Sanctions Against the Russian War on Ukraine:
Lessons from History and Current Prospects

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This article studies the case of the sanctions against the Russian war on the Ukraine in 2022 against the background of four major and well-documented historical sanction episodes: (1) the anti-Apartheid sanctions of the 1980s, (2) the sanctions against the Iraqi occupation of Kuwait in 1990, (3) the sanctions against Iranian nuclear capabilities and (4) the US and EU sanctions against the Russian annexation of the Crimea. Two cases (South Africa and Iran) have a comparatively low probability of success based on pre-sanction trade linkage between sender and target and the target’s regime type (the autocracy score). The key to understanding their success is in the banking channel (debt-crisis and international payment system sanctions) and the behaviour of the private sector (divestment and over-compliance). The failure of the sanctions against Iraq underscores the importance of regime type and the need for a viable exit strategy and shows that some decision-makers cannot be influenced with economic hardship. The 2014 sanctions against Russia illustrate the comparative vulnerability of the European democracies and their weakness in organizing comprehensive sanctions that bite. Given the increased Russian resilience, the increasingly autocratic nature of President Putin’s government, the credibility of his 2014 tit-for-tat strategy and the failure of European democracies to implement appropriate strong and broad-based measures, smart and targeted sanctions are unlikely to influence the Kremlin’s calculus. The European Union could only influence that calculus by restoring its reputation as a credible applicant of strong sanctions, including an embargo on capital goods and a boycott of Russian energy.

Keywords: Sanctions, Comprehensive sanctions, Smart sanctions, Russia, Ukraine, South Africa, Apartheid, Iran, Iraq, Crimea, comparative case study

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1 INTRODUCTION

This article evaluates the economic sanctions imposed on Russia after its invasion of Ukraine early March 2022. Since this is an evolving case, my goal cannot be to arrive at a final evaluation, and it is certainly not an accurate prediction of the


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potential success of these sanctions.\textsuperscript{1} Rather the aim is to discuss the case of the 2022 sanctions against the background of four major and well documented historical sanction episodes: (1) the anti-Apartheid sanctions of the 1980s, (2) the 1990 sanctions against the Iraqi invasion of Kuwait, (3) the 2012 sanctions against Iranian nuclear capabilities and (4) the 2014 US and EU sanctions against the Russian annexation of the Crimea. This comparative case analysis helps assess both the potentials and the pitfalls of the sanctioning approach that was followed in this case and to guestimate what sanctions can and cannot do for the Ukraine.

\textit{Figure 1 Probability of Sanction Success for the Five Cases}

0
25
50
75
100


Note: year in brackets is the year for which underlying data were collected.
Iran: Peter A.G. van Bergeijk, \textit{Economic Diplomacy and the Geography of International Trade} (Edward Elgar: Cheltenham 2009), Table 6.4.

\textsuperscript{1} This article takes stock of the period up to and including Apr. 2022.
Figure 1 provides a rough numerical indication of the cases to be studied by means of reported, (re)calculated and updated probabilities that the sanctions could be successful, that is: a successful sanction at least significantly contributes to modest and/or substantial achievement of its stated policy goals. Although it is noteworthy that the empirical literature on the determinants of sanction success is characterized by substantial publication bias, it is also important that the empirical analyses in this tradition have always been quite helpful to separate ‘wheat from chaff’. Indeed, such calculations are a useful tool to check if economic sanctions could work, but they should not be taken at face value. Judged against the background that the average success rate of economic sanctions varies from less than a fifth for smart or targeted sanctions to a good third for broad-based comprehensive sanctions, our cases a priori belong to the ‘wheat’ category, with the anti-Apartheid sanctions closer to an ex ante expected failure and, in contrast, the sanctions against Saddam Hussein’s Iraq looking quite promising at the time of imposition.

It should be noted from the start that the broad literature on success and failure of economic sanctions has a cyclical pattern with waves of optimism followed by pessimistic views on the effectiveness and usefulness of boycotts, embargos, financial sanctions, and targeted or ‘smart’ sanctions. Hundred years ago, economic sanctions were seen as very effective foreign policy tools. The League of Nations’
announcement of the ‘terrible weapon’ suggested that boycotts and embargoes could become a real substitute for war.6 ‘A nation that is boycotted is a nation that is in sight of surrender’, claimed US President Woodrow Wilson in 1919. Merely the threat of League of Nations sanctions was sufficient to stop the Yugoslavian invasion of Albania in 1921.

A century later, the sanctions against Saddam Hussein (Iraq), Kim Jong-un (North Korea) and Vladimir Putin (Russia) seem to provide more sobering lessons. Indeed, from our current perspective we cannot but observe that the pattern of Russian aggression in Ukraine and the Caucasus was not stopped by (the threat of) economic punishment. It looks as if sanctions do not work at all. This is, however, essentially an example of how a handful of high-profile cases can change the ‘mood’ in the literature. For example, the sanctions against South Africa’s Apartheid regime – long considered to be right-out failures – were seen in a different light after Nelson Mandela’s release. In the case of Iran, fluctuations in US elite hostility (back and forth) probably have been equally relevant.7 Indeed, the debate on the effectiveness and efficacy of the terrible economic weapon is characterized by waves and recurring themes with no apparent consensus emerging. The aim of this article is to provide an evaluation of the economic sanctions against the Russian war on Ukraine built on a discussion of the characteristics of four major episodes as a basis for further discussion.

The remainder of this article is organized as follows. Section 2 starts with a review of literature of the sanction black box, focusing on three issues directly relevant to the sanctions against the Russian war on Ukraine: (1) the mechanisms and impacts of broad-based, comprehensive sanctions, (2) the efficacy of ‘smart’ or targeted sanctions and (3) the importance of the banking channel. Section 3 gives a brief overview of the four historical cases, their differences, and their commonalities, reviewing these cases from the perspective of the sanction literature. Section 4 evaluates the prospects of the sanction regime against the Russian war on Ukraine. Section 5 draws conclusions and offers some reflection.

2 GLEANING INSIDE THE SANCTION BLACK-BOX

Although the literature disagrees on many characteristics of sanctions and their impacts, and many theories and alternative interpretations exist without the

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prospect of reaching a consensus soon, it would seem possible to identify a shared perspective. The question on which the literature disagrees is: ‘which sanctions work?’ This apparent disagreement blurs the consensus that does exist, namely on the issue of what does not work.

2.1 Comprehensive sanctions

One important stylized fact emerging from the empirical literature on economic sanctions is their low success rate. Roughly two out of three broad-based sanctions fail; for target sanctions the failure rate is some 80 to 90%. Hence many observers have argued that the sanction instrument does not work at all. Empirical research, however, has revealed under what conditions sanctions do or do not work. The consensus is that economic sanctions cannot work unless there is some meaningful economic interaction before sanctions are imposed and that slow sanction implementation is not conducive to sanction impact as it allows for substitution of products and markets as well as for stockpiling and adjustment of the economy. Agreement also exists on the fact that international support for the target and rally-around-the-flag effects reduce the potential political impact of sanction imposition and may even strengthen the position of the target’s leadership. Finally, sanctions between countries that already had bad diplomatic relationships before the sanctions as well as sanctions against autocracies and dictatorships (as compared to democracies) are less likely to change the target’s behaviour in the desired direction. Finally, the goal of the sanctions matters. Sanctions aiming at ‘easy’, more limited goals a priori would seem to have a better chance to succeed.

A second distinct consensus exists regarding the observation that broad-based, comprehensive sanctions have also unintended side-effects and impose collateral damage on a population that is often no party in the conflict that their

governments have initiated. Typically, marginalized poor are hit disproportionally, and inequalities deepen,\(^\text{14}\) health care comes under pressure with negative impacts on child mortality and life expectancy,\(^\text{15}\) and human rights, political violence as well as political stability can deteriorate.\(^\text{16}\) These unintended effects have motivated a strive for sanctions that are targeted on elite decision-makers with a more direct responsibility for the objectionable behaviour that the economic sanctions seek to remedy.

\section*{2.2 ‘Smart’ or Targeted Sanctions}

Even though selective penalties devised to put pressure on specific groups, companies, and individuals are now in the spotlight, they are not new. Indeed, a cyclical pattern in the use and appreciation of targeted sanctions can be observed.\(^\text{17}\) Targeted sanctions were used quite often directly after the Second World War when two thirds of sanctions were smart. Their popularity drifted away in the 1970s, recovered somewhat in the 1990s, but then again, their usage decreased in the 2000s. Policymakers rediscovered the instrument in the second half of the 2010s when smart sanctions were:

quickly proclaimed “superior” because they aimed to target entities that were deemed to be directly involved in decision-making regarding the objectionable behaviour that instigated the initiation of sanctions in the first place.\(^\text{18}\)

A theoretical basis for targeting sanctions can be found in the Public Choice approach to economic sanctions\(^\text{19}\) that recognizes the distributional aspects of sanctions. In a nutshell, the mechanism is that different (interest) groups will be hit differently – both in relative and absolute terms. The equilibrium level of the sanction target’s behaviour is determined by underlying countervailing political pressures of opposing interest groups that allocate resources, in the form of lobbying, protest, mobilization of supporters, etc., to intensify or abort the behaviour. A

\begin{itemize}
\item \(^\text{14}\) Sylvanus Kwaku Afesorgbor & Renuka Mahadevan, \textit{The Impact of Economic Sanctions on Income Inequality of Target States}, 83 World Dev. 1–11 (2016).
\end{itemize}
rather important insight of the Public Choice approach is that also the design of sanctions is determined by opposing interest groups – that is in the sender country. This has several implications, for example, the Public Choice Theory suggests that democracies ceteris paribus will design less potent sanctions than autocracies. Relatedly, the sanctions on individual persons, companies, and banks can be used to generate a barrage of ‘sanction messages’ that feed the sender’s news cycle and give the impression of the toughness that sender governments want to communicate to their own population. If a sender merely wants to impose symbolic sanctions, then targeted sanctions are superior from a public relations perspective.

Typically, the consensus view is that targeted sanctions should not be applied in isolation and that combinations of at least three to four different types are necessary for success (for example, a combination of travel restrictions, freezing of individual’s funds and other assets, bans on transactions). Most important, they need to be consistently enforced. The choice for specific targeted sanctions rather than broad-based comprehensive sanctions and the level of enforcement may reflect domestic interest group considerations rather than the actual effectiveness of the instrument.

2.3 The banking channel

Many sanctions aim at creating financial hardship. Examples range from the withdrawal of development aid and reduced access to concessional loans to the freezing of foreign assets such as central bank holdings of foreign currency. A financial sanction may also be used to impose additional restrictions on international payments in order to hinder sanction-busting and trade diversion. Typically, this reduces the availability of trade finance and makes international transactions more costly and difficult, thus magnifying the real economic impact of the sanction measures. In these cases, the banking channel through which sanctions work is direct and straightforward. The empirical evidence suggests that the financial constraint statistically does not add significant value to comprehensive broad-based sanctions, but that finding may be a bit outdated since it precedes the expulsion from the international bank messaging system SWIFT (Society for Worldwide Interbank Financial Telecommunication) that was first applied as a sanctioning tool in the case of the sanctions against Iran that is discussed in section 3.3.

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20 Peter A. G. van Bergeijk, Economic Diplomacy and the Geography of International Trade (Edward Elgar: Cheltenham 2009).
The banking system is, however, also relevant for sanctions in another indirect way, namely as a precondition for success. If the financial system is under stress, then sanctions can exert influence via expansion of the trade gap and/or the savings gap, i.e., by exploiting (1) the constraint on hard currency required for paying necessary imports and/or (2) the bottleneck of foreign capital that is needed to finance the capital stock expansion to sustain economic growth for target countries with a current account deficit. The implication is that sanctions against targets that hold large strategic foreign exchange stocks and/or run a current account surplus are less likely to succeed than sanctions that hit a target under financial stress.

3 FINDINGS AND LESSONS FROM FOUR CASES

It is instructive to see how these insights from the literature play out in four well-known and widely discussed cases before we move to the analysis of the sanctions against the Russian war on Ukraine.

3.1 THE ANTI-APARTHEID SANCTIONS OF THE 1980S

Sanctions against Apartheid were protracted and for long were perceived as failures due to extensive sanction busting, the high stakes for the Afrikaner (white minority), and the fact that only a few products were part of the sanctioned products (consumer boycotts widened this to some extent but were by themselves not sufficient).

South Africa was vulnerable to foreign economic pressure on several counts: substantial trade linkage with the OECD, deteriorating economic health and reliance on a few suppliers for capital goods (machinery, trucks, intermediate inputs, spare parts, etcetera), and production and consumption patterns that were rigid by international standards. These factors pointed out substantial vulnerability to economic sanctions.21 The UN oil embargo, moreover, looked quite promising, especially after a new Iranian government decided to join the sanctions in 1979. Oil is not found in exploitable quantities in the country, and South Africa had to import about 70% of its requirements (import-substituting large-scale ‘oil-from-coal’ projects were initiated but did not materially reduce oil dependency). However, dependency in other areas was less obvious; South Africa being a major producer of most other strategic raw materials, its dependence outside the energy sector was low. Being a supplier of strategic resources, it could retaliate.

substantially against the OECD countries. South Africa also mined an internation-
ally accepted means of exchange. Kruger Rands were boycotted, but gold exports
continued, further increasing resilience. For long, sanctions did not put sufficient
economic pressure to change Pretoria’s political course.

However, an important escalation of economic stress came in the mid-1980s,
when private banks and multinationals began to see the political risks of lending to
and investing in the Apartheid regime as being too large. So, significant quantities
of capital were taken out along the 1985 South African debt crisis (divestment from
South Africa has been estimated at some USD 20 billion). This disinvestment
wave shrunk the economy in a direct manner (less production due to less capital).
There was also an important indirect impact. Foreign direct investment has
significant spill-over effects in terms of access to modern technologies and manage-
ment techniques (the invisible components of international capital flows), and also
networks with foreign firms are vital for market access. Disinvestment hit South
Africa both through direct and indirect channels and, moreover, offered a mental
blow to the Afrikaners that saw longstanding firms leave the country because of
Apartheid.

3.2 The sanctions against the 1990 Iraqi occupation of Kuwait

The comprehensive sanctions that the world community imposed on Iraq after its
invasion of Kuwait constitute an exceptional case since the international commu-
nity demonstrated its ability to impose severe and almost watertight sanction
measures (it is noteworthy that Switzerland, for the first time in history, partici-
pated). The oil boycott was relatively easy to organize, especially after the dis-
connection of the pipeline via Turkey, and enforced with a military blockade.
Foreign assets were frozen. Importantly, this was achieved within an extremely
short period of four days only. Indeed, ‘Judging from History, the Anti-Saddam
Sanctions Can Work’, wrote Kimberley Elliott. The UN sanctions against the
Iraqi occupation of Kuwait effectively delivered a significant economic loss to Iraq
and showed that achieving international political unity and a forceful – difficult to
circumvent – set of sanctions was possible on short notice.

Effectiveness in delivering economic damage, however, is not a sufficient
condition for success. The very promising sanctions failed and eventually, by
necessity, were followed by the military intervention of ‘Desert Storm’.

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23 Kimberly Elliott et al., International Herald Tribune (11 Dec. 1990). In the same vein Maarten Smeets,
suggests that the political economy aspects are also a crucial determinant for sanction success. Indeed, the Iraqi leadership ended protests unscrupulously also because giving in would irrevocably mean international loss of face and undermine the Iraqi position within the Arab world. A tactical withdrawal would probably lead to the dictator’s own downfall because such a token of weakness could lead to a coup. The basic point is that no realistic alternative was on the table.

Moreover, decision-making is taking place in a highly uncertain environment, and the outcome of sanction cases may thus be co-determined by risk and time preferences. Presented with a choice between the mathematically expected payoff of a gamble in international politics and undergoing that gamble, the sanctioned target might simply prefer the gamble. If the game is ‘lost’, however, the outcome ex post may seem irrational (van Bergeijk 1987). Indeed, the destruction of Iraq in the second Gulf War in hindsight might induce one to question the rationality of Saddam Hussein. The decision, however, to get involved in a very risky gamble showing a very low or even negative expected outcome should not be considered irrational unless the highest possible outcome is less than the outcome that results if the gambler does not play. The key point from this case is that it was difficult to conceive a realistic exit strategy for the Iraqi leadership.

3.3 The 2012 sanctions against Iranian nuclear capabilities

The Iranian case would a priori seem to meet the underlying conditions to a lesser extent. Among them we can identify (1) a sufficient – but not particularly high – level of pre-sanctions trade linkage between the sanction senders and the target country, (2) limited capabilities to substitute import and export products (as in the case of Iraq), but this was compensated by (3) an unexpected broadening of the sanctions by using a new tactic, namely the exclusion of Iran from the SWIFT worldwide bank messaging system. The EU and US financial sanctions that accompanied their oil boycott may explain why the sanctions were biting much harder than would be a priori expected based on pre-sanctions trade patterns. One of the measures taken within the EU’s financial sanctions package was to exclude Iran from the SWIFT messaging system, which is used to arrange international money transfers. This makes it significantly harder to process international payments while simultaneously constraining other bilateral economic flows. Most importantly, the financial sanctions imposed are characterized by their unexpected scale (concretely through the involvement of the EU), while Iran’s exclusion from SWIFT is a measure that was used for the first time in history and thus represents a new and innovative step.
The sanctions have been associated with an improvement of human rights into the direction of more democracy and the Joint Comprehensive Plan of Action, a.k.a. the Iran Nuclear deal. Econometric models for the Iranian economy find significant impacts of economic sanctions both on key economic variables (government consumption, imports, investment, income) and on two indicators of the political system that describe shifts in the autocracy–democracy dimension and in political competition and participation.25 The impact of an oil boycott on the Iranian economy is considerable: oil and gas rents are important drivers of the Iranian key macroeconomic variables and ultimately, of its political system. A reduction of oil and gas rents creates economic costs that act as incentives to move towards a more democratic setting. However, this effect is only significant in the first two years and turns negative after six to seven years, as adjustment of economic structures mitigates the economic and political impact of the sanctions while the long-term gains of compliance decrease during a sanction episode, illustrating that sanctions create a window of opportunity that closes as time passes by.

3.4 The 2014 US and EU Sanctions and the Russian Countersanctions (Annexation of the Crimea)

The EU and US response to the invasion of the Crimea was to impose travel sanctions, and freeze assets (targeted on one bank and thirty-three individuals). Russia reciprocally blacklisted US and EU officials. This was the start of a tit-for-tat pattern that resulted in comparatively stronger (enforced) Russian sanctions, highlighting the importance of the comparative vulnerability of Russia and the EU. Before the invasion of the Crimea, bilateral merchandise trade flows between the parties were more than 20% of Russian Gross Domestic Product (GDP) and three percent of GDP of the European Union. Although comprehensive sanctions would have a stronger economic impact in Russia than in the EU, the economic impact is by no means negligible for the European Union (Russia’s 2012 share in EU external trade was about 10%). Moreover, the EU sanctions on exports to Russia were enforced selectively, causing only minor disruptions while the Russians were able to enforce significant economic losses on the EU.26

Importantly, therefore, it is not just the power to inflict economic loss that counts, but also how and to what extent economic damage translates into political

25 Dizaji & van Bergeijk, supra n. 11.
change. Here the contrast between autocratic Russia and the democratic West is significant. This makes the Russian sanctions against the EU not negligible, especially in view of the fact that obviously much more internal coordination is necessary for the EU for the design and implementation of counter sanctions. Therefore, the EU’s choice to impose smart sanctions only may have reflected the costs of counter sanctions that Europe could suffer – although smaller than actually experienced by Russia – would convert more easily into political stress due to Europe’s more democratic nature.

Table 1  Summary Table of Sanction Case Characteristics

<table>
<thead>
<tr>
<th>Case</th>
<th>Trade Linkage</th>
<th>Oil</th>
<th>Speed</th>
<th>Financial</th>
<th>Autocracy</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s South Africa</td>
<td>57%</td>
<td>Embargo</td>
<td>Protracted</td>
<td>Banking crisis</td>
<td>3</td>
<td>divestment</td>
</tr>
<tr>
<td>1990 Iraq</td>
<td>45%</td>
<td>Boycott</td>
<td>4 days</td>
<td>100% asset freeze</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>2012 Iran</td>
<td>18%</td>
<td>Boycott</td>
<td>overnight</td>
<td>SWIFT-complete</td>
<td>7</td>
<td>over-compliance</td>
</tr>
<tr>
<td>2014 Russia</td>
<td>22%</td>
<td>Tit for tat</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2022 Russia</td>
<td>14%</td>
<td>US, UK</td>
<td>stepwise</td>
<td>piecemeal</td>
<td>1</td>
<td>divestment</td>
</tr>
</tbody>
</table>

Notes: Pre-sanction trade linkage is bilateral trade in percent of target’s GDP; autocracy ranges from 0 (no autocratic elements) to 9.
Sources: Polity 5, World Development Indicators, UNCTAD

Table 1, by way of orientation summarizes the characteristics of the cases. In combination with Figure 1, this allows the following observations:

1. Two cases (South-Africa and Iran) have a comparatively low ex ante probability of success based on pre-sanction proportional trade linkage and regime type (the autocracy score). The key to understanding their success is in the banking channel (debt-crisis and SWIFT sanctions) and the behaviour of the private sector (divestment and over-compliance).
The failure of the sanctions against Iraq underscores the importance of regime type and the need for a viable exit strategy – a diplomatic alternative for the target’s ruling decision-makers. Also, the case shows that some decision-makers cannot be influenced with economic hardship.

The 2014 sanctions against Russia illustrate the comparative vulnerability of the European democracies and their weakness in organizing comprehensive sanctions that bite.

4 PROSPECTS OF THE SANCTION REGIME AGAINST THE RUSSIAN WAR ON THE UKRAINE

The 2022 economic sanctions against Russia have been described by Western leaders and policy analysts as sanctions without precedent. That’s actually quite an exaggeration. Sanctions against the Iraqi invasion of Kuwait in 1990 froze immediately all foreign assets, and a total oil boycott was enforced with a military blockade. Sanctions against Iran in 2012 were also more comprehensive. Those sanctions for the first time (and thus unexpectedly), deployed the international bank payment system SWIFT: all Iranian payments were excluded. In the same vein claims to records regarding speed of implementation and country participation in the coalition of sanction-imposing countries are unfounded.

The sanctions also had precedents in another sense: the Western world has a long and sobering history of sanctions against the Soviet Union/Russia, such as the US grain embargo against the USSR (Union of Soviet Socialist Republics) invasion of Afghanistan in 1980 and export control and restrictions on technology during the Cold War. Neither of these cases was successful. Moreover, it is tempting to speculate that the weak 2014 sanctions may have reduced the credibility of the possibility of upscaling to broad-based sanctions by the EU. That is also why, in 2022, much more economic pressure will be needed – across the full range of economic interactions with Russia.

The Western world has learned little from the ineffective sanctions against Russia’s annexation of Crimea in 2014. Those sanctions did not work because they were smart and targeted and therefore predominantly symbolic. The sanctions have failed mainly because it is naive to think that financially hitting oligarchs and top officials represents a threat to President Putin. He is in control, and his threat to punish opposition carries much more weight for those who want to survive.

Moreover, Europe’s increasing energy dependency on Russia over the last decades could reduce the expectation that the EU would use comprehensive sanctions (Quentin Gallea, Massimo Morelli & Dominic Rohner, Power in the Pipeline, paper presented at the conference ‘Smart Sanctions: Theory, Evidence, and Policy Implications’ (18 Mar. 2022)).
Moreover, the signalling impact of smart and targeted sanctions aimed at the circles around Putin – while strong at the personal level – is limited for the broader population, especially in the context of the manipulation of Russian news by the Kremlin. Broad-based sanctions through their impact at large, are more apt to communicate to the Russian population that 2022 war on the Ukraine is in no way comparable to the 2014 annexation of the Crimea. Broad-based sanctions thus have a better chance to strengthen opposition also while the costs of the military intervention in itself are much higher than originally expected and are becoming increasingly clear to the Russian population.

The economic sanctions so far have not been directed towards Russia’s major source of foreign currency income, that is, a boycott of its energy exports by the

Figure 2 EU Targeted Sanctions Regarding War on Ukraine

Notes: Banks includes Bank of Russia (Central Bank)
European Union. Neither has an embargo on capital goods, intermediate products and transport equipment been imposed. At the time of writing, the EU sanctions package is admittedly more extensive than it was in 2014 (Figure 2, the package builds on and extends the measures in place since the Russian annexation of the Crimea).

With the 2022 package, however, the West is trying to hit a Russian economy that is both better prepared and more resilient. The sanctions during the Crimean crisis were imposed in a context where the Russian economy was more vulnerable to foreign economic pressure, but the Russians, unlike the Western world, learned from the sanctions following the annexation of Crimea. The possibility to escalate sanctions had more credibility and carried more weight in 2014 when EU-Russia bilateral trade amounted to 22% of Russia’s GDP – the latest pre-sanction number for EU-Russia proportional trade linkage is 14%. Russia also limited its dependence on the West in other areas, for example, because the Russian Central Bank developed the System for Transfer of Financial Messages (SPFS) as an (imperfect) alternative to SWIFT. All in all, Russia over the last decade increased its resilience by strategically reducing its dependencies on the Western world.

Given the increased Russian resilience, the increasingly autocratic nature of President Putin’s government, the credibility of his 2014 tit-for-tat strategy and the failure of European democracies to implement appropriate strong and broad-based measures, smart and targeted sanctions are unlikely to influence the Kremlin’s calculus. The European Union could only influence that calculus by restoring its reputation as a credible applicant of strong sanctions, including an embargo on capital goods and a boycott of Russian energy – with the side benefit that energy is an important source of income for the oligarchs.

Private sector activities may be more important to change the cost benefit evaluation of the Russian authorities, especially if the current trend of divestment by multinational corporations perseveres; the possibility that Russia will be unable to pay interest on outstanding foreign debt and the threat of a debt crisis also may add bite to a sanction package that is in itself both too little and too late.


29 Judged against the average sanction case this is still substantial and associated with an average success rate of 50%.

The sanctions against the Russian war on Ukraine are not ‘unprecedented’, and the current sanctions packet is not sufficient to realistically expect that they will work, also because sanctions against military adventures have a significantly lower probability of success. Moreover, the weak 2014 sanctions reduced the credibility of broad-based EU sanctions and/or the threat of scaling up targeted sanctions. Russia is also less vulnerable and better prepared than in 2014, increasingly autocratic, and there is no valid exit strategy. Divestment and the possibility of a Russian debt crisis could add sting to sanction regime also because these events convey the information to the Russian population that the military actions in 2022 extend far beyond the 2014 invasion of the Crimea, thereby countering the propaganda and media control by the Kremlin.

The Russian war with the Ukraine evokes memories of the Cold War, which had a major impact on East-West trade until the 1990s. We know from observation that relaxation between the great powers after the fall of the Iron Curtain led to an enormous increase in intra-European, and even global trade. The world and geopolitical relations changed radically: after the fall of the Iron Curtain, the two Germanys reunited, formerly centrally planned Central European countries became EU Member States and many countries, especially China, became major players in the world trading system, creating alternative supply and export markets. Still, the potential consequences of a frosty relationship between Russia and the West are significant, although the influence of political barriers to trade in the 2020s is much smaller than it was before 1990. More important than the economic costs are the political costs associated with the revival of Cold War thinking. It remains important to recall the lesson that Europe has successfully strengthened economic interdependencies to pacify former belligerent countries Germany and France. Supporting and affirming democracy and reducing political tensions with Eastern European countries is an achievement of the European integration process. Reducing interdependencies between East and West has a clear risk and can lead to diminishing international security. An autarkic Russia may be more dangerous and war-prone since the costs of conflict would be reduced. Also, for this reason, an exit strategy from sanctions should be on our minds. Recreating mutual benefits and integration needs to be on the agenda as an instrument to find a sustainable solution out of the current crisis.

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52 See e.g., Peter A. G. van Bergeijk, The Return of the Cold Trade War?, Voxeu.org (6 Nov. 2014), [https://voxeu.org/article/return-cold-trade-war](https://voxeu.org/article/return-cold-trade-war) (accessed 30 April 2022).