Effectiveness of Economic Sanctions on Russia

Introduction

Sanctions are penalties levelled against a nation, its leaders, or individuals to discourage particular policies and conduct. They are often considered diplomatic tools that can promote peace and global security[1], but history tells a different story. Moscow's incursions into Ukraine and the extensive sanctions of the West[2] have revitalised the issue of whether the sanctions work and what are their political objectives.

While sanctions can convince nations to negotiate a peaceful settlement, they can at times, turn out to be counterproductive. They involve a risk of strengthening the legitimacy of the targeted leadership and exacerbate humanitarian situations by destabilising economies, ultimately triggering counter-sanctions in the targeted country, as is observed from Russia's sanctions against European countries.[3]

Economic sanctions

Economic sanctions have been celebrated for years, as a peaceful method of compelling nations to comply with global standards without employing the use of war savagery.[4] In today's networked world economy, they are imposed by international organizations and national governments, such as the United Nations (UN) and European Union (EU).[5] Manifesting themselves in forms like travel restrictions, freezing of assets, weapons embargoes, financial measures, and trade restrictions[6], they can often prove to be expensive to their subjects.

Sanctions against Russia

In response to Russia's annexation of Crimea in 2014, western countries imposed multilateral sanctions, limiting access to Russian state-owned companies' financial markets. Additionally, they banned high-tech oil equipment export, prohibiting military and dual-use products.[7] With a full-scale Russian invasion of Ukraine in 2022, the EU added weight to these, introducing additional economic, diplomatic, and visa penalties to suppress Russia's war machinery.[8] A regime-specific framework at the country level strengthened sanctions in May 2024 against instruments for repression and surveillance, extending economic and technology restrictions.[9]

The most recent sanctions aim at the following sectors:

Energy: In March 2022, Washington prohibited Russian crude oil, liquefied natural gas, and coal imports and restricted the United States' (US) investments in most Russian energy companies.[10] In December, the US and Group of seven (G7) placed a price cap on Russian crude oil exports to limit the revenues from China and India.[11]

Financial Sector: The US froze USD 5 bn in Russia's central bank assets to block Ruble stabilisation. The Treasury Department prohibited the US investors from trading Russian securities, limiting transactions with 80 per cent of Russian banking industry assets.[12]

Military Technology: The U.S. Commerce Department limited high-tech exports, such as aircraft equipment and semiconductors, to slow down Russia's military strength.[13]

Action taken by the European Union (EU)

At the time of the invasion, Europe was Russia's largest energy export market. Moscow was supplying nearly 40 per cent of the natural gas consumed by the EU and nearly one-third of the bloc's crude oil.[14] However, in 2022, the EU announced an embargo on imports of most Russian crude oil and joined the G7 price cap[15]; in early 2023, it imposed an additional ban on Russian refined oil products such as diesel and gasoline.[16] The EU and other governments have also imposed sanctions targeting Russia's financial channels and military technology.[17] But some countries have taken little to no action against Russia or have otherwise seized on the moment to their own benefit. China and India, for instance, have increased their imports of Russian oil and natural gas.[18]

How has Russia adapted to them?

While the sanctions have undoubtedly caused economic suffering in Russia by significantly reducing its oil and gas revenues since the price cap and freezing Russian central bank assets[19], the latter, however, has managed to keep its economy afloat. International Monetary Fund (IMF) estimates its gross domestic product was 2.2 per cent higher in 2023 because of extensive war expenditures, outpacing the US and western economies.[20] Moreover, these economic sanctions have failed at halting hostilities in Ukraine. In fact, in retaliation to the western sanctions, Moscow declared the US, EU, United Kingdom (UK), Japan, and others to be 'Unfriendly States' and applied counter-sanctions.[21] These measures included repaying debts of more than 10 million Rubles and mandating the gas payments, exclusively in the Russian currency under the threat of supply reduction for non-obedience. Additionally, with the aim to limit financial operations, the measures suspended foreign transfers for six months, and prohibited companies hailing from unfriendly states from buying foreign currency in Russia.[22]

Russia also used its energy exports to strike back at Europe. In Aug 2022, Moscow closed the Nord Stream 1 pipeline, reducing 60 per cent of the supply of gas to Germany.[23] In addition, it avoided the G7 price cap by employing a 'Shadow Fleet' of oil tankers and redirecting exports to China and India. It also made adjustments by carrying out trade in Rubles and raising interest rates to stabilise its currency.[24]

Measuring Effectiveness

Russia's invasion has sparked renewed argument over sanctions, which have battered its economy without stopping the war. Although US-EU sanctions have not solved the crisis in Ukraine, they have proven to be a less expensive option than an invasion and have had significant global repercussions. Moreover, imposition of harsh economic sanctions on Russia has delivered a clear message that disrespect for international norms will invite collective and punitive response. The deterrent impact transcends Russia itself, acting as a warning to other possible aggressors who may think twice before taking similar action in order not to incur similar economic penalties. However, the economic sanctions on Russia have put global solidarity to the test to a large extent, since their long-term efficacy relies on continued solidarity among sanctioning countries. To guarantee ongoing effect, the global community needs to stay firm in implementing sanctions, checking compliance, and countering attempts to circumvent or undermine them.

Russia's countersanctions have highlighted the importance of sanction regimes to evolve and thereby enhance their adaptability. Effective evasion strategies such as the utilisation of third-party nations as conduits to reroute goods and services[25], transferring dual-use products through intermediaries and the establishment of new businesses to replace sanctioned firms could help in navigating sanctions or mitigating their impact on the targeted nation.[26] Secondly, the prolonged impact of sanctions on Russia has forced sanctioning nations to form stronger alliances and minimise dependencies on the target nation. The EU's attempts to diversify its energy sources and cut back on Russian gas are instances of measures taken to improve the effectiveness of sanctions. By reducing dependencies, the countries imposing sanctions can minimise the economic impacts of sanctions on themselves and improve their capacity to sustain pressure on the target.

Conclusion

Sanctions are punitive actions against actors perceived to be breaching international norms, hence, measuring their success, solely on their capacity to attain the primary goal might not always be conducive. Russia has demonstrated resilience despite frozen reserves, isolated banks, and discounted crude oil. Redesigning trade networks is expensive, and if sanctions are more damaging to the imposing nations than to Russia, they will be self-defeating. Moscow has successfully avoided sanctions, especially on oil exports, by building alliances with non-Western countries, casting doubt on long-term efficacy. This emphasises the necessity for more effective global enforcement. Nevertheless, it can be argued that while sanctions may not have crippled Russia, they have demonstrated that violating international norms and invading a neighbour may be met with a united response.

End Notes

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Uploaded on 04-04-2025