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Will economic sanctions work?

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Several Western initiatives aim to change Russia's policy and involvement in Ukraine. These include economic sanctions. Russia has responded with a ban on the import of Western goods. The combined sanctions involve less free trade and economic losses for both Russia and the West, albeit asymmetric in Russian disadvantage.

Last time the West imposed an economic boycott of Russia was when the Soviet Union still existed. The American grain embargo in the 1970s was an effort during the Cold War to damage the Soviet economy. The ban on exports of equipment for the construction of the Siberian gas pipeline in 1982 was introduced in the interests of Western security. The Soviet Union was poorer than Russia is now and was at the time about to build itself up as a major exporter of natural gas to Western Europe, in addition to its oil exports. Energy exports' share of earnings of Soviet hard currency was about 80 percent. Sanctions aimed at the food and energy sectors were logical if the goal was to weaken the country's economy and political stability.

However, the Soviet Union did not change much because of the sanctions. The gerontocratic system and the Cold War remained. Under the grain embargo, Argentina greatly replaced the U.S. as exporter, against strong protests from American farmers. Under the gas embargo it was a political divergence between Western Europe and the United States about how much problems gas import dependency actually created, and several European countries wanted to have Soviet energy to diversify from other unsafe energy sources. The companies that lost contracts were not compensated, which created conflict within the West.

The lesson was that the success of economic sanctions mainly depends on three issues:

- Competing countries representing alternative sources should join the sanctions to make them work.
- Individuals, businesses and others who have to take the burden of an economic boycott should be willing to do it, and preferably be compensated.
- It is not always easy to predict the response to countries that are vulnerable to economic pressures. The reaction may be that they are softer, but also harder. An external enemy usually also creates stronger domestic cohesion.

The economic sanctions worked poorly at the time as instruments for economic warfare of one or more of these reasons. In the longer term only a strategic embargo of technological exports for military use was agreed upon (the COCOM rules).

The elements of economic warfare in current sanctions appears to be a degree of a lose-lose game for the same reasons. In addition, Russia is much more than the Soviet Union was, involved in international trade. The export ban is met with imports ban in boycotting circles. Hence, a fourth criterion for success may now be added:

- Sanctioning countries should not be too dependent on the country that is the target of sanctions.

Thus, it is uncertain to what degree economic sanctions are leading to positive changes in Russian policy, as seen from the West. It seems unlikely that Russia will withdraw from the Crimea or end their support for the rebels in Eastern Ukraine as a result thereof. There is also a question of how useful it is to irritate an angry bear, and strengthen anti-Western sentiments in Russia.

It is a hope that sanctions can provide incentives for continued and genuine negotiations. There are not many policy tools to use between sanctions and military action. If negotiations under pressure, however, do not work, we are left with the question about how to react to the unacceptable behavior of an opponent who is partially economic integrated with the rest of the world, and this world is gradually becoming more multipolar. The Russian–Chinese axis is strengthened further.

Back to Soviet times the most important economic element to its final resolution was not sanctions, but the fall in oil prices in 1986. National budgets and the current account went with large deficits and in 1991 the entire system unraveled. Perestrojka and reforms came too late to save the Union.

Oil and gas exports still dominate Russian foreign trade. It financed more than half of the Russian state budget in 2013, oil revenues reached 191 billion dollars and gas revenues 28 billion dollar (RT.COM 17/04/2014). The main single economical element that can change the Russian economic situation is now again a significant fall in oil prices, now as before outside the direct influence of either party. ■

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