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What Led To The Russian Sanctions And Their Failure?

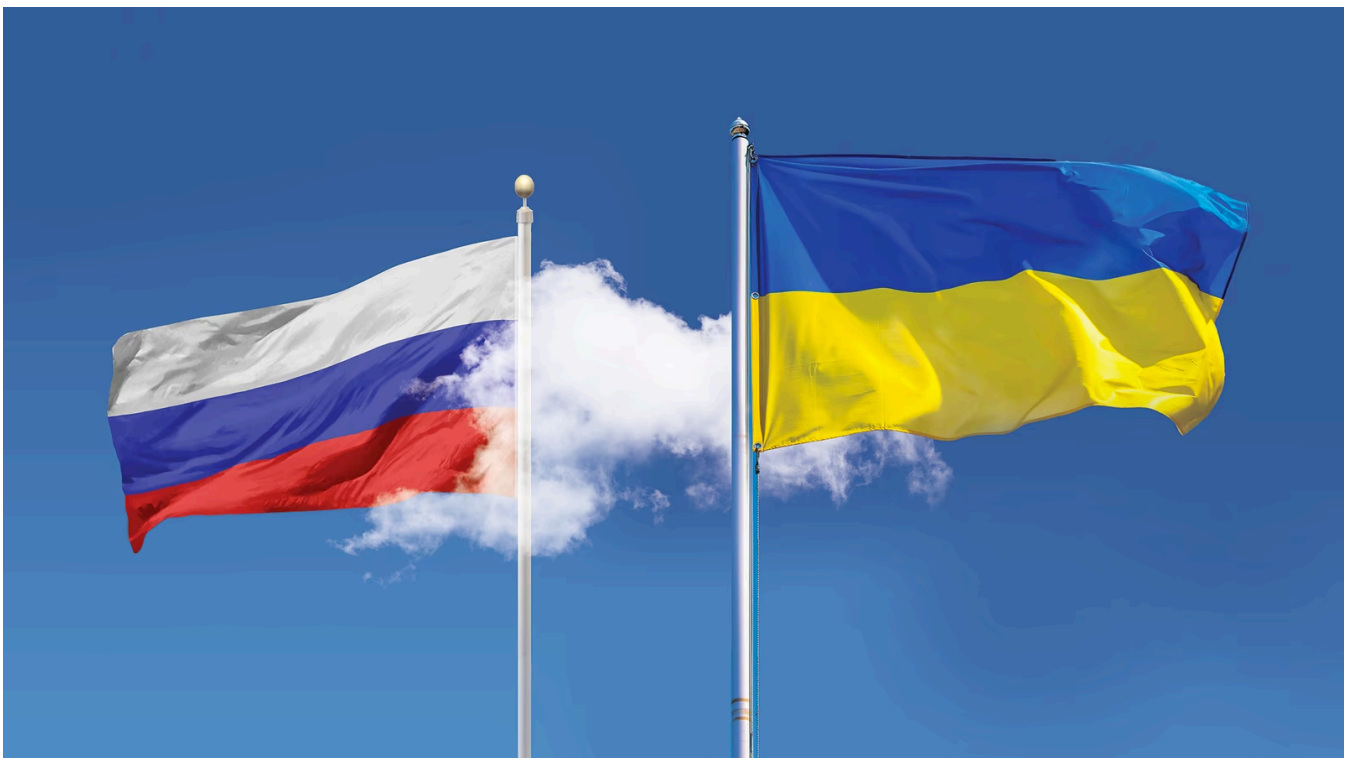


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1. Introduction

Russia has experienced a challenging relationship with other countries and international organizations in recent years. Due to its role in the Ukraine crisis, concerning e.g. the conflict around the Crimean Peninsula (Bebler, 2015), and meanwhile war (Vorbrugg & Bluwstein, 2022), many countries (including mainly the U.S. and countries from the E.U.) have imposed sanctions on Russia to exert political pressure and wishfully influence the country's behavior. The issue of Russia sanctions is of great importance as it not only affects relations between Russia and other countries, but also has an impact on the global economy. (Mbah & Wasum, 2022; Orhan, 2022)

The sanctions against Russia by the EU e.g. began back in 2014 and are still in place today (European Council Timeline, 2023). These sanctions impact various aspects of the Russian life, from the economy to cultural and social spheres (Shamina et al., 2022). Economically, they have restricted Russia's access to Western financial markets what led to a decline in foreign investment, to a decline in Russian exports and further trade restrictions. (Mahlstein et al., 2022). Furthermore on the the social side these sanctions also limit cultural exchanges and make travel much more difficult (Müller, 2022).

The question that arises is whether the sanctions can have their intended effect and induce Russia to change its behavior. Not least because these sanctions also have a major impact on the international political and economic landscape and the situation in Russia is suitable for drawing conclusions for future sanctions even beyond the Russian-Ukrainian conflict. To answer this question, an in-depth analysis of the geopolitical and economic dynamics between Russia and other countries is needed.

In light of this, we will take a closer look at the sanctions and try to answer a number of questions: Who was involved in the sanctions and how do they exactly look like? How it has affected the Russian economy and people's lives? What policy measures have been taken to mitigate the impact of the sanctions? And finally, we will examine how these sanctions are performing and weather or not they are an effective way of trying to change Russia's behavior.

2. Who was involved in the sanctions?

As mentioned above, the main actors that have imposed sanctions on Russia include, first and foremost, the United States and the European Union (EU). The U.S. imposed its sanctions in 2014 due to Russia's annexation of the Crimea and support for separatists in Ukraine (U.S. Department of State I, 2023). The EU soon followed suit and also imposed sanctions on Russia for its role in the Ukraine crisis (European Council, 2023). Over the years, other sanctions have been added, culminating so far in the outbreak of war in Ukraine. (European Commission, 2023)

In the course of tightening, other countries such as Canada, Australia, and Japan or Switzerland have also imposed sanctions on Russia. Switzerland even went so far as to break its neutrality in the financial sphere for the first time, freezing Russian funds and no longer giving sanctuary to Russian oligarchs (Tamás, 2022). In total, there are more than 40 countries that already have imposed sanctions against Russia (Funakoshi et al., 2023). But it's important to emphasize that the nature and intensity of sanctions vary from country to country.

Interestingly enough, not all countries have imposed sanctions on Russia. Some countries, particularly those with close ties to Russia, have refused to impose sanctions or have kept them to a minimum. This list of countries includes e.g. China and also some African countries. Africa, for example, is trying to maintain a kind of neutral position (Cascais, 2022) and in the case of China, Russia has been cultivating ever better ties ever since the sanctions began in 2014 (Stent, 2020), so that this partnership was to be expected. Therefore it should be noted, that the sanctions against Russia were imposed by a variety of actors pursuing different goals and interests.

3. How do they look like?

In the case of the EU these sanctions are impacting a wide range of economic sectors and businesses but were also in some forms political sanctions. According to the European Council, "there are 1 473 individuals and 205 entities subject to an asset freeze and/or a travel ban because their actions have undermined Ukraine's territorial integrity, sovereignty and independence." (European Council, 2023, Einfrieren von Vermögenswerten und Reisebeschränkungen).

From an economic point of view, it is possible to identify a number of sectors that were, for better or worse, the most affected by the sanctions. These are, first and foremost:

1. The financial sector
2. The energy sector
3. The defense sector

In the financial sector, as already explained, sanctions have restricted Russia's access to Western financial markets and made it more difficult for Russian banks and companies to access foreign funding. This has led to an increase in interest rates, a decline in the ruble, and a loss of shared technological knowledge. Sanctions have also denied Russian banks and companies access to certain financial services and payment methods like SWIFT. This exclusion ultimately leads to Russia's exclusion from the international financial system, as the system options that remain are no longer profitable. (Sultonov, 2020; Girardone, 2022; Liadze et al., 2022, ZDF, 2022)

In the energy sector, sanctions have also made it difficult for Russian oil and gas companies to access Western markets, technology and know-how. This has led to a decline in oil and gas production in Russia and increased price pressure on global markets. Probably the best-known player in this market is the Russian state-owned company Gazprom. It is the largest gas producer and supplier in the whole of Europe. Despite the sanctions, Gazprom continues to have a significant share of the European gas market and demand for Russian gas remains high. Gazprom has also increased its efforts to export to other countries and develop new sales markets. A big problem for Gazprom however was the fact that the sanctions have delayed construction of the Nord Stream 2 pipeline, which would allow Russian gas to be transported directly to Europe. The U.S. has imposed sanctions on companies involved in the pipeline and is also asking European countries not to import Russian gas. Therefore the sanctions have also affected prices in the European gas market heavily. The uncertainty about the availability of Russian gas has led to a rise in prices and increased demand for alternative energy sources such as renewables also to become independent of Russian gas and fossil fuels in general. But all in all, it is questionable to which extent Russia's energy sector has been significantly damaged by the sanctions, especially in comparison to the one of the EU. There are already studies that would suggest that the sanctions have not caused any major problems for the Russian economy in terms of the energy sector, although it changed a lot. (Siddi, 2020; Chen et al., 2023; Huynh et al., 2022; Kardaś, 2021)

With Russia remaining the world's second largest arms exporter, sanctions of course have also restricted Russia's access to Western technology and know-how in terms of defense and made it much more difficult to export weapons and military equipment from Russia. Not least because the Russian defense industry remains heavily dependent on parts and components imported from the West and "in hopes that this will decrease Russia's ability to wage war and weaken its military-industrial complex" (US Department of the State II, 2023, Sanctioning Evasion Network Supporting Russia's Military-Industrial Complex). This has hurt Russia's defense sector, which has traditionally been an important export sector for Russia. And especially in view of the fact that it is basically an armed conflict by now and behind the armament there is not only the warlike aspect as well as the monetary one, the restriction of the armament industry in such a case is indispensable. However, in view of this, Russia seems to be setting up their arms industry with new partners from Asia like e.g. China, which could pose a whole new geopolitical threat. (Gregova et al., 2021; Rácz et al., 2023; Carlson, 2022)

4. The Russian reaction

Russia naturally responded to the sanctions with countermeasures. In addition to domestic measures to ensure the stability of its country, Russia then imposed sanctions on a wide range of countries. These include the exclusion of the sale of certain goods to these countries in form of e.g. a food embargo, the closure of airspace to Europe and the U.S., the seizure of aircraft still there, and sanctions against individuals. Economically, Russia reacted primarily to the sanctions by trying to diversify its economy even further and to position itself more nationally. In addition, trade relations with Asian countries were also promoted. But not only the economic relations were promoted but also the political ones. In principle, with all countries that do not participate in the sanctions. In addition, Russia has also used propaganda to prepare its population for the sanctions and created a narrative in which the West is the bad guy (Fischer, 2015; Reuters, 2022; Bagheri & Akbarpour, 2016).

In view of these reactions, Russia seems to have already assumed a very high risk from the sanctions. However, the extent to which the sanctions have actually affected the Russian economy and political landscape and whether the sanctions reached their objectives remains quite controversial.

5. How are the sanctions performing?

Unfortunately, it must be said that it is difficult to accurately assess the performance of the sanctions. However, it can be said with relative certainty that the sanctions did not necessarily have the effects and consequences envisioned by the U.S. or the EU. Not only because Russia has not yet withdrawn or made similar overtures, but also from an economic point of view, the sanctions can definitely be considered a failure for the time being, as the Russian economy managed to stay quite stable last year and has already a positive forecast for the next year. (Viksnins, 2023)

"Early predictions during 2022 suggested Russia's economy was tanking and headed for collapse, with some experts arguing the country's gross domestic product (GDP) would fall 7-8% in one year. In reality, there was only around a 2.5% decline. This year, the IMF forecasts that GDP will grow by an anemic 0.3%."

- (Viksnins, 2023, second part)

In contrast to the economic growth of one year or the short-term effects, there are of course also long-term effects that are difficult to assess, which may only unfold their impact over the course of several years and weaken Russia massively. It therefore remains to be seen how the sanctions will develop, what innovations will be added to them, and what the long-term consequences of the sanctions will be.

6. Why were sanctions a failure?

So despite the extensive sanctions and contrary to expectations, Russia has been able to maintain much of its stability and resilience. Let's have a look at the possible reasons why the sanctions have not affected the Russian economy as much as was initially expected:

- **Diversification:** The Russian economy is quite diversified and includes besides the energy or defense sector also industries such as construction or chemical products. This has helped to ensure that the economy has not been as severely affected by sanctions, as the impact on a particular industry or company has been cushioned to other sectors. (Likhacheva, 2020, Statista, 2021, Bajpaj, 2022)
- **New trading partners:** Russia has as already mentioned increasingly looked for new trading partners, particularly in Asia. In doing so, Russia has been able to open up new markets and reduce its dependence on Western countries. (Rutland, 2021)
- **Loyalty:** A large number of oligarchs, companies and also politicians remain loyal to Russia and thus prevent the collapse from within the country. (Rutland, 2021)
- **Increased efficiency:** Although this may sound strange at first, but the sanctions may have also helped many companies in Russia to increase their efficiency in order to reduce their costs and become more competitive.

So all in all, there are a variety of factors that have contributed to the fact that, despite the sanctions, the Russian economy and country has been able to stay stable. Therefore one could consider them a failure.

7. Conclusion

So although the sanctions have hurt Russia on some levels, the country's resilience and the factors mentioned above have prevented the sanctions from affecting Russia as much as was initially expected. The analysis of Russian sanctions shows that despite their imposition by a wide range of actors and their objective of weakening the Russian economy and exerting political pressure, they were ultimately unsuccessful. Which, as we found out, is primarily because the sanctions have not brought the hoped-for weakening of the Russian economy that they were supposed to. This is primarily due to Russia's diversification, new geopolitical and economic partnerships, as well as a high degree of loyalty among the Russian population and a new level of competition.

Purely systematic the failure of the sanctions envisaged for Russia also means that other sanctions planned for the future may not seem as strong. Why would such measures work with another country if not with Russia? However, it has to be sad that Russia's independence makes it a very special case, and it remains to be seen to what extent the sanctions around Russia will really be compatible with other international sanctions.

Only time will tell how the effects of the sanctions will behave in the long term, and what new ones will be added, but these prospects do not look too promising either. Accordingly, a different strategy is probably needed when it comes to influencing Russia, because the methods used so far have not proven to be particularly helpful. Russia could find a more or less adequate answer to each of the presented measures, which could make one question the choice of sanctions or steps. After all, such sanctions on such a level are also an obstacle to our own development. They always prevent cultural as well as economic exchange and thus have a very great impact on the society itself. We can only hope that the conflict will be resolved as soon as possible, or that it will lose its intensity, in order to protect all the people who suffer from the conflict and from the sanctions imposed by the West, which, apart from private oligarchs, often have nothing to do with the conflict itself.

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