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War, sanctions, peace?

Peter A.G. van Bergeijk

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Abstract

Against the background of recent IMF forecasts that seem to imply that the Russian Economy has not been hit as hard as was expected by international institutions and academic modelling teams, this working paper provides context, showing the need to take the proper counterfactual into account. The paper discusses statistical problems (including the war paradox of National Accounts and the secrecy that both bias official data). Focussing on the success and failure rates of sanctions, the paper clarifies the need to distinguish economic impact and political success and argues that potential success and failure rates need to be compared to other available international policy tools. The paper discusses an alternative modelling approach for the mainstream economic forecasts. A family of VAR models takes both dynamic interactions between economic and political variables into account and enables a direct focus on two variables of interest: military expenditures and impact on the Chief Executive. A key finding is that economic sanctions influence both variables in the desired direction and thereby help to create a window of opportunity that, however, is closing after three to four years.

Keywords

Sanctions, Russia.

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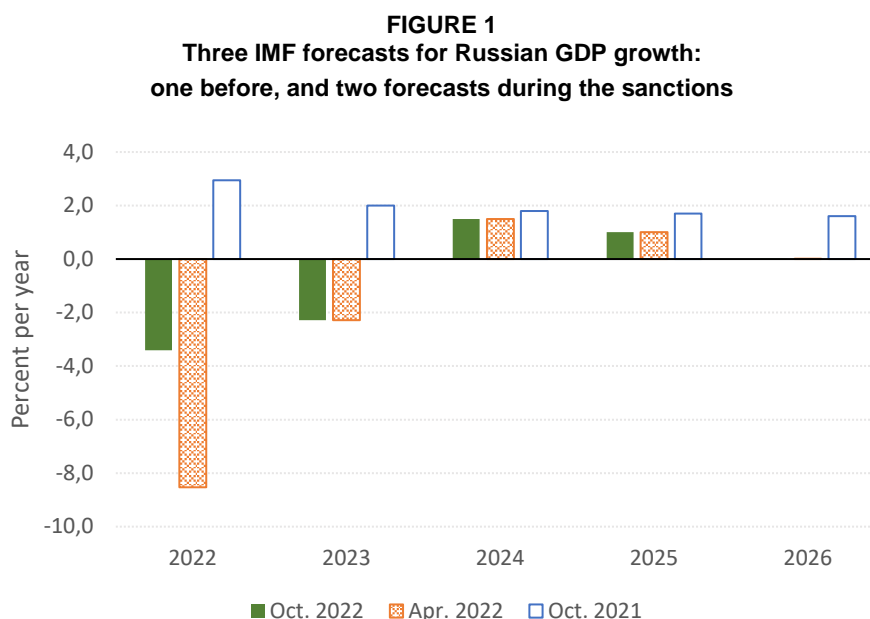
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War, sanctions, peace?

1 Introduction

In the international arena, economic sanctions are the last instrument available before the use of military force. Sanctions are the strongest step against another country short of armed conflict. Since the West wants to avoid the risk of a nuclear conflict with Russia, the choice to deploy economic sanctions is indeed quite logical. The basic idea behind economic sanctions is that boycotts, embargoes, capital restrictions and asset freezes deprive the sanction target from (some of) the benefits of international specialization and that this welfare loss is a strong incentive for the target to change its objectionable behaviour.¹

Currently, the most frequently asked question for international economists regarding the Russian war on the Ukraine is probably ‘why do the economic sanctions not work?’. That appears to be a quite relevant question. Consider Figure 1 that presents three forecasts for the growth rate of Russia’s Gross Domestic Product (GDP) that appear in the IMF’s biannual flagship publication *The World Economic Outlook*.



The forecast of October 2021 (white bars) predates the conflict: it is what according to the IMF would have happened when Moscow had not waged its war on Kyiv.² The most recent IMF forecast was published in October 2022

¹ See for a formal model and an overview of empirical studies Demena et al. (2021).

² It is not wise to use IMF numbers uncritically: both the accuracy and precision of IMF estimates have been criticized a lot. I use the numbers here to illustrate thinking about the impact of economic sanctions – so, not as an exact measure. For more on this issue, see van Bergeijk (2017) and section 3 below.

(solid bar in green). According to the IMF, the Russian GDP will contract by 3½ percent this year and by another 2¼ percent next year. Compared to the forecast of April 2022 (orange grayscale) the contraction is less disastrous as the IMF at that time predicted a 9 percent collapse for 2022. Hence, the impact of the sanctions seems much smaller than originally anticipated by the IMF. Moreover, the forecasted growth rates turn from negative into positive in 2024. So, the economic sanctions that from the start have been praised as ‘unprecedented’ do not seem to bite as hard as expected... and the war continues. Economists thus understand why they are asked the question on the impact of sanctions so often, especially since the IMF forecast was, as we will see, not exceptionally large among the many forecasts produced earlier this year.

This working paper provides more context to these widely circulating numbers. Section 2 shows the need to take the proper counterfactual into account (that is: to address the question what would have happened if Russia had not invaded Ukraine early 2022²). Section 2 also provides an overview table of recent forecasts. Section 3 discusses that economic statistics due to National Accounts conventions are biased against finding impact in the context of a sanctioned war economy and that secrecy may enlarge the data problems. Next the paper focusses on the success of sanctions. Section 4 clarifies the need to distinguish economic impact and political success and argues that potential success and failure rates need to be compared to other available tools. This section provides an overview of success rate by type of economic sanction and military intervention. Section 5 discusses an alternative to the economic forecasts. This alternative takes both dynamic interactions between economic and political variables into account and enables a direct focus on two variables of interest: military expenditures and impact on the Chief Executive of a country. A key finding is that economic sanctions influence both variables in the desired direction and thereby help to create a window of opportunity that, however, is closing after three to four years. Section 6 provides conclusions and some additional discussion.

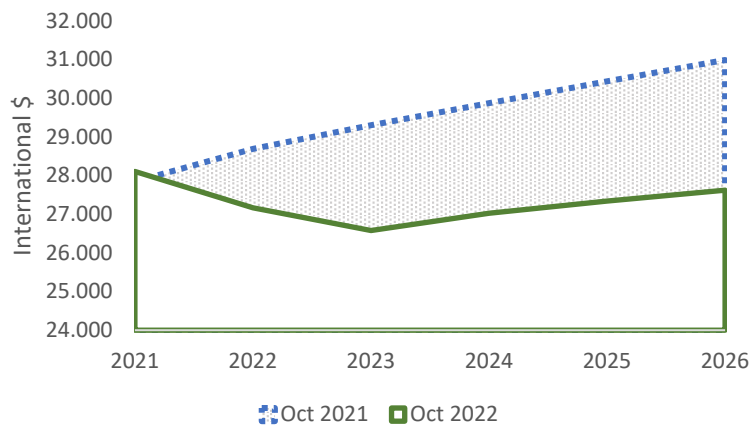
2 The need for a proper counterfactual

The focus on observed and predicted growth rates is a common source of mistake in the popular press. The first reason for the confusion is that the growth that ‘is’, is taken as the outcome of the economic sanctions, but the ‘is’ is meaningless without the ‘what could have been’, that is: what would have happened if these policy measures had not been imposed by the West. So, key in understanding sanction impact is that we ask ourselves a ‘what-if’ question: ‘What if the sanctions had not been imposed?’. This what-if question is the counterfactual. One could make this counterfactual wide ranging by considering the impact of non-sanctioning on the battlefield or perhaps even on further future expansion by Russia, but in order to keep the question manageable and answerable we will limit the counterfactual to the economic domain proper. Now let’s look again at Figure 1 with our what-if question in mind. The most obvious counterfactual is the October 2021 forecast of the IMF that predates the Russian invasion of Ukraine. The impact of the sanctions is the difference

between the October forecasts produced in 2021 (the white bars in Figure 1) versus 2022 (the solid green bars). Yes, the impact of the sanctions on the Russian economy in the IMF forecasts has been adjusted and is smaller than foreseen in April 2022, but the impact is larger than the reported growth rate and amounts to a bit more than 6% of Russia's GDP.³³ Next year (2023) brings an additional 4% loss according to the IMF forecasts. For a proper understanding of the economic impact of sanctions it is therefore crucial to make a comparison between the economy's growth trajectory before and after the imposition of sanctions.

The second form of error often encountered in the popular press is the assumption that a positive growth rate indicates a return to the *status quo ante*. A negative growth rate that turns positive, however, only signals that an economy is no longer shrinking and certainly not that the economy has recovered and does no longer suffer from the sanctions. By way of illustration Figure 2 reports the development of Russia's income per head after correction for inflation and differences in purchasing power. As before, solid green indicates the current (October 2022) IMF forecast; the dotted blue line is the forecast before the Russian war on Ukraine (that is the forecast in the October 2021 *World Economic Outlook*). It is directly clear that positive growth rates in 2024 and beyond are not sufficient for recovery and, moreover, the grey area that indicates the difference between the two forecasts is growing, implying a continuation of the welfare loss due to economic sanctions.

FIGURE 2
Per capita income (Russia, two IMF forecasts, constant prices)



Typically, the forecasts on the economic sanctions that the economic profession produced either properly report deviations from the long-run growth trajectory of the Russian economy or allow for the calculation of these deviations

³³ Of course, the size of the contraction has a real meaning as it indicates the extent of shrinkage of the Russian economy. The point here is simply that it does not show the impact of the sanctions.

(as we have done above for the IMF). Table 1 provides a summary of recent studies. The economic profession responded amazingly fast to the challenge of a significantly changing context by providing quickly a great many forecasts with a multitude of models. The numbers differ, reflecting both different assumptions of the strength of the sanction measures as well as the use of different (combinations of) modelling strategies. To the innocent bystander the range of predictions is often a bit confusing, but in this case the agreement on the range of the outcomes (roughly from five to fifteen percent with a median of circa ten percent⁴) is quite striking.

TABLE 1
Recent predictions of GDP loss due to sanctions

Table 1 Recent predictions of GDP loss due to sanctions

Study	Russia	Germany (G)/Europe (E)	Method
Baquee et al		-0.3% to -2.2% (G)	Input Output/ multi-sector multi-country
Chepeliev et al		-0.3% to -0.6% (EU)	ENVISAGE ¹⁾
Evenett and Muendler	-1.1%		cModel ²⁾
Felbermayr et al	-7% to -10%	-2.5% (Baltics)	CGE GTAP model ³⁾
IMF April 2022	-12%	-1.1% (EU)	Implied ⁴⁾
IMF October 2022	-6.3%	-1.2% (EU)	Implied ⁴⁾
Korhonen and Kortelainen	-10.6%	-0.7% (EU)	GIMF ⁵⁾
Langot et al 2022	-6% to -11%	-0.7% to -0.9% (EU)	Input Output/multi-sector multi-country
Mahlstein et al	-15% to -28%	-0.3% to -1.4% (G)	CGE GTAP Model
OECD		-1.4% (EU)	NiGEM ⁶⁾
Pestova et al	-13% to -15%		VAR
World Bank (2022 a,b)	-11%	-1.7% (EU)	Implied ⁷⁾
WTO	At least -5%	-1.5% (EU)	WTO Global Trade Model

Notes:

- 1) The Environmental Impact and Sustainability Applied General Equilibrium model is a computable general equilibrium (CGE) model designed to analyse interactions between economies and the global environment in which the energy sector plays an important role
- 2) cModel is a computational model developed by the Globalization and Prosperity Lab of the University of California
- 3) CGE model used in the Global Trade Analysis Project (GTAP)
- 4) This is the difference between World Economic Outlook forecast that were made before the conflict (October 2021) and the current Outlook.
- 5) Global Integrated Monetary and Fiscal Model is an adjusted general equilibrium model originally developed by the IMF
- 6) The National Institute Global Econometric Model maintained by the UK's National Institute of Economic and Social Research (NIESR) is a structural global macroeconomic model.
- 7) Implied by the difference between Global Economic Prospects forecast that were made before the conflict in January 2022 and the current June 2022 prospects

It is important to stress that the consensus does not mean that Russian GDP decreases by ten percent. The consensus is rather that sanctions enforce a ten percentage points deviation from the long-run growth path of the Russian

⁴ The clear exception in Table 1 is Evenett and Muendler (2022).

economy. As illustrated in Figure 2 that prediction still holds for the numbers of the October 2022 IMF forecast.

The fact that this consensus is based on work from different modelling teams both from academia and policy quarters indicates substantial robustness with respect to the (political) environment in which the teams operate and the kind of model that they used. Typically, the teams used operational models with which they were familiar. Policy institutions extensively use macroeconomic and applied general equilibrium models for forecasting purposes. This time modelling experience was also at hand in academia. The academic modelling teams had been using these models for related issues, such as decoupling of international value chains or environmental policies aimed at reduced use of non-renewable energy sources. The availability on short notice and the professionalism of such a great many models is unprecedented and clearly this response by the economic professions is an asset for discussions on the potential economic impact of the sanctions against Russia that was not available for earlier sanction cases.

Table 1 makes another important point: sanctions also bring a cost to the sanction senders, that is the group of countries that imposes the sanctions. Economic sanctions are not a free lunch for the sender because both target and sender have to forego the benefits of international specialization. As can be seen from the table the Russian economic loss typically exceeds that of the sender. (Note that although the table focusses on the EU; in a number of cases only the impact for specific countries was reported by the modelling teams). The intuition for this finding is that the same volume of bilateral trade between sender and target is much larger in terms of Russia's GDP than in terms of the EU's GDP. Most models, however, also control for industry structure and substitution effects that take longer to emerge and there are thus also other factors that have a bearing on the differential impact on sanction sender and sanction target. Importantly the short-term effects can differ from the picture that emerges in Table 1 as acute scarcity and bottlenecks in the energy sector can drive up short-term costs for Europe. Also, for this reason, it is important to complement the consensus view with an analysis that deals with the dynamic development over time (see Section 5)

3 Economic statistics in a context of conflict

It is important to first clarify other reasons that may bias the reported impact of economic sanctions. Official statistics are one of the first victims of wars since economic health is an important determinant of the capacity to wage a war. It is rational to hide the costs of conflict from public opinion and foreign intelligence and to conceal economic assets including details on supply lines and sanctions evaders. This means, first of all, that we can expect significant distortions of the economic statistics of all parties involved in conflict, be it right out war or economic warfare.⁵ In this case, that in a sense concerns the former Soviet Union, the tradition for distorting statistics goes back a long way in history as

⁵ See, for example, Baldry and Dollery (1993) and van Bergeijk (1995a,b).

many central planning failures were hidden from the population and observers in other countries. The latter aspects of the unreliability of statistics have been well recognized and moreover the bias (upward reporting of GDP numbers) tends to be stronger in autocracies than in democracies.⁶ However, even in the absence of strategic data opaqueness we must consider that the economic numbers do not tell the whole story due to the fact that we are dealing with a war situation.

One important problem with GDP in the war economy is that it is a perverse measure of economic impact and economic welfare. The destructive creation of weapons by National Accounting conventions generates income, and this provides a cushion in the GDP numbers. Russia is producing rockets and grenades, and this directly enhances GDP although it does not create anything of value. Significant weapons production drives out civilian production and if the increase in the military industrial complex exceeds the civilian loss, GDP rises while the country has less goods to invest and consume than before. This problem is exaggerated by some of the rules that statisticians use to report on the economy. By convention of the National Accounts all military equipment is consumed at the moment of production or purchase, unlike, for example, machines and factories that are depreciated over many years. Infrastructure in contrast exists by the same conventions ‘for ever’. There will be wear and tear, but that is reported as maintenance. On the battlefield one can observe the ‘war paradox of National Accounting’. The non-existing tank destroys a for ever existing bridge and the effect is zero by virtue of the statistical conventions. Relatedly and also by convention, a reduction of Russian imports due to sanctions in the short-term increases measured Russian GDP. In the somewhat longer-term, however, production will come under downward pressure as inventories of raw materials, spare parts and intermediate goods run down thus creating supply side bottlenecks.

Finally, we need to consider delays. Goods that have been shipped before the imposition of an embargo or a boycott, for example, will sometimes be underway for considerable time and arrive at their destination sometimes months after the imposition of sanctions. In this case, moreover, the policy response itself is a source for significant delay. It was not until the sixth EU sanction package that sanctions started to bite the macroeconomy significantly. Up to that point in time, the only really important measure had been the freezing of the foreign currency holdings of the Russian Central Bank that effectively immobilized Moscow’s war chest, but other measures were either applied at the level of selected individuals and firms with insufficient coverage (for example, SWIFT sanctions initially aimed at a rather limited share of the Russian Banking sector). From this perspective, sanctions simply have not been applied long enough to expect to see their full impact (van Bergeijk 2022).

The conclusion of this section is that the economic impact of the sanctions may very well extend beyond what is suggested by official statistics and that, moreover, negative Russian growth surprises in 2022 and 2023 certainly cannot be ruled out.

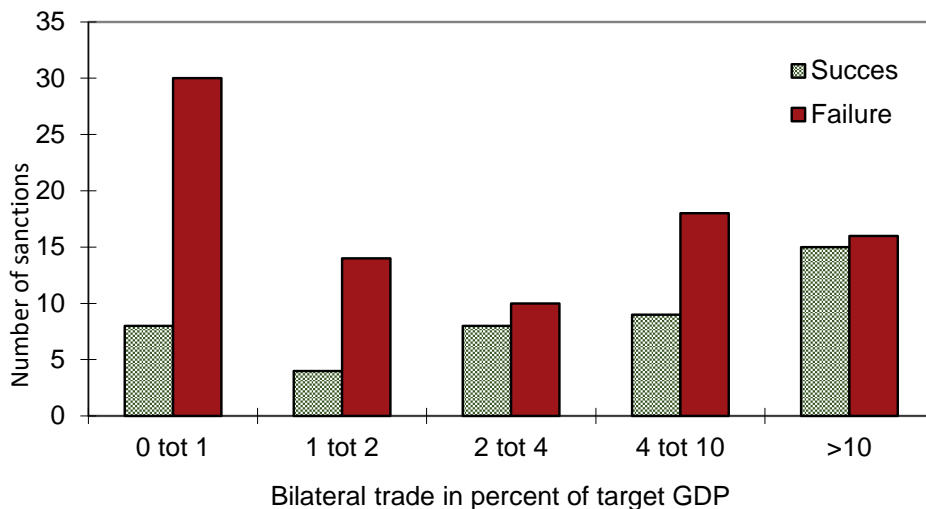
⁶ See Martinez (2022).

4 Sanction success

In the end sanctions are not about imposing damage but about changing behavior. Sanctions that are effective in the sense that they create a lot of damage must be considered a failure if they do not change the target's behavior. The translation of economic damage into behavioral change is not straight-forward due to several aspects of the sanctioning process.

First, sanctions are characterized by uncertainty regarding implementation, because a sanction that bites will hurt both the sanction target and the sanction sender that both have to forego the mutual benefits of international trade (compare Table 1). Given these costs, senders may want to avoid the welfare loss of sanction application so that sanctions remain in the threat stage only. This fundamental uncertainty means that the credibility that the sanction will be effectively applied after a threat is a key determinant for behavioral change, that is: success. Indeed, sanctions application may be necessary to restore credibility.⁷ Second, sanctions can create rally-around-the-flag effects: external threats may bolster popular support for the regime. Relatedly, third parties and sanction busting activities may erode sanctions.⁸

Figure 3
Recent predictions of GDP loss due to sanctions



The low success rate of economic sanctions has drawn attention from many observers and often leads to the erroneous conclusion that sanctions do not work. Typically, this is a fallacy of hasty generalization that ignores the fact that sanction cases that do not meet the requirements for potential success should fail. For example, when pre sanction trade between sender and target is small (*i.e.* less than one percent of the target's GDP) then the failure rate is 80% while

⁷ See van Bergeijk (1994) and van Bergeijk and van Marrewijk (1995).

⁸ See Early (2015) and Dizaji (2018).

at a substantial level of pre sanction trade (more than 10% of the target's GDP) the chance that a sanction succeeds becomes slightly better than fifty-fifty (Figure 3).

Empirical research on the determinants of success and failure of economic sanctions has identified a number of factors that are instrumental for case selection, *i.e.* to determine *ex ante* if sanctions in a specific case could in principle succeed. In general, the research strategy has been to estimate quasi-reduced form equations without much consideration of conceptual measurement issues and/or theoretical backing linking a measure of sanction success to a set of explanatory variables and using one of the large sanction data bases in combination with secondary data for socio-economic and political variables. The sanction mechanism was approached as a black box, although science has progressed and uncovered many mechanisms such as⁹

- imposition versus threat,
- actual versus potential costs,
- sanction risk versus trade uncertainty,
- the political system (democracy versus autocracy) or
- deterministic versus strategic decision-making.

Moreover, the literature increasingly recognized that culture and socio-economic factors also are important components of the sanction mechanism. Cultural factors are important for both the sender's choice to use economic sanctions and the target's response (*i.e.*, the outcome of economic sanctions) while developments in the informal sector may be drivers of sanctions outcomes, especially in democracies.¹⁰

Unfortunately, the multitude of theories on the determinants and success and failure of sanctions has led to a great many – often contradictory – hypotheses that both seem to be supported by reported empirical findings and at the same time do not resolve the debate on economic sanctions.¹¹ Despite (or perhaps due to) the myriad models only a few policy recipes have statistically strong and robust support¹²:

- (a) **'No trade, no effect'**. Sanction damage and pre sanction trade linkage are associated with political success of implemented sanctions.
- (b) **'Smash the hammer instead of turning the vice'**. Sanctions should be applied quickly and be as strong as possible from the start. The longer it takes before the sanctions are fully in place the lower the probability of success.

⁹ See in order of appearance: Afesorgbor (2019), van Bergeijk (1989) Golikova and Kuznetsov (2017), Kaempfer and Lowenberg (1988), van Bergeijk (1999) and Tsebelis (1989).

¹⁰ See Driscoll et al. (2010) and Early and Peksen (2020).

¹¹ See van Bergeijk (2019).

¹² See Bapat et al. (2013) and van Bergeijk and Siddiquee (2017).

- (c) **‘Unilateral sanctions suck’**. The involvement of international institutions is associated with larger sanction success.
- (d) **‘Don’t overreach’**. The higher the aim or goal of sanctions the lower the probability of sanction success.
- (e) **‘Sanctioning democracies works better than sanctioning autocracies’**.

On a more optimistic note, however, it is important to note that the glass is half full rather than half empty. Five robust and significant policy lessons, after all, is not a bad score and certainly worth re-iterating because many of these lessons are often ignored. There is a second reason to avoid sanction scepticism. Typically, the success rate of sanctions is not compared to other available instruments. A low sanction success rate does not preclude that sanctions could work better than other instruments that could be used to coerce behavioural change.

Table 2
Success rates of selected foreign policy instruments

Activity	Study	Period	Success rate
Targeted UN sanctions	Biersteker and Hudáková	1991-2020	10%
Sanctions US	Schneider Weber 2019, 2020	1989-2016	30%
Comprehensive sanctions 1946-89	Van Bergeijk 2009	1946-1989	34%
Aerial bombardment	Horowitz Reiter 2001	1917-1999	36%
Comprehensive sanctions 1990-2002	Van Bergeijk 2009	1990-2002	40%
Sanctions UN	Schneider Weber 2019, 2020	1989-2016	41%
Sanctions full success	Kirilakha et al. 2021	1950-2019	42%
Sanctions EU	Schneider Weber 2019, 2020	1989-2016	46%
Major Power War (Russia)	Sullivan Koch 2009	1945-2003	50%
Sanction threats	Morgan et al	1945-2005	56%
Deterrence	Huth Russett 1984	1902-1979	57%
Sanctions partial and full success	Kirilakha et al. 2021	1950-2019	58%
Major Power War (UK)	Sullivan Koch 2009	1945-2003	79%

David Baldwin in developing the ‘Logic of choice’, argues that choice requires the consideration of all policy alternatives (including the null alternative of inaction). In foreign policy these alternatives comprise the use – possibly in different degrees – of (combinations of) military force, positive and negative sanctions and other diplomatic activities that strengthen thrust or express discontent.¹³ Table 2 is a first rough attempt to synthesise this manner of knowledge.

The table reports very heterogeneous activities, is based on different studies with dissimilar methodologies and research periods. With this caveat in mind, it is still possible to derive some stylized facts from Table 1. Comprehensive

¹³ Baldwin (2000); see also van Bergeijk (1987).

macroeconomic sanctions are successful in about a third of the cases, more or less comparable to the success rate of aerial bombardment. Military deterrence is about twice as successful and wars by major powers are also in the high end of the reported frequencies in Table 2 (Russia scores low in comparison with other major powers, but also here armed conflict has a higher rate of success). The table illustrates that targeted sanctions only occasionally work (this is relevant in view of the EU sanctions against Russia that initially predominantly relied on sanctions against individuals and individual firms) and that – due to increasing trade linkage in the era of globalization – the success rate of sanctions has increased in recent decades.

The conclusion of this section is that the EU sanctions against Russia could be successful as one of the pre-requisites is being met by Russia’s trade linkage share of 14% in 2021 suggesting that significant damage can be imposed. The increasingly autocratic nature of the regime of Mr. Putin as well as obvious rally around the flag effects inside the country caution, however, against too much optimism.

5 Modelling sanction dynamics

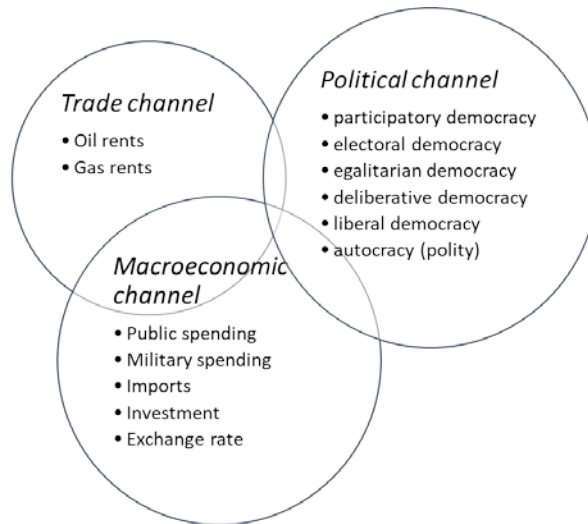
The potential to deliver substantial damage is a necessary but by no means a sufficient condition for sanction success. Recently Sajjad Dizaji and I developed a set of VAR models to investigate simultaneously how macroeconomic and political variables interact following a boycott of Russian oil (modelled as a reduction of per capita oil rents) and how these factors (that co-determine the impact of sanctions) develop over time.¹⁴ Sanction cases are often determined by country and case specific characteristics. Therefore, our approach is based on country modelling and rather than enforcing a general statistical pattern or the *a priori* theoretical restrictions of a structural model we use a ‘theory-free’ stochastic process and allow for the possibility that the effects of sanctions due to the evolution of economic and political variables differ over time.

The aim of this modelling exercise is not to provide a forecast of the economic developments (as the studies in Table 1 aim to do) as this would involve consideration of the repercussions on the world economy, the exact timing and size of the sanction measures as well as countervailing Russian policies (such as capital restrictions, interest rate policies and counter sanctions). Indeed, our goal is much more modest as we aim to simply provide a numerical context that enables us to evaluate how economics and politics interact over the trajectory of an energy boycott of Russia. Our research strategy is based on a large family of VAR models with differing selections of variables from the trade channel, the macroeconomic channel, and the political channel, respectively (Figure 4). Estimating a large family of models is important to check if the results depend on the specification and in particular the measurement of the political variable. The key common finding of these models regards economic and

¹⁴ Van Bergeijk and Dizaji (2022). Earlier we developed and applied this approach for the case of sanctions against Iran (Dizaji and van Bergeijk, 2013).

political adjustment: in the medium-term sanctions shift the system towards less autocracy but in the longer term the impact is the opposite.

Figure 4
Three channels in the family of VAR models

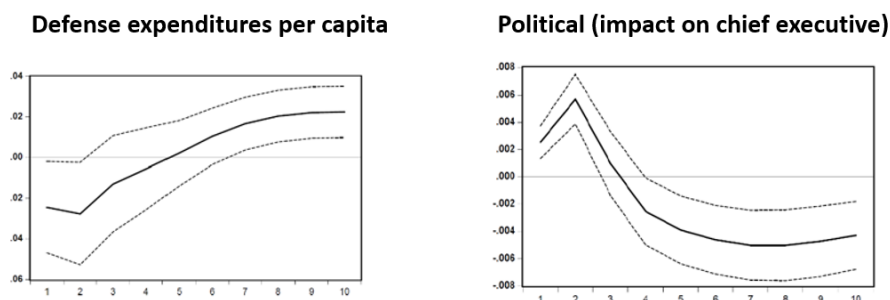


It should therefore be clear that the VAR models only say something about the direction and its statistical significance of macroeconomic energy sanctions. These models allow neither exact predictions nor indicate whether the sanctions will be successful but show if the sanctions contribute to reaching their goals. So, the models tell us something about the direction of the influence and about the time profile of that influence. Figure 5 reports results for two variables of special interest: defence expenditures and political impact. The dotted lines are reporting the confidence intervals.

As to defense expenditures (lefthand panel) the Impulse Response Function indicates that per capita military expenditures are initially under downward pressure. This effect is statistically significant in the first two years of application. However, after seven years the effect is the opposite. As to the political impact (right hand panel) we see a similar picture. Impact on the Chief Executive of Russia is significantly positive in the first three years, but from then on is on a downward trajectory and that negative influence turns statistically significant in the fifth year of sanction imposition.

As alluded before, the findings should not be interpreted as predictions, but rather as a numerical assessment that establishes that the boycott of Russian oil and gas meets a *necessary* condition for sanction success. The model results show that the boycott initially both indirectly and directly contributes towards moving the Russian political system away from autocracy.

Figure 5
Selected impulse response functions



The modelling exercise does not demonstrate that the sanctions meet a *sufficient* condition for success. It has been argued by others – often on good grounds – that sanctions against Russia are less promising because of (a) its autocratic system, (b) its opportunity and ability to adjust (c) the continuation and in some cases intensification of oil trade relations with countries that do not participate in the boycott measures and (d) the weak 2014 sanctions that reduced the credibility of broad-based EU sanctions and/or the threat of scaling up targeted sanctions. However, even under these conditions a boycott of Russian oil contributes to behavioral change. Most important, the impact of sanctions on the political system is strongest in the second year of sanction implementation and after that their impact wanes off until the impact turns insignificant in the fourth year. This means that sanctions do indeed create a window of opportunity in this case, but also that this window closes in the medium to long term.

6 Conclusions, caveats, and comments

Moskov's warfare on Kyiv arouses retentions of the Cold War, that massively impacted East-West trade until *Glasnost* and *Perestroika* broke the Iron Curtain. Detente had a huge positive impact on intra-European trade, and even at the world level. Change was radical: the two Germanys reunited, the formerly centrally planned countries in Central Europe became Member States of the European Union and many countries, especially China, became major players in the world trading system, creating alternative supply and export markets. In the current context the potential consequences of a frosty relationship between Russia and the West are significant, although the influence of political trade in barriers is much smaller than it was before 1990.

More important than these economic consequences are the political costs of New Cold War thinking. It remains therefore crucial to take the lesson at heart that the European Continent successfully used economic interdependencies to pacify Germany and France. Supporting and affirming democracy and reducing political tensions with Eastern European countries is one of the success stories of the European integration process.

From this perspective reducing interdependencies between East and West has clear costs as it can actually lead to reduced international security. An isolated Russia may be more dangerous and war-prone, basically because the costs of

conflict would be reduced if economic interaction is zero. Hence, an exit strategy from sanctions should already now be on our minds. From a longer-term perspective recreating mutual benefits needs to be on the policy agenda in order to find a sustainable solution.

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