

Why Sanctions on Russia Will Backfire

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The American government tends to see sanctions against Russia as a low-cost policy that will eventually force Vladimir Putin to change course in Ukraine.

But this conventional wisdom obscures significant costs. Just as using drones to target suspected terrorists in Pakistan may have created more converts to Islamic militancy than it has eliminated, sanctions advocates haven't reckoned with the unintended consequences of the policy — consequences that could prove far more damaging to American interests than the Kremlin's aggression in Ukraine.

First, by employing commercial and financial sanctions on Russia for its actions in Ukraine, the United States — the architect and largest beneficiary of the globalized system of trade and finance — is exploiting post-Soviet Russia's integration into that system. Years of mutually beneficial progress that brought 140 million Russians into the orbit of global economic governance are now in doubt. Even if sanctions succeed in changing the Kremlin's behavior and are then lifted, the American objective of integrating Russia into the global economy has been fundamentally undermined.

Second, the use of sanctions broadcasts to others the strategic hazard of integrating into the American-led global financial system. Whatever the outcome

of Russia's intervention in Ukraine and whatever Mr. Putin's ultimate fate, other non-allies of the United States have now learned the lesson that hard-won institutional integration can be turned against those states that achieve it.

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Third, while there is no question that sanctions have inflicted real costs on the leading state-owned and state-affiliated companies and harmed Mr. Putin's cronies, the collateral damage to independent, private enterprise in Russia is incomparably worse. Businesses without political protection will see atrophied sales, no access to finance and an indefinite postponement of investment. Those enterprises that put the greatest store on Russia's integration with the European Union and the United States are being hit hardest. (One of us is an American investor and entrepreneur who has long been active in Russia and is witnessing this first-hand.)

The most daring Westernizers among Russia's small entrepreneurial class now find themselves without protection while state banks and energy companies continue to be shielded by their access to government credit obtained on favorable terms.

Fourth, by imposing sanctions on Russia when it was already falling into a downward economic spiral, Washington has given Mr. Putin a powerful political instrument to deflect blame for the consequences of his own baleful decisions in Ukraine. The Kremlin's model of "state capitalism" was already struggling and its performance would have been poor without the geopolitical upheaval that Mr. Putin has created. American sanctions arrived with perfect timing, providing him an alibi that he has skillfully used to confuse the Russian people about the cause of their economic woes.

Fifth, even if sanctions are carefully crafted to punish specific actors, ordinary

Russians perceive the West's sanctions to be directed against them and it is they who are being forced to bear the real costs of soaring inflation, the ruble's collapse and slowing growth. Russians' sense that they are under attack has generated an understandable "rallying around the flag" phenomenon. Mr. Putin's all-time-high approval ratings are one result; the other is the near-complete marginalization of dissenting voices. Sadly, Sunday's march to memorialize the slain opposition leader, Boris Nemtsov, will not change this.

If Russia faces greater economic turbulence in the coming months and years, America could face far more intractable problems than those that exist today. Russia is likely to become more belligerent if externally inflicted economic blows deepen the country's crisis. Moreover, a deeper downturn in Russia would worsen the economic woes of the European Union, with potential knock-on effects globally.

Now that Washington has made sanctions the centerpiece of its response to Russia, President Obama cannot simply abandon them. Instead, he should use them as leverage to negotiate a comprehensive settlement, one that involves some give and take.

The first round of sanctions made sense. With its annexation of Crimea, Russia not only trampled over key international norms, but also cemented an egregious violation for decades to come. The United States had to demonstrate that such violations incur costs to avoid allowing Russia to set a dangerous precedent. Targeted, Crimea-specific sanctions that prevent Russia from profiting from annexation should still serve that purpose. Russia has undoubtedly violated international norms in eastern Ukraine too. But unlike in Crimea, it could feasibly return to compliance there in the near future. And more sanctions won't alter Russia's broader strategic objectives in its backyard.

Many policy makers privately admit this, but they respond by asking, "What else could we have done?" It's a fair question. Since no feasible coercive measures could have prevented Mr. Putin from supporting the insurgency in eastern Ukraine, the only choice was, and remains, to negotiate — both to limit the suffering the Kremlin can inflict on defenseless populations and to avoid a wider,

more dangerous Cold War-like confrontation. But talks covering Ukraine alone, like the ones in Minsk last month, will at best produce a temporary cease-fire in the conflict between Russia and the West. Only a broader agreement on regional security can end this conflict definitively. And sanctions relief can be used as a bargaining chip to get a deal that will stick.

The alternative would be open-ended sanctions that escalate conflict between Washington and Moscow while influencing Russia's economy and politics in ways that contradict American interests. Mr. Putin would gain greater control over the economy and rally the public around him, and Russia's evolution as a modern, globally integrated country would be halted. Recognizing these risks is not an endorsement of Russia's aggressive behavior. Just as opposing drone strikes doesn't imply support for terrorism, highlighting the strategic costs of sanctions is about crafting an effective policy, not appeasing Mr. Putin.

It is worth recalling that after the dissolution of the Soviet Union, the United States faced a nightmare scenario of Russia in chaos. The government was bankrupt, and its ability to control its territory and large nuclear arsenal was threatened. At that time, Washington concluded that such a weak Russia would pose a grave threat to American national security. Why should that calculation be any different today?

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