

LESSONS FOR TAIWAN: UNDERSTANDING WHY SANCTIONS FAILED TO DETER CONFLICT IN UKRAINE

BY RICHARD TICE AND SAM ASHWORTH-HAYES



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About Us



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About The Henry Jackson Society

The Henry Jackson Society is a think-tank and policy-shaping force that fights for the principles and alliances which keep societies free, working across borders and party lines to combat extremism, advance democracy and real human rights, and make a stand in an increasingly uncertain world.



About the Russia & Eurasia Studies Centre

The **Russia and Eurasia Studies Centre** undertakes in-depth, analytically-focussed research into domestic and foreign policy issues in Russia and the other post-Soviet states. Established in 2010 as the Russia Studies Centre, the programme's geographical scope has widened since 2014, mirroring the high level of importance attached to the region.

Introduction

At 3:15 a.m. on 24 February 2022, open-source intelligence analysts noticed something strange: a “traffic jam” on Google Maps, making its way from Belgorod to the Ukrainian border.¹ After a year of build-up and threats, Russia’s invasion of Ukraine had begun. While the UK and US had sounded warnings in advance, many were caught off-guard. Unnamed officials in Munich told reporters just days before the war broke out that “we have no clear evidence ourselves that Putin has made up his mind”, while the head of the German Federal Intelligence Service, Bruno Kahl, was actually caught in Kyiv when the conflict began.² In France, meanwhile, the Elysée had criticised “a kind of alarmism in Washington and London which we cannot understand. We see no immediate likelihood of Russian military action.”³

The successful prediction of Vladimir Putin’s invasion was an undoubted victory for the British and American intelligence communities. The same could not be said for the diplomatic groupings of both countries, which saw their efforts to deter conflict fall short.

Prior to the breakout of the conflict, Ukrainian President Volodymyr Zelenskyy had criticised Western countries for being slow to act in imposing sanctions: “We don’t need your sanctions after the bombardment will happen and after our country will be fired at”.⁴ On 20 February, just a few days before the war began, US Secretary of State Antony Blinken argued that this lag was a crucial part of the Western strategy: “The purpose of the sanctions in the first instance is to try to deter Russia from going to war. As soon as you trigger them, that deterrent is gone.”⁵

Critical to this approach was generating a belief in Moscow that any aggression towards Ukraine would be met with harsh punishment, and that the costs of any such punishment would outweigh the gains from conflict. In the event, the measures threatened by the West failed to deter Putin from his determined course of action.

Learning from this experience will be critical in efforts to deter future conflicts. While it is impossible to right mistakes already made, Russia is not the only power willing to exert force in the pursuit of territorial claims. Beijing views Taiwan not as an independent state but as a breakaway province, and the 2005 “Anti-Secession” law makes clear that, if necessary, the state should “employ non-peaceful means... to protect China’s sovereignty and territorial integrity”.⁶

Accordingly, Beijing is engaging in a major programme of modernisation and strengthening of its armed forces tied at least in part to its ability to contain any attempt on the part of Taipei to officially declare itself independent.⁷ The Chinese state continues to engage in exercises

¹ Dr Jeffrey Lewis (@ArmsControlWonk), *Twitter*, 24 February 2022, 1:26a.m., <https://twitter.com/ArmsControlWonk/status/1496657816740036616>.

² Souad Mekhennet, Karoun Demirjian, Ellen Nakashima, John Hudson and Shane Harris, “Zelensky rips the West for inaction as shelling makes Russia-Ukraine war seem increasingly imminent”, *The Washington Post*, 19 February 2022, <https://www.washingtonpost.com/national-security/2022/02/19/ukraine-russia-munich-zelensky/>; “Special forces evacuated German spy chief from Ukraine – Focus magazine”, *Reuters*, 25 February 2022, <https://www.reuters.com/world/europe/special-forces-evacuated-german-spy-chief-ukraine-focus-magazine-2022-02-25/>.

³ Mujtaba (Mij) Rahman (@Mij_Europe), *Twitter*, 24 January 2022, 2:36p.m., https://twitter.com/Mij_Europe/status/1485622501862428684.

⁴ Mekhennet et al, “Zelensky rips the West”.

⁵ Mychael Schnell, “Blinken defends not placing more sanctions on Russia ahead of possible Ukraine invasion”, *The Hill*, 20 February 2022, <https://thehill.com/homenews/sunday-talk-shows/595086-blinken-defends-not-placing-more-pre-invasion-sanctions-on-russia/>.

⁶ “Anti-Secession Law (Full text)”, Embassy of the People’s Republic of China in the United States of America, 15 March 2005, <https://www.mfa.gov.cn/ce/ceus/eng/zt/999999999/t187406.htm>.

⁷ “Military and security developments involving the People’s Republic of China”, U.S. Department of Defense, 2021, <https://media.defense.gov/2021/Nov/03/2002885874/-1/-1/0/2021-CMPR-FINAL.PDF>.

that test the capabilities required for any amphibious assault on Taiwan, and frequently sends warplanes into Taiwan's air defence identification zone.⁸

It is important to avoid hyperbole. There is no indication that an invasion of Taiwan is imminent, and there is no live conflict in Taiwan comparable with the post-2014 situation in Ukraine. Similarly, the status of the two nations differs considerably: Ukraine is an independent and sovereign state, while Taiwan is *de facto* independent but has not officially declared this status. It is entirely possible that Washington, Beijing and Taipei will find a way to continue to walk the tightrope, avoiding unification or outright independence and, accordingly, conflict.

A major lesson from Putin's wars of aggression, however, is that it would be deeply unwise to take peace for granted, and Western and Taiwanese policymakers have paid heed. Efforts are already underway to better equip Taiwan to resist any potential invasion. In the words of US Representative Steven Chabot, senior Republican member on the House Foreign Affairs Committee, "Ukraine should serve as a wake-up call to get our act together and arm Taiwan to the teeth".⁹

While providing Taiwan with defence equipment is an important step, it is not the only measure in the West's arsenal. This research brief examines the build-up to Russia's war in Ukraine and how the threat of sanctions failed to deter military action, and attempts to draw lessons for deterring potential future aggression towards Taiwan.

The failure of threats to deter aggression can, in this case, be attributed to a variety of factors: the past unwillingness of Western nations to slap major sanctions on Russia, differences of opinion in the Western alliance, and economic reliance on Moscow all contributed to undermine the perceived credibility of the West's position. A number of recommendations are made for more effective use of sanctions in relation to Taiwan, including taking steps to reduce China's role in critical supply chains.

The remainder of this brief is structured as follows. Section 1 outlines the timeline of statements and threats regarding sanctions in the build-up to the conflict. Section 2 analyses the course of sanctions imposed over the first week of the conflict. Section 3 examines the failure of threats to deter Russian aggression, focusing in particular on the credibility of measures suggested. Section 4 builds on this analysis to suggest policy proposals for how economic statecraft could be used in the defence of Taiwan.

⁸ Ibid; "Record number of China planes enter Taiwan air defence zone", *BBC News*, 5 October 2021, <https://www.bbc.co.uk/news/world-asia-58794094>.

⁹ Robert Delaney, "US lawmakers consider actions to increase support for Taiwan", *South China Morning Post*, 20 May 2022, <https://www.scmp.com/news/china/article/3178424/us-lawmakers-consider-actions-increase-support-taiwan>.

Threats and promises: the Western approach to sanctions in the build-up to the conflict

In order to understand why the threat of economic measures failed to deter conflict, it is necessary to examine the history of statements made. The long build-up to Russia's invasion of Ukraine featured several warnings from Western nations that military action would be met with sanctions. This section presents a brief history of key statements.

As far back as July 2021, the European Union (EU) had chosen to maintain existing sanctions on sectors of the Russian economy in response to the breakdown of the Minsk agreements and rising tensions between Moscow and Kyiv.¹⁰ As the year progressed, rising concern over potential military action led to public discussion of sanctions as a potential tool for preventing the outbreak of war.

On 1 December 2021, US Secretary of State Antony Blinken stated that military action would be met with “a range of high impact economic measures that we have refrained from using in the past”.¹¹ A week later, on 8 December, President Joe Biden stated that he had warned Russian President Vladimir Putin that “if, in fact, he invades Ukraine, there will be severe consequences – severe consequences – and economic consequences like none he’s ever seen”.¹² These measures were believed to include disrupting Nord Stream 2, sanctions on banks, and limitations on Moscow’s ability to obtain foreign currency.¹³ Some reports indicated that even at this stage, the “nuclear option” of disconnecting Russia from the SWIFT payments system was under consideration.¹⁴

US Senator James Risch, sitting on the House of Representatives Foreign Relations Committee, stated that action would not be “run-of-the-mill sanctions”, and would “involve sovereign debt... the SWIFT banking system... the international banking system”, while Undersecretary of State for Political Affairs Victoria Nuland stated that it was the administration’s “expectation” that Nord Stream 2 would be suspended in the event of war.¹⁵ On 12 December, German Foreign Minister Annalena Baerbock backed this statement, saying that “In the event of further escalation this gas pipeline could not come into service”.¹⁶ Certification for the pipeline had been suspended in November over the precise legal form of the operating company.¹⁷

The EU backed the US approach, with High Representative Josep Borrell stating that the bloc was “studying together with the U.S. and the UK what [sanctions] could be, when and how,

¹⁰ “Russia: EU prolongs economic sanctions over the destabilisation of Ukraine by six months”, Council of the European Union, 12 July 2021, <https://www.consilium.europa.eu/en/press/press-releases/2021/07/12/russia-eu-prolongs-economic-sanctions-over-the-destabilisation-of-ukraine-by-six-months/>.

¹¹ Humeyra Pamuk, “Blinken warns of ‘high-impact economic steps if Russia invades Ukraine’”, *Reuters*, 1 December 2021, <https://www.reuters.com/world/europe/blinken-warns-high-impact-economic-steps-if-russia-invades-ukraine-2021-12-01/>.

¹² “Remarks by President Biden Before Marine One Departure”, The White House Briefing Room, 8 December 2021, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/12/08/remarks-by-president-biden-before-marine-one-departure-10/>.

¹³ Andrea Shalal, Steve Holland and Andrew Osborn, “Biden warns Putin of sanctions, aid for Ukraine military if Russia invades”, *Reuters*, 8 December 2021, <https://www.reuters.com/markets/currencies/biden-putin-set-crucial-call-over-ukraine-2021-12-07/>.

¹⁴ Todd Prince, “‘The ‘Nuclear Option’: What is SWIFT and What Happens If Russia Is Cut Off From It?’”, *Radio Free Europe*, 9 December 2021, <https://www.rferl.org/a/russia-swift-nuclear-option/31601868.html>.

¹⁵ Dan De Luce, Kristen Welker, Courtney Kube and Abigail Williams, “Biden team weighs unprecedented sanctions against Russia over Ukraine”, *NBC News*, 9 December 2021, <https://www.nbcnews.com/politics/national-security/biden-team-weighs-unprecedented-sanctions-russia-ukraine-rcna8030>.

¹⁶ “No green light for Nord Stream pipeline if any Ukraine escalation: Germany”, *France 24*, 12 December 2021, <https://www.france24.com/en/live-news/20211212-no-green-light-for-nord-stream-pipeline-if-any-ukraine-escalation-germany>.

¹⁷ “Certification procedure for Nord Stream 2 suspended”, *Bundesnetzagentur*, 16 November 2021, https://www.bundesnetzagentur.de/SharedDocs/Pressemitteilungen/EN/2021/20211116_NOS2.html.

in a coordinated manner”.¹⁸ Lithuanian Foreign Minister Gabrielius Landsbergis stated that an “unprecedented attack” would mean that “the answer has to be unprecedented from the Western countries as well”.¹⁹ Diplomats from the EU stated that these discussions were “focused on a potential gradual increase of any sanctions, ranging from possible travel bans and asset freezes on Russian politicians to banning financial and banking links with Russia”.²⁰ However, on 15 December 2021, it was reported that some EU countries – including Germany, France, Italy and Spain – were keen to continue talks with the Kremlin before drawing up specific plans.²¹ While European Council summit conclusions promised “massive consequences and severe cost in response, including restrictive measures coordinated with partners”, precise steps were not laid out.²² The *Financial Times* reported that the EU “sought to avoid public discussion of specific measures”, preferring not to put “precise options on the table” before knowing what Putin intended. The *Financial Times* also reported that German officials claimed no specific measures were currently under discussion, and that the potential economic damage to the EU from sanctions was high on their list of considerations.²³

In London, meanwhile, politicians were insistent that “The Russian government should expect significant strategic consequences. The cost of an invasion would be catastrophically high.”²⁴ Foreign Secretary Liz Truss, standing alongside US Secretary of State Blinken on 12 December 2021, stated that Russia would face “severe economic consequences”.²⁵ By January it was clear that these early conversations had not swayed Putin from his course. Conversations between the US, Europe and Britain continued. As Chris Miller noted, the markets mirrored “the Kremlin’s view that the United States will not follow through on the harsh sanctions it has discussed”.²⁶

On 25 January 2022, the *Financial Times* reported that unnamed Biden administration officials were optimistic that the threats would bring Russia to heel: “His [Putin’s] tolerance for economic pain may be higher than other leaders. But there is a threshold of pain above which we think his calculus can be influenced.”²⁷ While there were still differences between US and EU officials, including on the “triggers for sanctions”, there was convergence on “the size of the financial institutions and state-owned enterprises” which would be targeted by sanctions.²⁸ Following a video conference between the US and its European and NATO allies, President Biden claimed there was “total unanimity” between Europe and the US on measures, while Downing Street stated that leaders had agreed on “an unprecedented package of sanctions”.²⁹

¹⁸ Robin Emmott and Sabine Siebold, “European Union stands united on Russia sanctions, top diplomat says”, *Reuters*, 13 December 2021, <https://www.reuters.com/world/eu-says-studying-russia-sanctions-with-britain-us-2021-12-13/>.

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ John Follain, Jorge Valero and Irina Vilcu, “Big EU States Resist Push for Russia Sanctions Over Ukraine”, *Bloomberg UK*, 15 December 2021, <https://www.bloomberg.com/news/articles/2021-12-15/big-eu-states-resist-push-to-plan-russia-sanctions-over-ukraine>.

²² “Conclusions – 16 December 2021”, European Council, 16 December 2021, <https://www.consilium.europa.eu/media/53575/20211216-euco-conclusions-en.pdf>.

²³ Henry Foy, Sam Fleming and Guy Chazan, “EU to work with allies on possible Russia sanctions over Ukraine”, *Financial Times*, 17 December 2021, <https://www.ft.com/content/bdd76e87-56da-44fd-acf2-e09d76a96fc3>.

²⁴ Cristina Gallardo, “UK to Russia: Invading Ukraine would have ‘catastrophically high’ consequences”, *Politico*, 7 December 2021, <https://www.politico.eu/article/uk-warns-russia-invading-ukraine-would-have-catastrophically-high-consequences/>.

²⁵ Siba Jackson, “G7: Russia faces ‘serious consequences’ if it attempts to seize control of Ukraine, UK and US warn”, *Sky News*, 12 December 2021, <https://news.sky.com/story/g7-russia-faces-serious-consequences-if-it-attempts-to-seize-control-of-ukraine-uk-and-us-warn-12493537>.

²⁶ Chris Miller, “Russia Thinks America Is Bluffing”, *Foreign Affairs*, 10 January 2022, <https://www.foreignaffairs.com/articles/russia-fsu/2022-01-10/russia-thinks-america-bluffing>.

²⁷ James Politi, Henry Foy, Laura Hughes and Max Seddon, “US and EU close in on agreeing Russian financial sanctions over Ukraine”, *Financial Times*, 25 January 2022, <https://www.ft.com/content/475d6954-ea9b-4ad4-a884-a4afb38cfc14>.

²⁸ *Ibid.*

²⁹ Daniel Boffey, Andrew Roth, Julian Borger and Kim Willsher, “UK warns of ‘unprecedented sanctions’ against Russia as Biden says west is united on Ukraine”, *The Guardian*, 25 January 2022, <https://www.theguardian.com/world/2022/jan/25/us-uk-and-europe-totally-united-in-the-face-of-russia-threat-to-ukraine-biden-says>.

Senior Biden administration officials stated that “the gradualism of the past is out” and that measures would “start at the top of the escalation ladder”. Measures would include financial sanctions and “novel export controls” targeting Western technologies exported to Russia.³⁰

However, UK Prime Minister Boris Johnson told MPs that “one of the big issues that we all face in dealing with Ukraine... is the heavy dependence of our European friends in particular on Russian gas”, and that it would take work to “persuade and encourage our friends” to “come up with a tough package of economic sanctions”.³¹ On 26 January, the US again stated that war in Ukraine would mean the suspension of Nord Stream 2. State Department spokesman Ned Price stated that: “if Russia invades Ukraine one way or another, Nord Stream 2 will not move forward”. This statement was backed by German ambassador to the US Emily Haber, who said “nothing will be off the table, including Nord Stream 2”, and Foreign Minister Baerbock, who told the Bundestag that the West had “a broad bandwidth of responses at our disposal, including Nord Stream 2”.³²

On 31 January 2022, the UK announced new legislation which would enable the Government to impose sanctions on individuals and businesses linked to the Kremlin should Russian soldiers enter Ukraine.³³

Conversations continued throughout the build-up to the war. On 18 February 2022, only six days before the invasion, White House officials stated that while measures were being finalised with allies, a SWIFT ban was unlikely to feature in the first package of sanctions imposed.³⁴ Three days later, Russia recognised the independence of the so-called Donetsk People’s Republic (DPR) and Luhansk People’s Republic (LPR), and sent “peacekeepers” into the Donbas.³⁵ This led to the imposition of the first sanctions from the EU and US, with the US blocking investment, exports and imports from the affected region, and the EU imposing travel bans and asset freezes on members of the Russian State Duma and the electoral commission of the Crimean port of Sevastopol.³⁶

The following day, the Russian Federal Council authorised the use of military force outside the Russian Federation.³⁷ The UK responded with sanctions against oligarchs, politicians and banks

³⁰ “Background Press Call by Senior Administration Officials on Russia Ukraine Economic Deterrence Measures”, The White House Briefing Room, 25 January 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/01/25/background-press-call-by-senior-administration-officials-on-russia-ukraine-economic-deterrence-measures/>.

³¹ Dan Sabbagh, “Johnson hints German reliance on Russian gas could affect Ukraine response”, *The Guardian*, 25 January 2022, <https://www.theguardian.com/politics/2022/jan/25/johnson-hints-german-reliance-on-russian-gas-could-affect-ukraine-response>.

³² “Ukraine crisis: Nord Stream 2 pipeline could be axed, US warns”, *BBC News*, 27 January 2022, <https://www.bbc.co.uk/news/world-europe-60151839>; Martin Farrer and Kate Connolly, “Nord Stream 2 gas pipeline will not open if Russia invades Ukraine, says US”, *The Guardian*, 27 January 2022, <https://www.theguardian.com/world/2022/jan/27/nord-stream-2-gas-pipeline-wont-open-if-russia-invades-ukraine-says-us>.

³³ “Foreign Secretary ramps up UK sanctions regime to leave Kremlin nowhere to hide”, Foreign, Commonwealth & Development Office, 31 January 2022, <https://www.gov.uk/government/news/foreign-secretary-ramps-up-uk-sanctions-regime-to-leave-kremlin-nowhere-to-hide>.

³⁴ “SWIFT banking curbs unlikely to be in initial Russia package, White House says”, *Reuters*, 18 February 2022, <https://www.reuters.com/world/swift-banking-curbs-unlikely-be-initial-russia-package-white-house-says-2022-02-18/>.

³⁵ “Russia recognizes DPR, LPR within areas under their authorities’ control – diplomat”, *TASS*, 22 February 2022, <https://tass.com/politics/1408295>; Andrew Roth and Julian Borger, “Putin orders troops into eastern Ukraine on ‘peacekeeping duties’”, *The Guardian*, 21 February 2022, <https://www.theguardian.com/world/2022/feb/21/ukraine-putin-decide-recognition-breakaway-states-today>.

³⁶ “Blocking Property of Certain Persons and Prohibiting Certain Transactions With Respect to Continued Russian Efforts To Undermine the Sovereignty and Territorial Integrity of Ukraine”, *Federal Register*, 23 February 2022, <https://www.federalregister.gov/documents/2022/02/23/2022-04020/blocking-property-of-certain-persons-and-prohibiting-certain-transactions-with-respect-to-continued>; “Ukraine’s territorial integrity: EU sanctions five persons involved in the Russian State Duma elections of September 2021 in illegally-annexed Crimea”, Council of the European Union, 21 February 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/02/21/ukraine-s-territorial-integrity-eu-targets-five-more-individuals-with-restrictive-measures/>.

³⁷ “Russian lawmakers authorize Putin to use military force outside the country”, *CBC*, 22 February 2022, <https://www.cbc.ca/news/world/russia-ukraine-military-force-1.6360179>.

linked to the Kremlin or the Russian occupation of Ukraine, and by extending existing territorial sanctions on Crimea to the DPR and LPR.³⁸ Germany halted approval of Nord Stream 2, and the US sanctioned further financial institutions and individuals, alongside issuing restrictions on Russian sovereign debt.³⁹

On 23 February, Kremlin spokesman Dmitry Peskov stated that “written requests” had been made by the DPR and LPR for Russian military assistance for the purpose of “repelling the aggression of the Ukrainian armed forces and formations”.⁴⁰ In response, the EU extended sanctions to all 351 members of the Russian State Duma who had voted in favour of recognising the DPR and LPR, and to 27 individuals or entities viewed as having assisted in the undermining of Ukraine’s sovereignty and independence. It also introduced an import ban on goods from the DPR and LPR, and financial restrictions on the Russian Central Bank.⁴¹

The following morning, 24 February 2022, Russia’s invasion began.

³⁸ “UK hits Russian oligarchs and banks with targeted sanctions: Foreign Secretary’s statement”, Foreign, Commonwealth & Development Office, 22 February 2022, <https://www.gov.uk/government/news/uk-hits-russian-oligarchs-and-banks-with-targeted-sanctions-foreign-secretary-statement>.

³⁹ Philip Oltermann, “Germany halts Nord Stream 2 approval over Russian recognition of Ukraine ‘republics’”, *The Guardian*, 22 February 2022, <https://www.theguardian.com/world/2022/feb/22/germany-halts-nord-stream-2-approval-over-russian-recognition-of-ukraine-republics>; “U.S. Treasury Imposes Immediate Economic Costs in Response to Actions in the Donetsk and Luhansk Regions”, U.S. Department of the Treasury, 22 February 2022, <https://home.treasury.gov/news/press-releases/jy0602>.

⁴⁰ “LPR, DPR heads call on Putin to help repel Kiev’s aggression – Kremlin”, *TASS*, 23 February 2022, <https://tass.com/politics/1409091>.

⁴¹ “EU adopts package of sanctions in response to Russian recognition of the non-government controlled areas of the Donetsk and Luhansk oblasts of Ukraine and sending of troops into the region”, Council of the European Union, 23 February 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/02/23/russian-recognition-of-the-non-government-controlled-areas-of-the-donetsk-and-luhansk-oblasts-of-ukraine-as-independent-entities-eu-adopts-package-of-sanctions/>.

First responses: Sanctions during the first week of the conflict

The first day of the conflict saw a significant step up in the sanctions imposed. The US introduced financial measures targeting “nearly 80 percent of all banking assets in Russia”; sanctions on Russian elites and their family members; and restrictions on the debt and equity of major entities.⁴²

Further measures imposed “stringent export controls” intended to “severely restrict Russia’s access to technologies and other items that it needs to sustain its aggressive military capabilities”, and targeted Belarusian entities.⁴³

The United Kingdom froze Russian banking assets in the UK; banned state-owned and certain private companies from raising capital on UK financial markets; sanctioned a large set of oligarchs and companies; banned the Russian national carrier from UK airspace; and put in place export controls targeting “hi-tech and strategic industries”.⁴⁴

The following day, the EU placed sanctions on key individuals and 70% of the Russian banking market; restricted access to capital markets; prohibited the export of goods and technologies related to oil refining; and placed restrictions on the sale of aviation components and equipment and dual-use goods and technologies (including semiconductors).⁴⁵

On 26 February, the US, UK, EU and Canada announced that Russian banks would be disconnected from SWIFT; that Russian Central Bank assets would be restricted to prevent their use in undermining sanctions; and that a joint taskforce would work to identify and freeze assets of sanctioned individuals and companies within their jurisdictions.⁴⁶

This statement was followed on 28 February by the US, UK and EU prohibiting transactions with the Russian Central Bank.⁴⁷

In response, Russia raised interest rates to 20% and imposed capital controls in order to support the rouble.⁴⁸

⁴² “U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs”, U.S. Department of the Treasury, 24 February 2022, <https://home.treasury.gov/news/press-releases/jy0608>.

⁴³ “Commerce Implements Sweeping Restrictions on Exports to Russia in Response to Further Invasion of Ukraine”, U.S. Department of Commerce, 24 February 2022, <https://www.commerce.gov/news/press-releases/2022/02/commerce-implements-sweeping-restrictions-exports-russia-response>; “U.S. Treasury Targets Belarusian Support for Russian Invasion of Ukraine”, U.S. Department of the Treasury, 24 February 2022, <https://home.treasury.gov/news/press-releases/jy0607>.

⁴⁴ “Foreign Secretary imposes UK’s most punishing sanctions to inflict maximum and lasting pain on Russia”, Foreign, Commonwealth & Development Office, 24 February 2022, <https://www.gov.uk/government/news/foreign-secretary-imposes-uks-most-punishing-sanctions-to-inflict-maximum-and-lasting-pain-on-russia>.

⁴⁵ “Russia’s military aggression against Ukraine: EU imposes sanctions against President Putin and Foreign Minister Lavrov and adopts wide ranging individual and economic sanctions”, Council of the European Union, 25 February 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/02/25/russia-s-military-aggression-against-ukraine-eu-imposes-sanctions-against-president-putin-and-foreign-minister-lavrov-and-adopts-wide-ranging-individual-and-economic-sanctions/>.

⁴⁶ “Joint Statement on Further Restrictive Economic Measures”, The White House Briefing Room, 26 February 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/26/joint-statement-on-further-restrictive-economic-measures/>.

⁴⁷ “Treasury Prohibits Transactions with Central Bank of Russia and Imposes Sanctions on Key Sources of Russia’s Wealth”, U.S. Department of the Treasury, 28 February 2022, <https://home.treasury.gov/news/press-releases/jy0612>; “UK Statement on Further Economic Sanctions Targeted at the Central Bank of the Russian Federation”, HM Treasury, 28 February 2022, <https://www.gov.uk/government/news/uk-statement-on-further-economic-sanctions-targeted-at-the-central-bank-of-the-russian-federation>; “EU adopts new set of measures to respond to Russia’s military aggression against Ukraine”, Council of the European Union, 28 February 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/02/28/eu-adopts-new-set-of-measures-to-respond-to-russia-s-military-aggression-against-ukraine/>.

⁴⁸ “Russia hikes rates, introduces capital controls as sanctions bite”, *Reuters*, 28 February 2022, <https://www.reuters.com/markets/europe/russian-central-bank-scrambles-contain-fallout-sanctions-2022-02-28/>.

On 2 March, the EU implemented further SWIFT restrictions, while the US imposed further sanctions on Belarus and banned Russian aircraft from US airspace.⁴⁹ These measures were followed by US restrictions on the export of goods and technologies to Russia's oil industry.⁵⁰

On 8 March, the UK announced that Russian oil imports would be phased out by the end of 2022, and the US banned all such oil imports.⁵¹

⁴⁹ "Russia's military aggression against Ukraine: EU bans certain Russian banks from SWIFT system and introduces further restrictions", Council of the European Union, 2 March 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/03/02/russia-s-military-aggression-against-ukraine-eu-bans-certain-russian-banks-from-swift-system-and-introduces-further-restrictions/>; "Commerce Imposes Sweeping Export Restrictions on Belarus for Enabling Russia's Further Invasion of Ukraine", U.S. Department of Commerce, 2 March 2022, <https://www.commerce.gov/news/press-releases/2022/03/commerce-imposes-sweeping-export-restrictions-belarus-enabling-russias>; "U.S. Will Block Russian Aircraft from Using All Domestic Airspace", Federal Aviation Administration, 2 March 2022, <https://www.faa.gov/newsroom/us-will-block-russian-aircraft-using-all-domestic-airspace>

⁵⁰ "Commerce Takes Further Actions to Target Russian Strategic Industries and Punish Enablers of Aggression", U.S. Department of Commerce, 4 March 2022, <https://www.commerce.gov/news/press-releases/2022/03/commerce-takes-further-actions-target-russian-strategic-industries-and>.

⁵¹ "UK to phase out Russian oil imports", Department for Business, Energy & Industrial Strategy, 8 March 2022, <https://www.gov.uk/government/news/uk-to-phase-out-russian-oil-imports>; "FACT SHEET: United States Bans Imports of Russian Oil, Liquefied Natural Gas, and Coal", The White House Briefing Room, 8 March 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/08/fact-sheet-united-states-bans-imports-of-russian-oil-liquefied-natural-gas-and-coal/>.

Why did sanctions fail to deter Russian aggression?

The first and most important point to make about the sanctions imposed to date is that they have certainly achieved their objective of making life difficult for the Russian state. The Russian economy ministry expects GDP to fall by between 8.8% and 12.4% this year, before returning to low levels of growth from 2023.⁵² The European Bank for Reconstruction and Development (EBRD) expects a 10% fall, and the Institute of International Finance 15%.⁵³ The attempts over many years to sanction-proof economic activity proved a failure, as multiple industries ground to a halt without Western inputs.⁵⁴ As sanctions continue to mount and Russia's isolation deepens, the long-term cost of Putin's war is likely to be higher still.

As deterrence, however, sanctions have failed entirely. Returning to the timeline of sanctions above, it is immediately clear that the threats made prior to Russia's invasion of Ukraine did not accurately convey the scale of the response that actually materialised. This may be due in part to the West itself not realising the scale of public and political outrage the war would engender, and accordingly pursuing stronger measures than it expected to.

Regardless of the cause, it is clear that the West's pre-conflict stance failed to effectively communicate the approach that would be taken once the war began. Whether because signals were unclear or because Moscow did not view the threats as credible based on past behaviour, Russian officials clearly did not anticipate the severity or extent of sanctions imposed, and had not prepared for them. Moscow's strategy of accumulating a 'war chest' of foreign reserves held overseas was rendered null when Western countries simply froze access to the majority of them. Industrial facilities producing military goods – from surface-to-air missiles to tanks and ships – have slowed or halted production, due to a lack of critical components.⁵⁵ The US White House has even claimed that Russian military equipment is repurposing civilian semiconductors in order to keep some semblance of production ongoing.⁵⁶ Such was the difference between expectation and reality that Putin went as far as to describe the West's sanctions as "akin to a declaration of war".⁵⁷

It is possible that if the West had credibly pre-committed to specific measures, or at least to the level of cost to be imposed, it would have been made clear to Moscow that the cost of invading Ukraine would be highly unpalatable.

However, this observation comes with caveats of its own. The first is that it can be difficult to credibly commit to a course of action without precedent; previous rounds of sanctions have shown the West to be relatively unwilling to bear the costs involved in punishing Russia

⁵² "Russia's GDP decline could hit 12.4% this year, economy ministry document shows", *Reuters*, 27 April 2022, <https://www.reuters.com/business/russias-gdp-decline-could-hit-124-this-year-economy-ministry-document-shows-2022-04-27/>.

⁵³ Richard Porter, "EBRD sees war on Ukraine causing major growth slowdown", European Bank for Reconstruction and Development, 31 March 2022, <https://www.ebrd.com/news/2022/ebrd-sees-war-on-ukraine-causing-major-growth-slowdown.html>.

⁵⁴ Sergei Guriev, "War in Ukraine: Russia's reputedly 'sanction proof' economy shows signs of stress", *The Conversation*, 13 April 2022, <https://theconversation.com/war-in-ukraine-russias-reputedly-sanction-proof-economy-shows-signs-of-stress-181109>; "Russia's GDP to fall 15% this year on Ukraine-linked sanctions – IIF", *Reuters*, 10 March 2022, <https://www.reuters.com/markets/rates-bonds/russias-gdp-fall-15-this-year-ukraine-linked-sanctions-iif-2022-03-10/>.

⁵⁵ "Russia's military-industrial complex in panic over low salaries, mass layoffs", *The Jerusalem Post*, 7 May 2022, <https://www.jpost.com/business-and-innovation/banking-and-finance/article-706060>; Larisa Brown, "Russian military equipment losses 'will take years to replace'", *The Times*, 26 April 2022, <https://www.thetimes.co.uk/article/russian-military-equipment-losses-will-take-years-to-replace-lwbtv5d2b>.

⁵⁶ David Charter, "Russia fixing tanks with dishwasher spare parts", *The Times*, 13 May 2022, <https://www.thetimes.co.uk/article/russia-fixing-tanks-with-dishwasher-spare-parts-l82jbq3lk>.

⁵⁷ "Putin says Western sanctions are akin to declaration of war", *Reuters*, 5 March 2022, <https://www.reuters.com/world/europe/putin-says-western-sanctions-are-akin-declaration-war-2022-03-05/>.

adequately for its actions in Ukraine. The first measures taken in response to Russia's official recognition of the "independence" of the DPR and LPR may have fed this impression, fitting neatly into the standard category of response experienced before. But let us remember that fourteen years earlier, the West imposed *no* sanctions on Russia in response to its recognition of the "independence" of the Georgian breakaway regions of South Ossetia and Abkhazia, or in response to its invasion of Georgia. The second caveat is that it may have taken the threat of imminent war, and the US revealing detailed, regular intelligence, to force the Western coalition to coalesce around acceptable policy measures. The vague statements of December 2021 gradually hardened into more specific measures as war approached.

The previous lack of unity in the West in response to Russian military aggression in 2008 and 2014 is also likely to have undermined the efficacy of threats. While the US and the UK were fairly overt in their statements, by late December 2021, the EU was still avoiding explicit policy statements, with member states such as Germany concerned about the potential economic impact of imposing sanctions on Russia. As UK Prime Minister Boris Johnson noted in January 2022, the reliance of Europe on Russian energy made agreement difficult to reach, and it is possible that Moscow overweighed the extent to which reluctance to risk sanctions on one sector represented a reluctance to impose tough sanctions at all, believing that Europe's dependency on Moscow for its supplies of gas and oil would prevent Western countries from going 'too far'. This view is given some credibility by the observation that billions of euros are still flooding into the Kremlin's coffers from Russian oil and gas sales to Germany and other EU members, funding the war in Ukraine.

It is an uncomfortable truth that sanctions are the tool of choice for deterrence and punishment precisely because they are low-cost relative to other measures, and indeed can be tailored to a given level of cost. A measure selected because of an unwillingness to bear major costs is naturally limited in its efficacy in changing the behaviour of a sovereign state, and the possibility of finding a more effective path is in turn limited by the simple fact that this same unwillingness naturally caps the alternatives.

An illustration of this factor, as well as of the difficulties involved in finding common ground for sanctions, can be found in the EU's attempts to reduce oil and gas imports from Russia. The UK announced early on that it would phase out imports of Russian oil, and the US banned all such imports.⁵⁸ The European Union, however, found itself divided. In March and April 2022, the EU announced plans to find alternative sources of gas, boost energy efficiency, and increase green sources of energy to enable it to end all imports of Russian energy by 2030. In May, the EU called on its 27 members to phase out the import of Russian crude oil within six months and refined oil products by the end of the year.

Low exports from Russia meant that Europe entered the current crisis with stored supplies already at a low ebb.⁵⁹ By 8 March, the European Commission was setting out plans ("REPowerEU") for reducing gas imports in 2022, with a longer term aim of total independence "well before 2030".⁶⁰ A total embargo in the immediate future was off the table; Hungarian Prime Minister Viktor Orban told followers that "there will be no sanctions covering oil and gas, which means that Hungary's energy supply is guaranteed".⁶¹ On 14 March, the EU sanctioned

⁵⁸ "UK to phase out Russian oil imports"; "FACT SHEET: United States Bans Imports".

⁵⁹ Georg Zachmann, Ben McWilliams and Giovanni Sgaravatti, "How serious is Europe's natural gas storage shortfall?", *Bruegel*, 21 December 2021, <https://www.bruegel.org/2021/12/how-serious-is-europes-natural-gas-storage-shortfall/>.

⁶⁰ "REPowerEU: Joint European action for more affordable, secure and sustainable energy", European Commission, 8 March 2022, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511.

⁶¹ "EU sanctions will not ban Russian oil and gas imports until 2027", *ITV News*, 11 March 2022, <https://www.itv.com/news/2022-03-11/eu-sanctions-will-not-ban-russian-oil-and-gas-imports-until-2027>.

Russian oil companies, but continued to purchase oil from them.⁶² A summit on 24 March made it clear that an immediate embargo on energy imports would be difficult, if not impossible, to attain; German Chancellor Olaf Scholz commented that such a move would mean “plunging our country and all of Europe into recession”, words which were echoed by the Belgian Prime Minister Alexander De Croo.⁶³

While Berlin was still resistant to blocking imports of gas, sanctions on oil would at least reduce Russia’s ability to generate foreign earnings that would be used to fund its war in Ukraine.⁶⁴ Six days later, Hungary was describing energy sanctions as a “red line” – an effective veto on collective action by the EU. Germany, meanwhile, was discussing an oil embargo in 2023 as a more realistic possibility.⁶⁵ On 20 April, negotiations were still ongoing, with talk of transition periods to allow EU countries to prepare.⁶⁶

On 2 May, Germany’s finance and economy ministers signalled that Berlin would be willing to support an immediate ban on Russian oil imports.⁶⁷ Two days later, the European Commission proposed sanctions which would ban imports of Russian oil within six months. Hungary immediately registered objections to plans which would “ruin the Hungarian economy”, Slovakian economy minister Richard Sulik requested a three-year transition period, and Czech Prime Minister Petr Fiala stated that he would request an exemption lasting two to three years.⁶⁸

By 18 May, the EU had come up with a strategy for funding infrastructure that would assist landlocked countries to move away from Russian oil imports. However, the critical objection that any embargo would prove devastating to the Hungarian economy remained, particularly as ongoing disputes between the Orban government and the European Commission meant that Hungary would not necessarily be able to access the funds anyway.⁶⁹

On 3 June, a partial embargo on Russian oil was adopted. These measures banned seaborne imports of crude oil from December 2022 and petroleum from February 2023, but contained several carveouts.⁷⁰ Bulgaria received an exemption due to its “specific geographical exposure”, while pipeline imports were exempted entirely, protecting the interests of Hungary, Slovakia and the Czech Republic.⁷¹

Despite a long history of the Kremlin using threats to gas supplies as an instrument of policy leverage, including cutting off gas in transit through Ukraine in 2006 and 2009,⁷² and the

⁶² Francesco Guarascio, “EU to tighten sanctions on Russian oil companies, but stops short of import ban – source”, *Reuters*, 14 March 2022, <https://www.reuters.com/business/energy/eu-tighten-sanctions-russian-oil-companies-stops-short-import-ban-source-2022-03-14/>.

⁶³ Jennifer Rankin, “EU leaders wrangle with issue of oil and gas imports from Russia at summit”, *The Guardian*, 24 March 2022, <https://www.theguardian.com/world/2022/mar/24/eu-leaders-oil-gas-imports-russia-ukraine>.

⁶⁴ Barbara Moens, Hans Von Der Burchard, Florian Eder and Stuart Lau, “EU weighs ban on Russian oil over war crimes as pressure builds on Berlin”, *Politico*, 4 April 2022, <https://www.politico.eu/article/pressure-mounts-on-berlin-to-block-russian-oil/>.

⁶⁵ Sam Fleming, Henry Foy, and Guy Chazan, “EU countries remain at loggerheads over Russian energy ban”, *Financial Times*, 10 April 2022, <https://www.ft.com/content/540807a8-0e3e-4843-9aee-25b65a724217>.

⁶⁶ Barbara Moens and America Hernandez, “EU closes in on Russian oil ban – but how tough will it be?”, *Politico*, 20 April 2022, <https://www.politico.eu/article/eu-closes-in-on-russian-oil-ban-vladimir-putin-ukraine/>.

⁶⁷ Joseph Nasr and Christian Kraemer, “Germany drops opposition to Russian oil ban, ministers say”, *Reuters*, 2 May 2022, <https://www.reuters.com/business/energy/germany-would-weather-russian-oil-ban-despite-shortages-minister-2022-05-02/>.

⁶⁸ Paul Kirby, “Ukraine war: EU plans Russian oil ban and war crimes sanctions”, *BBC News*, 4 May 2022, <https://www.bbc.co.uk/news/world-europe-61318689>.

⁶⁹ America Hernandez, “EU earmarks €2B to ease pain of Russian oil ban”, *Politico*, 18 May 2022, <https://www.politico.eu/article/eu-russian-oil-european-commission-energy-repowereu/>.

⁷⁰ Ben Cahill, “European Union Imposes Partial Ban on Russian Oil”, Center for Strategic & International Studies, 8 June 2022, <https://www.csis.org/analysis/european-union-imposes-partial-ban-russian-oil>.

⁷¹ “Russia’s war on Ukraine: EU adopts sixth package of sanctions against Russia”, European Commission, 3 June 2022, https://ec.europa.eu/commission/presscorner/detail/en/IP_22_2802.

⁷² “Timeline: Gas crises between Russia and Ukraine”, *Reuters*, 11 January 2009, <https://www.reuters.com/article/us-russia-ukraine-gas-timeline-sb-idUSTRE50A1A720090111>.

annexation of Crimea in 2014, Europe entered the current war with some 40% of its gas and 25% of its oil supplied by Russia.⁷³

A 2014 study found that “the EU’s dependence has effectively prevented the Union from targeting the gas sector” in relation to the then-new conflict between Russia and Ukraine.⁷⁴ Eight years on, it is once again a significant limiting factor on the EU’s ambition. This is not to say that no efforts were made to diversify supplies; a joint statement between US President Biden and EU President Ursula von der Leyen noted that both parties would work “in close collaboration” on “LNG supplies for security of supply and contingency planning”. Negotiations were also held with Qatar and Azerbaijan on securing supplies.⁷⁵

The pre-invasion discourse on sanctions was marked by Germany’s reluctance to pursue strong measures to limit energy imports from Russia. This reluctance was not without a basis in economic reality: 55% of gas imports to Germany originated with Russia, a fact which caused Chancellor Scholz to state that these imports “cannot be ended from one day to the next”.⁷⁶ One set of estimates indicated that any attempt to shut off the tap would reduce German GDP by over 2% in 2023, and lead to the loss of more than 400,000 jobs.⁷⁷ Other studies take a more pessimistic view, calculating that secondary impacts would cause huge reductions in industrial activity, reducing GDP by 12% in the worst case.⁷⁸

The sheer difficulty of reaching a consensus on oil imports is indicative of the collective action problems that can swiftly undermine efforts to impose sanctions. In turn, failure to reach agreement has consequences for the efficacy of the broader sanctions regime; at one point, the EU had sent Russia €35 billion in energy payments since the start of the war, compared to €1.5 billion in military aid to Ukraine.⁷⁹

Had the West made believable and specific statements in advance, then it is possible that Russia would have attempted to prepare in such a way as to minimise the potential for sanctions – placing less reliance on foreign reserves and more on stockpiling, for instance. While this may have delayed the war, it would not necessarily have prevented it.

This observation reflects a broader point: it is entirely possible that there was no realistic cost the West could have threatened to impose on Russia which would have dissuaded it from this course of action. The divisions within the Western alliance, and the reliance on Russia for energy supplies, meant that the harshest sanctions were not available. And even if they were, they may still not have been sufficient.

⁷³ Ben McWilliams, Giovanni Sgaravatti, Simone Tagliapietra and Georg Zachmann, “Can Europe survive painlessly without Russian gas?”, *Bruegel*, 27 January 2022, <https://www.bruegel.org/2022/01/can-europe-survive-painlessly-without-russian-gas/>; Zeke Miller, Mike Balsamo and Josh Boak, “US strikes harder at Putin, banning all Russian oil imports”, *AP News*, 9 March 2022, <https://apnews.com/article/russia-ukraine-war-us-russia-oil-ban-120c0152cf310a5b593f6ae7a2857e62>.

⁷⁴ Pasquale de Micco, “A cold winter to come? The EU seeks alternatives to Russian gas”, Directorate-General for External Policies, European Parliament, 23 October 2014. Available online at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2014/536413/EXPO_STU\(2014\)536413_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2014/536413/EXPO_STU(2014)536413_EN.pdf).

⁷⁵ “Joint statement by President von der Leyen and President Biden on U.S.-EU cooperation on energy security”, European Commission, 28 January 2022, https://ec.europa.eu/commission/presscorner/detail/en/statement_22_664; Ursula von der Leyen (@nonderleyen), *Twitter*, 27 January 2022, 3:23p.m., <https://twitter.com/vonderleyen/status/1486721477487435779>; “Remarks by Commissioner Simson at the Southern Gas Corridor Advisory Council press conference”, European Commission, 4 February 2022, https://ec.europa.eu/commission/commissioners/2019-2024/simson/announcements/remarks-commissioner-simson-southern-gas-corridor-advisory-council-press-conference_en.

⁷⁶ Guy Chazan, Joe Miller and Martin Arnold, “‘Worst crisis since the second world war’: Germany prepares for a Russian gas embargo”, *Financial Times*, 21 April 2022, <https://www.ft.com/content/e82b11a1-cf1f-4543-9f9f-6ab70da6b746>.

⁷⁷ *Ibid.*

⁷⁸ Martin Arnold, “Study puts cost of halting Russian gas supply at 12% of German GDP”, *Financial Times*, 9 May 2022, <https://www.ft.com/content/2f860359-7fa0-4b79-aa47-f5a55606ce33>.

⁷⁹ Fleming, Foy and Chazan, “EU countries remain at loggerheads”.

Russian leaders view Ukraine as a Russian land “torn away by Western conspiracies and intrigue”.⁸⁰ Putin in particular has described the collapse of the Soviet Union as “the biggest geopolitical catastrophe of the last century”, viewing it as stranding “millions of our citizens and compatriots... outside of the borders of Russian territory”.⁸¹ Putin’s July 2021 essay, “On the Historical Unity of Russians and Ukrainians”, set out in detail his view that Ukrainians and Russians are “one people – a single whole”, that “modern Ukraine is entirely the product of the Soviet era”, and that “true sovereignty of Ukraine is possible only in partnership with Russia”.⁸²

There are limits to the ability of economic statecraft tools to sway decisionmakers away from actions they view as national priorities, or at least as matters of legacy. The qualities that make sanctions the weapon of choice for diplomacy – visibility, relatively low cost, and separability from harder measures – also mean that they are frequently insufficient to achieve their desired end. If Putin believes that Ukraine is important for his historical legacy, or central to the Russian state, then it is likely that no threats would have worked. Some indication of this view can be found in an article accidentally published and quickly deleted by the state-owned news agency RIA Novosti proclaiming the goals of the restoration of “Russian” (i.e., Eastern Slavic) unity, and the undoing of “the tragedy of 1991” as leading to Russia “restoring its historical fullness, gathering the Russian world, the Russian people together”.⁸³

This fundamental limitation of sanctions speaks to an important point: experience tells us that they succeed only rarely. The Peterson Institute for International Economics lists 204 instances of sanctions being imposed between 1914 and 2006. Sanctions were viewed as having made a substantial contribution to a ‘positive’ outcome – where the goals of the sanctioning state were at least partially realised – in only 70 cases.⁸⁴ A base rate for success of 34% is not an ideal starting point, and this is compounded by the observation that some listed successes were achieved alongside significant efforts. These included US sanctions on Germany and Japan between 1939 and 1941 and in 1945 which were listed as policy successes, although this understates the nature of the intervention. In only 13 cases were sanctions estimated to be the deciding factor, and in many of these cases, the sheer disparity in economic size between those sanctioning and the sanctioned makes it difficult to draw broader lessons.

⁸⁰ Taras Kuzio, “Will Russia Invade Ukraine? Moscow’s Threat to European Security”, *Henry Jackson Society*, 10 January 2022, https://henryjacksonsociety.org/wp-content/uploads/2022/01/Kuzio_Ukraine_final.pdf.

⁸¹ Nick Paton Walsh, “Putin bangs drum for Russia’s civilising mission”, *The Guardian*, 26 April 2005, <https://www.theguardian.com/world/2005/apr/26/russia.nickpatonwalsh>.

⁸² Vladimir Putin, “On the Historical Unity of Russians and Ukrainians”, President of Russia, 12 July 2021, <http://en.kremlin.ru/events/president/news/66181>.

⁸³ Petr Akopov, “The offensive of Russia and the New World”, *RIA Novosti*, 26 February 2022, <https://web.archive.org/web/20220226224717/https://ria.ru/20220226/rossiya-1775162336.html>.

⁸⁴ Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott and Barbara Oegg, “Case Studies in Economic Sanctions and Terrorism”, Peterson Institute for International Economics, 1 May 2008, <https://www.piie.com/commentary/speeches-papers/case-studies-economic-sanctions-and-terrorism>.

Lessons from failure: how the West can effectively use sanctions against China

1. *The right tool for the right job*

The most important lesson from the failure of sanctions to dissuade the Kremlin from its invasion of Ukraine is also the simplest: pick your battles, and make sure the tools are adequate to the task at hand. US Treasury Secretary Janet Yellen has already indicated that the Biden administration would be willing to replicate its actions in the event that China invades Taiwan.⁸⁵

Three major rationales for the use of sanctions have been offered over the course of the build-up to war, and in the subsequent period of conflict. The first is deterrence. From this perspective, sanctions have clearly failed in Ukraine. Russia invaded Ukraine, and did so with maximalist objectives. The second rationale was offered once the war began, where tough sanctions were viewed by some as a tool to undermine regime stability, hoping that punishing oligarchs and driving up the cost of living would cause political unrest sufficient to force Putin into quickly backing down. This approach also failed.

The third rationale – degrade Russia’s ability to maintain its armed forces, and to sustain offensive operations – has been more successful.⁸⁶ Reduced military production as a direct consequence of Western sanctions is an increasingly important factor in Russian considerations, alongside the flood of armaments flowing into Ukrainian hands.

In the event of Chinese military action against Taiwan, it is important to understand exactly what the Western world would intend to achieve. It is unlikely that sanctions would result in a popular uprising against the Chinese Communist Party, just as they have failed to date to provoke an uprising against Putin. Instead, the aim could be to degrade the capabilities of the Chinese military. But again, it is likely that China would not engage in a military confrontation if it was not certain of its ability to carry its endeavour through to the end irrespective of the threat of sanctions. The Chinese state’s 14th five-year plan – adopted in March 2021 – already prioritises reducing “reliance on foreign technology and dependence on imported resources”, thereby insulating the country against external economic threats.⁸⁷ The strength of the Western response to Putin’s war in Ukraine may well have the perverse consequence of encouraging Beijing to further sanction-proof its military plans.

Deterrence is unlikely to work for precisely the reason it failed with Russia; should Beijing feel the situation has deteriorated sufficiently to warrant the use of military force, it would be entering a confrontation with a risk of direct conflict with the United States. The cost of sanctions relative to such a conflict would be small, and unlikely to sway any calculation of expected outcomes.

When a state considers an issue to fundamentally affect its core identity, it will bear significant costs in order to ensure the ‘right’ outcome. Comparable to the Russian nationalist view of Ukraine as a Russian land snatched away by the West, Beijing views Taiwan’s status as unfinished business from the Chinese Civil War. Chinese officials have already indicated a

⁸⁵ “US would use sanctions if China invaded Taiwan, Treasury Secretary Janet Yellen says, citing Ukraine war”, *South China Morning Post*, 7 April 2022, <https://www.scmp.com/news/world/russia-central-asia/article/3173314/us-would-use-sanctions-if-china-invaded-taiwan>.

⁸⁶ David Lawder and Kate Holton, “Russian supply chains next in line for sanctions – U.S. Treasury’s Adeyomo”, *Reuters*, 29 March 2022, <https://www.reuters.com/article/ukraine-crisis-usa-adeyomo-idCNL2N2VW0IM>.

⁸⁷ Nis Grünberg and Vincent Brussee, “China’s 14th Five-Year Plan – strengthening the domestic base to become a superpower”, Mercator Institute for China Studies, 9 April 2021, <https://merics.org/en/short-analysis/chinas-14th-five-year-plan-strengthening-domestic-base-become-superpower>.

willingness to bear great costs to ensure unification. Sanctions, which are predicated on the idea that material costs will dominate decision making, are poorly placed to make significant differences in such matters. As Cornell historian Nicholas Mulder has noted, “the bigger the ideological differences between countries, the less likely sanctions are to work”.⁸⁸

However, should deterrence be the aim, there are still important lessons to take from Ukraine’s experience with Russia.

2. Not alone: sanctions as part of an effective policy mix

The general failure rate of sanctions indicates that it would be unwise to depend upon them alone. The cases where sanctions have succeeded tend to be the ones where they were deployed as part of a complementary policy mix.

The success of sanctions in degrading Russian military capabilities illustrates the point; the loss of capabilities matters only because of the success of the Ukrainian armed forces in defending their homeland. In turn, Ukrainians have relied upon a constant flow of military equipment and ammunition from the West. This scenario would be difficult to replicate with Taiwan; it’s one thing to move military equipment into Ukraine across land borders with NATO members, but it would be quite another to undertake shipments to Taiwan when the waters and airspace surrounding it would be threatened by the Chinese navy and air force.

As Benn Steil from the Council on Foreign Relations has put it, sanctions “rarely work”, and “when they do work, they tend to take a very long time”.⁸⁹ The long-term nature of the pressures generated by sanctions may also make them inappropriate for responding to a war which is over quickly.

If sanctions are to play a role in maintaining Taiwan’s independence from the Chinese mainland, then investing ahead of time in its ability to defend itself will be a critical factor in their success. This was never done in the case of Ukraine – pleas from Presidents Petro Poroshenko and Zelenskyy fell on the deaf ears of three successive UK Conservative governments.⁹⁰

3. Be prepared

The continued flows of gas, oil and hard currency between Europe and Russia is a glaring hole in the sanctions regime that allows the Russian war machine to continue functioning. It is truly astonishing that after eight years of conflict between Russia and Ukraine, Europe entered the current conflict still dependent on Russia for its energy supplies and Nord Stream 2 continued to be built.

Beijing’s central position in the global economy makes the imposition of sanctions an even more difficult prospect, with some 22% of EU imports and 10% of exports coming from and going to China.⁹¹ Similarly, China was the third largest export market for US goods in 2020, and its largest source of imports.⁹²

⁸⁸ Adam Behsudi, “When sanctions work – and when they don’t”, *Politico*, 15 March 2022, <https://www.politico.com/newsletters/politico-nightly/2022/03/15/when-sanctions-work-and-when-they-dont-00017442>.

⁸⁹ Robin Wright, “Why sanctions too often fail”, *The New Yorker*, 7 March 2022, <https://www.newyorker.com/news/daily-comment/why-sanctions-too-often-fail>.

⁹⁰ George Arbuthnott and Jonathan Calvert, “Ukraine spent seven years begging three PMs for weapons — and no one listened”, *The Sunday Times*, 23 April 2022, <https://www.thetimes.co.uk/article/ukraine-spent-seven-years-begging-three-pms-for-weapons-and-no-one-listened-58t5m9kkq>.

⁹¹ “China-EU – international trade in goods statistics”, *Eurostat*, 31 March 2022, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=China-EU_-_international_trade_in_goods_statistics.

⁹² “The People’s Republic of China”, Office of the United States Trade Representative, <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>.

Russia is a smaller and raw materials-based economy, accounting for about one-tenth the output of China. Energy in the form of oil and gas accounts for around 40% of its exports to the world.⁹³ While its position as a key supplier to Europe gives it considerable short-term leverage, oil can be replaced. Gas is more difficult, particularly for landlocked countries, but ways and means can still be found.

China is deeply embedded in critical supply chains across a range of industries. The knock-on effect of local Covid lockdowns within the country on partners overseas serves to illustrate the degree of reliance industries have developed over time. Trump's so-called 'trade war' with Beijing was estimated to have cost the US somewhere between 0.3% and 0.7% of GDP.⁹⁴ The economic consequences of full-scale sanctions – and the corresponding response – would far outstrip this.

For the West to be able to impose meaningful sanctions on China, it must be able to bear the associated costs. It is an unfortunate truth that Europe has already indicated through its unwillingness to immediately sanction Russian energy that there are limits to its altruism, even during a war on its borders. An invasion on the other side of the world is likely to produce less strength of feeling. Factor in the costs of military action, which would be significantly higher, and there is a genuine risk that sanctions would amount to a slap on the wrist rather than genuine punishment. If Western governments wish to make credible threats, they will need to be able to carry through sanctions despite economic hardship. Given the central role China plays in many supply chains, this is likely to require action ahead of time to reduce the cost of action.

The disruption caused by COVID – both in the form of lockdowns and snarled logistics – demonstrate how difficult even a partial replacement of China's role in global supply chains can be, even with a degree of advance notice. Meaningful sanctions would involve a far larger decoupling, and accordingly far greater disruption.

In order to make this a viable policy, sanctions should be planned in advance, and clear warning given to relevant private sector actors and sectors that they will be expected to cease business with China in the event of a conflict with Taiwan. This would have the natural effect of encouraging the development of alternative sources of supply outside Beijing's control based on the degree of perceived risk. If this is not seen as sufficient preparation, then governments may wish to step in to join the private sector in building capacity (whether domestically or in partner nations), widening sources of supply, or directly encouraging the onshoring of critical process elements in sensitive industries.

In particular, supply chains should be examined for critical reliance on China, and the feasibility of decoupling analysed. Links that have taken decades to build will not be undone in the space of a few months. The greater the preparatory work undertaken now, the easier any switchover will be in the future. It is worth noting that this reversal of globalisation, or at least relocation of activity, is likely to leave the West permanently poorer. That loss of income is the price of greater strategic autonomy.

4. Do the groundwork

The sanctions timeline above shows a Western world scrambling to respond to Putin, rather than taking the initiative. Months of negotiations between EU member states, the UK and the

⁹³ "Russian Federation: 2020 Article IV Consultation", International Monetary Fund, 9 February 2021, <https://www.imf.org/en/Publications/CR/Issues/2021/02/08/Russian-Federation-2020-Article-IV-Consultation-Press-Release-Staff-Report-50068>.

⁹⁴ Ryan Hass and Abraham Denmark, "More pain than gain: How the US-China trade war hurt America", *Brookings*, 7 August 2020, <https://www.brookings.edu/blog/order-from-chaos/2020/08/07/more-pain-than-gain-how-the-us-china-trade-war-hurt-america/#cancel>.

United States muddied the waters and diluted expectations, which resulted in extended bouts of haggling over the details of proposed measures. The EU's continuing negotiations over a potential oil embargo perfectly illustrate the point that failing to do the work ahead of time means ceding the initiative.

It would be essentially costless for the West to begin considering its gameplan for Taiwan today. Working out which states would be more exposed to economic hardship from disruption to different economic sectors is a critical precursor to developing a viable coalition; it would allow countries to understand each other's national interests ahead of time, and to focus on industries where the costs are skewed to China's disadvantage.

Planning out the broad strokes of sanctions policies and where the West's red lines should be would enable a rapid and cohesive reaction to any territorial incursion, and also enable clear and credible statements in advance.

5. Be predictable

Vague statements and an unwillingness to explicitly discuss policy options meant that the West's pre-conflict stance did not adequately communicate the sanctions which would eventually be imposed. The clearest public statements lacked concrete proposals, while the more solid options suggested did not sound sufficiently dissimilar to previous rounds of sanctions to indicate the steep change that would actually result.

Clear statements in advance offer the greatest possible deterrent effect, so long as they are believable. The West's actions in Ukraine have improved its credibility when it threatens to bear economic pain for the benefit of its allies, at least in the short run. Actions to build supply chain resilience and decrease dependence on China would further increase the credibility of threats, thereby increasing their impact.

Public plans and preparations for sanctions can in some cases act directly as a deterrent by providing commitment to a course of action; rearranging supply chains and building resilience is not cheap, and taking these steps indicates a willingness to act that is not conveyed by words alone. In the event that the suggested costs are sufficiently large, the pre-commitment alone may deter action on the part of the other party. In turn, attempts to build resilience to sanctions indicate an intent to carry through with action regardless of economic hardship.

6. Share the burden

The West's response to Russia's invasion has been delayed in part by the simple fact that the cost of sanctions to the implementing state varies wildly across the coalition. Germany is highly dependent on Russian gas, which makes up less than 4% of supply to the UK.⁹⁵ While the UK is still exposed to the higher prices caused by the disruption to European supplies and increased demand for other sources, it is not at risk of a direct shut-off.

The EU's protracted negotiations over a potential oil embargo illustrate that these differences can delay, and in some cases kill off, measures which would impose a significant cost on the sanctioned state. In the event of sanctions on China, the costs would again be unevenly distributed across countries. There would be significant temptation for states within the EU to veto bloc action, impeding coalition formation.

The nature of sanctions means that the countries which are hit hardest (in gross terms) by the introduction of measures are correspondingly those which it is most important to have

⁹⁵ "Russia-Ukraine and UK energy: factsheet", Department for Business, Energy & Industrial Strategy, 25 February 2022, <https://www.gov.uk/government/news/russia-ukraine-and-uk-energy-factsheet>.

on-board; it does not benefit a country to sanction trade it does not participate in. While it is possible to view the lower costs faced by countries doing less trade with Russia or China as a bonus for divesting ahead of time, it is equally possible to frame it as a form of ‘free-riding’ where states demand costly action from others, without contributing themselves.

If the West is to implement significant sanctions on China, it would benefit from developing a mechanism to share the cost of these sanctions between participating states. Being able to offer substantial payments to those countries hardest hit would go a long way in building the strongest coalition possible, and in maintaining the unity of that coalition once the effects of sanctions start to bite.

7. Keep innovating

One of the most effective measures introduced in response to Putin’s invasion of Ukraine was the destruction of his ‘war chest’. Russia began the conflict with \$640 billion in foreign currency reserves, which was intended to allow the state to operate under sanctions. A little over two weeks after Russia invaded, Finance Minister Anton Siluanov stated that “about half of these reserves” had been frozen, while UK Foreign Secretary Liz Truss put the figure closer to 60%.^{96,97} The portions that remained accessible were held in gold and yuan.⁹⁸ This response took Putin by surprise. Russia’s strategy for coping with sanctions by relying on reserves held overseas, based on the understanding that the West would not cut off access to the global financial system, obviously failed.

Equivalent action cutting China off from the global financial system would be a significant blow. Beijing is already drawing up plans to protect Chinese assets and reserves from equivalent sanctions in the event of war over Taiwan.⁹⁹ China will not be caught by surprise in the same manner that Russia was. While it will not be able to follow Russia in relying on a larger partner country as a source of foreign exchange, it will certainly be taking careful note of the West’s policies, and looking to potential workarounds to maintain the utility of its \$3.2 trillion in reserves.¹⁰⁰

It is worth noting that China would have significant room for reprisals, with authors speculating that retaliatory measures could include nationalising parts of the huge stock of foreign direct investment in the country, or refusing to issue payments on foreign denominated debts.¹⁰¹ Both of these possibilities speak to the larger point that what works with Russia – a petrostate with an economy the size of Australia’s¹⁰² – will not necessarily work with China.

It is necessary to keep innovating, to shut off potential workarounds, and to identify unique points of leverage against the Chinese state.

⁹⁶ “Half of Russia’s foreign exchange reserves frozen due to sanctions – Finance Minister”, TASS, 13 March 2022, <https://tass.com/economy/1421403>.

⁹⁷ James Crisp, “Western sanctions pushing Russia back into ‘Soviet era’, says Liz Truss”, *The Telegraph*, 5 April 2022, <https://www.telegraph.co.uk/world-news/2022/04/05/western-sanctions-pushing-russia-back-soviet-era-says-liz-truss/>.

⁹⁸ Elsabe Loots, “Russia sanctions: new impetus for Chinese yuan to move up the reserve currency ladder?”, *The Conversation*, 22 March 2022, <https://theconversation.com/russia-sanctions-new-impetus-for-chinese-yuan-to-move-up-the-reserve-currency-ladder-179602>.

⁹⁹ Sun Yu, “China meets banks to discuss protecting assets from US sanctions”, *Financial Times*, 1 May 2022, <https://www.ft.com/content/45d5fcac-3e6d-420a-ac78-4b439e24b5de>.

¹⁰⁰ Amanda Lee, “China’s forex reserves fall by US\$26 billion amid ongoing capital outflows following Russian invasion of Ukraine”, *South China Morning Post*, 7 April 2022, <https://www.scmp.com/economy/economic-indicators/article/3173454/chinas-forex-reserves-fall-us25-billion-amid-ongoing>.

¹⁰¹ Hung Tran, “Wargaming a Western Freeze of China’s Foreign Reserves”, *Atlantic Council*, 29 April 2022, <https://www.atlanticcouncil.org/blogs/econographics/wargaming-a-western-freeze-of-chinas-foreign-reserves/>.

¹⁰² In nominal terms. Purchasing Power Parity measures would produce a very different ranking, but given that international trade is under discussion nominal measures are appropriate.

8. Be realistic

The final lesson from the failure of sanctions to deter Russian aggression is that it is important to be realistic. Putin is obsessed with Ukraine; the West has clear limits in how far it is willing to go to prevent Putin fulfilling his goals. While Putin is willing to stare down a 12% drop in GDP to win his war, Germany is explicitly unwilling to risk a 2% drop to stop him.

The willingness of European nations to bear costs to protect Taiwan is likely to be lower than their willingness to protect their own borders, the importance of the semiconductor industry notwithstanding. The willingness of European populations to face another drop in living standards following the current cost of living crisis is also far from clear.

If the West does intervene in any conflict involving Taiwan, it will need to choose measures that it can maintain for an extended period, including in the face of China retaliating with its own targeted sanctions. Knowing its own willingness to bear costs is crucial to avoiding a humiliating climbdown; there is little point in launching a trade war you don't intend to prosecute to its conclusion.

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