perspectives on Causes & Consequences - July 2022

An Assessment of the Efficacy of Economic Sanctions in Response to Russian Military Aggression in Ukraine

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Abstract

Economic Sanctions are being deployed by the West in the Russia-Ukraine conflict at a level never before attempted with the intention of wrecking the Russian economy. Very little attention is given to the dismal record of sanctions or the consequences of sanctions on civilians, mercantile enterprises, global and regional economies, and the economies of countries applying the sanctions. This paper examines the unintended consequences of sanctions and argues that they are ineffective at countering military aggression because they are ambiguous when calibrated against military actions which require precise responses with strong signals. Criteria for the evaluation of possible responses to military aggression are proposed.

Embargoes have historically been an important tool of war. Athens issued the Megarian Decree in 432 B.C. to embargo an ally of Sparta. The embargo became an unintentional factor in sparking the Peloponnesian War.[1] In 1806, in response to British blockades, Napoleon created the Continental System prohibiting trade with the United Kingdom in an effort to cripple its economy. However, trade by the British found other routes and the blockade did more harm to the continent than to the UK and contributed to his ultimate defeat. Britain's counter embargo sparked the War of 1812 with the US over maritime rights.[2] Embargoes have a spotted history.

The modern idea that economic punishment is the best tool to discourage aggression has its roots in the League of Nations. Woodrow Wilson called it "something more tremendous than war…the threat of absolute isolation". The idea that economics is a better weapon to conduct war caught on and persists to the present day. Article 41 of the UN Charter authorizes the imposition of sanctions by the Security Council. The UN imposed its first sanction in 1966 on Rhodesia. By 2019, the US was imposing economic sanctions on twenty-one countries. The EU currently imposes economic sanctions on over a dozen countries. In addition, Russia has employed economic sanctions against the pro-Western governments of the former Soviet Union.

While embargoes are focused on goods, economic sanctions can be precisely targeted at money and are often used by governments to punish individuals, companies, and governments through the financial system. One of the longest-lived economic sanctions is the US against Cuba, which started as an embargo in 1962 to punish the regime and encourage regime change. It has clearly failed. The UN has repeatedly denounced the Cuban sanctions in near-unanimous votes by its member states.[3]

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Despite widespread use, sanctions have had limited effectiveness. Western governments have been willing to impose sanctions as punishment for nuclear proliferation, human rights violations, authoritarian rule, etc. For example, the US placed severe sanctions on Vietnam, Iran, and North Korea. While these sanctions may have slowed down their economies somewhat or even disrupted the supply of vital goods, they have not resulted in either policy shift or regime change.

Nonetheless, support for sanctions remains strong in the West. The US, for one, thinks it has found a better way to conduct war—with economists instead of generals. Under the leadership of the White House, the West has formed a powerful financial coalition determined to push the Russian economy into an abyss with this coercive tool of economic warfare. History suggests that the outcome of this effort is all but certain. At the end of World War I, the victors chose to impose severe sanctions on Germany to suppress its economy. The result was WWII.

The assault by Russia on Ukraine is an assault on freedom and democracy. These values are not revered in Russia, China, or Iran as they are in the West. Indeed, democracy is perceived as a threat. Likewise, the West views authoritarian regimes as a threat to peace and sees democratic government as the only long-term solution to the problem of violent conflict. It is this growing enmity that fomented a hot war in Ukraine. NATO in Ukraine is viewed as an existential threat by the Russian state. In such circumstances, the possibility of a nuclear response is real.

Reluctance to come to the aid of Ukraine with troops, heavy arms, and aircraft lies in stark contrast to the global public outcry that has accompanied the invasion. Politicians are quick to condemn Russia and just as quick to warn about escalating the conflict. But how is it that a vigorous defense is now seen as an escalation? A counterattack on Russian soil would likely be viewed that way, but why would military action within the borders of Ukraine be taken off the table for fear of provoking the aggressor? The nuclear risk is real, but surely Russia would not use nuclear weapons if its homeland is not threatened—or would it?

While their forces face off against each other with Russia brandishing nuclear weapons, both sides realize that nuclear war means mutual destruction. Instead, conventional war is fought against a backdrop of Armageddon, each side skittish that it does not escalate the conflict too far beyond bullets and bombs. As a result, we see Russia using tanks and infantry to blow up buildings and kill civilians and Ukraine pushing back with Western-supplied arms, but without the Western troops or air support needed to check Russian military power. Sanctions are intended to provide a check on Russian military aggression.

Though the advantage to Russia of its nuclear arsenal is real, so is the West's control of the global financial system. The desire to wreak havoc without provoking a nuclear response is the catalyst for economic warfare on a scale never before seen. These are no ordinary sanctions. There is intense pressure on the ruble. Interest rates have soared to 20% as the central bank attempts to contain capital flight. The West's goal is to bring the Russian economy to its knees by cutting off access to the global banking system and the global economy, which is 60%-80% denominated in dollars.

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Unfortunately, the sanctions used as a stand-in for military power are fraught with unintended consequences. First, sanctions are a powerful motivator for authoritarian regimes to move away from the dollar as the world reserve currency. China has already made efforts to weaken the dollar as the world's reserve currency.[4] Its recent negotiations with Saudi Arabia to price oil in yuan are further in that direction.[5] Second, China's economic success enables it to mitigate the effects of sanctions on other authoritarian regimes. For example, it can covertly or overtly purchase Russian and Iranian oil or any other fungible commodity without easy detection. Sanctions work best when a united international coalition implements them, which is rarely the case. Moreover, while sanctions might not provoke a conventional military response, Russia has other ways of countering sanctions, including cyberattacks capable of significant economic impact on the West in a manner not dissimilar to the economic sanctions the West is imposing.

Sanctions also have the perverse effect of harming the global economy. Just as with other developed countries, Russia has resources and competencies in many industries that are not easily replicated. For every Russian seller that cannot sell, there is a non-Russian buyer who cannot buy and vice versa. Some foreign companies that depend on Russian goods and services will be forced to shutter their businesses. Likewise, many suppliers to Russia will see their businesses shrink or close. In a global economy, everyone benefits from open trade. These mutual benefits disappear when sanctions close markets. Though the cost of lost jobs and profits accruing to the imposer of sanctions is largely ignored by the imposing country, US sanctions in 1995 may have reduced US exports to 26 target countries by as much as $15 billion to $19 billion.[6] This cost was spread across the business community and ultimately falls on consumers.

Sanctions generally fall on the people harder than on the government. As North Korea has shown, governments have the coercive power to take what they need—the people do not. The shuttered stores and bare grocery shelves in Moscow bear witness to the effect of sanctions on ordinary people. Less obvious but more severe is the ripple effect of sanctions on small businesses of every ilk. These companies rarely possess the resources to weather economic hardship and many will fail. Moreover, many essentials like medicine and food are affected by sanctions, which fall principally on the innocent. Russia and Ukraine are two of the world's largest grain exporters. The UN has warned of a global famine due to the imposition of grain embargoes on both countries.[7] These embargoes will cause great harm to consumers in the Middle East and Africa, as well as raise global prices.

Sanctions can easily backfire politically, stoking nationalism. Sanctions are mistakenly viewed as a way to turn civilians against their leaders. Instead, the suffering population usually perceives sanctions as a crime against the people rather than an indictment of the government. When this happens the popularity of the targeted regime can rise, as is happening now in Russia where Putin's popularity has risen to over 80%.[8] Many in the West point to Putin's control of the media as the source of his popularity. Nationalism due to the war effort and a backlash against the West is a more likely cause.

This war marks a significant shift in the world power structure with serious implications for the role of nuclear weapons. The West is sending another clear message to its adversaries that nuclear weapons are an essential bargaining chip by not intervening militarily. Sanctions are seen as a way to punish while avoiding the risk of a nuclear war. So, economic sanctions have become a fallback—somewhere between doing nothing and doing something militarily provocative that might have horrendous unintended consequences. But, while sanctions are a recognized tool of warfare which can inflict severe punishment, the response by a targeted country is not likely to be a reduction in hostility.

While sanctions may effectively alter bad trading behavior, they are weak disincentives for military aggression. The US Government Accountability Office (GAO) assessed economic sanctions in 2019, interviewing officials and reviewing academic studies. When applied by a global organization or by a large trading partner, sanctions were found to be most effective at altering market behavior. Although sanctions can be shown to impact the target's overall economic health in certain situations, the GAO concluded that there is no evidence to support their effectiveness in achieving broad policy goals.[9]

The West's reliance on economic sanctions to thwart aggression is dangerous, strengthening rather than weakening the political base of autocratic regimes. It creates powerful incentives for autocratic states to align ever more closely in trade, banking, and military activities. The Russia/China friendship agreement is a strong signal that such an alignment has already begun. This alignment has the potential to effectively negate many of the intended effects of sanctions. Russia has the natural resources that China needs, and China has the manufacturing capacity that Russia needs. Together they are capable of autarky. Both are eager to undermine reliance on the dollar and Western trade.

Cooperation in the global arena is essential for peace and prosperity. Therefore, when one country or coalition of countries illegally attempts to impose itself militarily on a neighbor, there must be an immediate and unambiguous response. Unfortunately, economic sanctions are unambiguous only in an economic setting. In a military conflict, they are completely ambiguous. This form of asymmetric warfare is impossible to calibrate against military action.

Wartime diplomacy requires that the aggressor understand three things: the response will be painfully swift, disproportionately light (non-escalatory), and will end immediately upon the restoration of cooperation. Economic sanctions meet none of these requirements. Economic sanctions are slow to show effect. They trickle through supply chains and banking systems and their full effect is unknown for years. Economic sanctions can continue to drag down an economy even after a conflict has ended because the breakdown of systems that support commerce and banking takes time to be reconstructed. In the end, it is hard to know if economic sanctions are more or less severe than the military aggression they are attempting to redress.

Economic sanctions punish innocent civilians, are ambiguous and difficult to calibrate, and harm the global economy. Sanctions drive civilians into the arms of their autocratic leaders. They create perverse incentives for autarky and foster alliances of authoritarian regimes as well as subversion of the dollar as the global currency. Sanctions have a dismal history of failure in the face of military aggression. Yet, they remain the weapon of choice as Western governments sidestep the difficult choice between neutrality and direct military intervention.

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Notes

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