

## Diminishing Returns

### HOW EFFECTIVE ARE SANCTIONS AGAINST RUSSIA?

PONARS Eurasia Policy Memo No.

January 2019

Stacy Closson<sup>1</sup>

*Kennan Institute*

In November 2018, the Trump administration [announced](#) another set of sanctions on Russian individuals and entities for supporting Russia's economic integration of Crimea and for committing human rights violations. Are these and the prior sanctions effective or have we reached a point of diminishing returns? The general problem with sanctions is that historically they are not particularly effective. Moreover, they are hard to implement and require perseverance, multiple partners, and sufficient duration. To be effective, sanctions should have clear consequences, be supported by a multinational coalition, have incentives and enforcement mechanisms, and be flexible to change. If this is not the case, over time, the country under sanctions may find ways to mitigate them, and the sender of the sanctions will experience diminishing benefit. Yet, U.S. and Western policymakers still turn to economic sanctions with great hope when faced with difficulty in achieving foreign policy goals.

One of the main challenges with the Russia-related sanctions is that they aim to punish the largest economy that has ever been targeted, perhaps too large for effectiveness. Moreover, there are signs that some countries and companies are re-engaging with Russia. As U.S. sanctions have expanded, some have begun to counteract projects and ventures run by European allies and U.S. companies. Most troubling, the sanctions do not seem to have deterred the Russian authorities, who continue their military and other malign activities in Ukraine and beyond. It is time to weigh the very real potential for diminishing returns of the sanctions, find improved ways to measure and adjust them to ensure they succeed, and link them more holistically to foreign policy efforts.

---

<sup>1</sup> Stacy Closson is a Global Fellow at the Woodrow Wilson Center's Kennan Institute and a Senior Adjunct Professional Lecturer at American University's School of International Service.

## Evolution of Russian Sanctions

After Russia invaded Crimea in 2014 and then eastern Ukraine, the United States and the EU imposed sanctions on Moscow to deter further aggression and cajole Russia to comply with the Minsk ceasefire agreement. Since 2014, the United States has [enacted](#) 61 rounds of sanctions on Russia targeting over 230 individuals. U.S. sanctions now also punish Russia for backing Syrian President Bashar al-Assad, hacking and other malign activity globally, and for attempts to subvert democracies at home and in Europe. Most recently, the United States is going after Russian companies working with Iran and North Korea – two more countries under U.S. sanctions.

Meanwhile, members of the U.S. Congress have drafted legislation with more sanctions. The Chris Van Hollen-Marco Rubio bill, Defending Elections from Threats by Establishing Redlines Act, or DETER, and Lindsay Graham’s bill, Defending American Security from Kremlin Aggression Act, or DASKAA, are likely to be back on the docket. With these bills, Congress seeks to ensure to the American people that their government will punish Russia for interfering in the U.S. political system even if the Trump administration resists doing so.

## Sanctions Are Generally Ineffective

Economic sanctions cover all forms of coercion that impact on the economy of the state and that are intended by the sender to bring about a certain result or to shape the behavior of the target state. Coercive measures include trade sanctions, boycotts, aid suspensions, freezing financial assets, and the manipulation of tariff rates.

Research is generally pessimistic about sanctions as a form of coercion. An oft-cited study by Peterson Institute Senior Fellow Gary Hufbauer et al. [finds](#) that sanctions have utility in only about one-third of cases. When sanctions are unilaterally implemented, their utility drops to only one-fifth of cases. University of Chicago Political Scientist Robert A. Pape [concludes](#) that economic sanctions rarely work in exacting foreign policy outcomes, determining that of 115 cases in Hufbauer’s work, they were effective only five times. Indeed, no matter the level of sanctions, historically, the target has been unwilling to give in to the demand if the goal sought by the coercer is too highly prized by the target or if it challenges a leader’s power. Brookings Institution Senior Fellow Jonathan D. Pollack [argues](#) that for the North Korean regime, their nuclear weapons program ensures survival, and therefore the leadership has not succumbed to decades of sanctions.

Targets have also proven to be resourceful in mitigating the pain of sanctions. For example, Saddam Hussein was able to mitigate almost a decade of oil sanctions against Iraq following his invasion of Kuwait by trading goods through informal markets. He was also able to ensure the allegiance of his elite cohort. Mitigating the pain of sanctions

also applies to “smart” sanctions targeting individuals and entities. Professor of International Politics at the Fletcher School of Law and Diplomacy Daniel Drezner [argues](#) that there is not systematic evidence that targeted sanctions yield better policy results.

There are some lessons from sanctions that can help them be more successful. For example, another [study](#) by Daniel Drezner finds that coercion works best when the threat of more punishment remains. It does not seem that the senders of sanctions to Russia have accompanied their noncompliance with a threat of use of force. While a NATO force presence on Russia’s western border signals support to defend Baltic allies, it does not yet help Ukraine. Moreover, all of the sanctions to date have been reactive. There is no pre-emptive sanction that threatens Russia with an if/then scenario. Therefore, there is no apparent deterrent to Russian actions.

Sanctions also work best when a multinational coalition enforces them. At first, the EU and the United States coordinated their sanctions against Russia. Since 2014, the EU has [added](#) to the list of individuals and entities they are targeting, and has maintained a focus on pressuring Russia to stop violating Ukraine’s sovereignty. However, as the United States has expanded the remit for sanctions, and particularly since Congress passed the Countering America’s Adversaries Through Sanctions Act (CAATSA) in 2017 imposing sanctions on Russia and North Korea, and reinstating sanctions on Iran, coordination has subsided.

Sanctions must also not be the only tool of coercive power, [according](#) to Peterson Institute Research Fellow Kimberly Elliot. Policymakers must jointly use other tools of statecraft, including diplomacy, humanitarian aid, economic engagement, and energy market manipulation. A recent example of this was Iran agreeing to a peaceful nuclear program as the result of years of diplomacy that offered economic relief. There was nervous speculation early on in the Trump presidency of a “[grand bargain](#)” with Russia over Ukraine involving the recognition of Crimea as belonging to Russia. Instead, the Trump administration has separated the sanctions regime from potential concessions such as extending arms control agreements (INF and New START), renegotiating the Iran nuclear agreement, or finding a resolution to the Syrian war.

Finally, effective sanctions regimes must be flexible to changes in domestic political, economic, and other developments, and the sender must be willing to modify desired outcomes. Harvard University’s Professor Meghan O’Sullivan [writes](#) that by inflicting consequence gradually, the target understands that there is an incentive to acquiesce to the sender’s demands. In fact, one of the main pivot points of success or failure in coercion, [according](#) to Duke University researchers Peter Feaver and Eric Lorber, is the pain tolerance and mitigation strategies available to the participants. However, the punitive sanctions that the United States has put in place, particularly the congressional legislation, are increasingly less flexible (difficult to adjust without major legislation).

Ultimately, balancing the effectiveness of coercive pressure between the sender and target is complex and affects the outcome in different ways than balance of power would predict. The larger, more powerful targets have been able to withstand sanctions over time better than a smaller, less powerful target. And, senders can feel the pain of sanctions equally or more so than the target.

### **Signs of Diminishing Returns**

In the case of the United States and Russia, sanctions regimes are overlapping and this is undermining their strength. For example, targeting Russian billionaire Oleg Deripaska's Rusal aluminum business backfired when the price of aluminum skyrocketed, threatening a potential global shortage. The Trump administration is now backtracking, [preparing](#) to remove financial restrictions on Rusal and two other Deripaska-linked companies. The previously mentioned DAKSAA and DETER bills under consideration in the Senate hit companies involved in the Nordstream II pipeline from Russia to Germany under the Baltic Sea. This could alienate France and Germany, who are critical to overall sanctions success. It could also harm U.S. companies with ties to the European energy interests, which are numerous and diverse.

If the point of sanctions is to punish the Russian government, the evidence is mixed. The sanctions will make more enemies than friends, something that is difficult to recover, as the United States discovered in Iraq. Surveys [suggest](#) that Russians still very much support their government's actions in Crimea. The smart sanctions targeting oligarchs combined with a lack of foreign finance for their businesses has allowed the Russian government to consolidate even more assets. Indeed, strong leaders like Vladimir Putin who have little political dissent and can manipulate elite politics are [more likely](#) to retain their position. At the same time, sanctions seem to be gradually [straining](#) the oligarchs' relationship with the security services and with the president.

Putin may be learning the wrong lessons in sanctions effectiveness. After the collapse of the USSR, Russia used a series of sanctions against former Soviet states to extract concessions, but by mid-2000, their impact was negligible. Now, learning from the sanctions against it since 2014, Russia is sanctioning over 300 Ukrainian business leaders and almost 70 businesses. Not only that, but Russia's latest detention of Ukrainian ships and sailors in the Sea of Azov preceded by Russian backed elections in the two separatist regions of eastern Ukraine in violation of Minsk II signal that Putin is not deterred by the sanctions that exist, nor the potential for more.

Going after Russia's energy sector could also backfire. Forbidding U.S. companies from operating in regions where Russian banks and energy companies are involved hampers the U.S. ability to compete. Already, the absence of Western firms has increased the importance of Chinese investment in Russia's energy projects, particularly in the Arctic, albeit at the expense of Russia ceding a percentage of ownership of its firms. A second

round of U.S. sanctions to be [determined](#) this February 2019 under the 1991 Chemical and Biological Weapons Control and Warfare Elimination Act in response to the Russian poisoning of the Skripals in Britain may restrict all Russian products into the United States, including the 5 percent of Russian crude imported from Russia. However, Russia is already redirecting oil to China from Europe, and this would only further regionalize oil trade, which is not good in terms of maintaining a moderated global price.

There are also efforts by companies and countries globally to avert sanctions on Russia. Western creditors by fall 2016 were adjusting cooperation to avoid those Russians directly targeted and look for other ventures. There are further [reports](#) that European companies were finding alternative ways to place orders from Russian companies or exporting items to Russia through partners or subsidiaries in third countries. The U.S. Congress added a waiver to CAATSA to prevent sanctions on countries, such as India, who are reliant on defense equipment from Russia.

Finally, the negative impact on Russia's economy from sanctions appears to have hit a wall. Up to 2017, most experts [agreed](#) sanctions were harming the Russian economy. Indeed, the overall trend since 2014 is one in which the Russian economy is not growing as expected, but this is also viewed by experts as the result of a poor Russian domestic business climate (e.g., attracting investors, stalled technology sector) and lower oil prices. Instead, there are [some signs](#) since 2017 that Russia is recovering, albeit modestly, due to stronger global growth and rising oil prices. Moscow's foreign currency reserves are at an all-time high and a dramatic reduction in capital flight has freed up dollars for social programs.

## **Conclusion**

The myriad reasons for punitive sanctions without a long-term plan and the absence of a broader diplomatic effort to link them to carrots and sticks mean that there is seemingly no end to them and likely diminishing returns. Indeed, Putin feels emboldened. Moscow has been enhancing political, military, and economic relations with China, restricted Ukraine's access to the Sea of Azov, and is ensuring that Bashar al-Assad remains in power in Syria. Russia continues to [interfere](#) in elections despite sanctions. Even if over the longer term sanctions are more likely to weaken Russia economically and socially, a weakened nuclear power on the border of Europe and Eurasia is not necessarily a welcome prospect.

A point will come at which United States policymakers may understand that sanctions are not shaping relations with Russia in a way that is beneficial or effective. An objective measurement of the cost of the sanctions both on the target and on the sender is needed so that adjustments can be made. This would require establishing a deeper set of

objectives, and refining and making more transparent tracking and assessment mechanisms.

Sanctions information needs to be included within a broader statecraft framework that could generate a list of across-the-board incentives for Russia. There are openings for diplomatic negotiations on a host of issues that concern Russia, such as on Ukraine, arms control, Syria, and energy resources. It could include agreement among a multinational coalition to more severe punitive measures should sanctions be ineffective. Finally, it is imperative that the multinational Western coalition stands united in the face of Russia and continues to explore more severe, punitive measures on Moscow should sanctions be evaluated as ineffective.