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Nigel Gould-Davies

Economic effects and political impacts: Assessing Western sanctions on Russia

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Abstract

This brief assesses the effectiveness of Western sanctions on Russia, and their likely future impact. It examines the unique features of Russia as a sanctions target in the context of global sanctions experience. It then considers the goals that sanctions are intended to achieve, their impact so far, and the second-order effects of Russia's responses. It concludes that, although the factors that typically correlate with sanctions success are absent, sanctions on Russia have nonetheless achieved important goals relatively quickly. Their impact will increase over time. Though speculative at this stage, recent oligarch sanctions and more stringent scrutiny may have significant consequences. They pose new and difficult choices for Russia's business elite, much of which is dependent on the global economy. How oligarchs resolve these dilemmas has important implications for Russia's domestic evolution.

Keywords: Russia, economy, sanctions, trade flows, oligarchs

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1. Introduction

In 2014 the United States and European Union imposed economic sanctions on Russia in response to its actions in Ukraine. This marked a new phase in Western policy. Having sought, since the end of the Cold War, to integrate Russia into the global economy, the West now began to limit Russia's access to it.

This also marked a new phase in the history of sanctions. Though used since ancient times, sanctions were only widely recognised as a peacetime policy tool after the First World War. Since the 1990s their use has expanded significantly, and after 9/11 potent new forms were innovated.[1] But the sanctioning of Russia is unprecedented. No state of its size and role has, in recent times, been subject to major economic and financial restrictions. These include the application of measures hitherto used only against "rogue states" and terrorist networks. Studying sanctions on Russia thus offers lessons both for policy towards Russia, and for sanctions as a policy instrument.

Several studies have tried to measure and predict the economic effects of sanctions on Russia.[2] But few have sought to assess their actual or potential political *effectiveness*. For the policy world this is the key issue. Sanctions are not an end in themselves, but a means to achieve – usually with other instruments – larger political goals. Rival views contend in policy and public debates, but their logic and assumptions are rarely made clear. There is instead much "normative economics" that derives analytical conclusions from policy preferences, rather than the other way round. Those who want to punish Russia for its behaviour tend to argue that sanctions will be effective, while those who want to improve relations argue the opposite.

This paper seeks to fill the gap in analysis of political consequences by addressing two questions: How should we evaluate the effectiveness of sanctions? And how effective are they, and are likely to be in the future?

Some of the most significant measures date only from 2017-18. Even their economic effects are not yet clear. Assessing their political effectiveness – an inherently less precise and more speculative task – is harder still. But we can draw upon precedent, logic and evidence to explore key issues and arguments. Where it is too soon to offer answers, we can clarify the factors that might yield them in due course. We should push analysis as far we legitimately can and no further, and be candid about the limits of our knowledge.

This paper will first discuss major findings of the sanctions literature and, in this light, the distinctive features of Russia's role in the global economy. It will then examine the major sanctions imposed on Russia and consider how their economic impacts may be transmitted into political outcomes. It will conclude with implications for Russia policy and for sanctions.

2. Sanctions in historical perspective

Economic sanctions are "the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations."[3] They are an instrument of foreign policy, distinct from

[1] For the fullest account of the origin and significance of these new methods, see Zarate (2013).

[2] For the most recent and comprehensive assessment, see Korhonen et al (2018).

[3] The growing use of sanctions has spawned a large scholarly and analytical literature. The most important and comprehensive work is Hufbauer, Schott, Elliott, and Oegg (2008). This section summarizes and interprets its main findings. The definition of sanctions given here is from their Introduction, p. 3. For a similar discussion, see Biersteker and Bergejik (2015).

ordinary protectionist barriers (such as tariffs or quotas) erected for domestic economic reasons. What can they achieve, how do they work, and what determines their success?

Sanctions are designed to support four kinds of foreign-policy goals. While most specific sanctions measures aim to achieve more than one of these, it is helpful to clarify the distinct logic of each.

1. **Deter future behaviour.** Sanctions aim to prevent the targeted state from carrying out further unacceptable actions. They can deter in two ways. *Deterrence by punishment* changes incentives. It imposes costs that convey resolve and carry the threat of stronger measures against further transgressions. *Deterrence by denial* weakens capabilities. It imposes costs that make it materially harder for the target state to take further unacceptable actions, even if it still intends to do so. A familiar example is a technology transfer embargo.

2. **Reverse past behaviour**. Sanctions aim not only to prevent future actions, but to reverse past ones. Here, their goal is not deterrence but "compellence".[4] Coercing a country to reverse an action it has already taken is inherently harder than to persuade it not to attempt it in the first place. Actions create new political realities, stakes and commitments. Even if a target state would have avoided an action had it predicted the costly international response, this does not necessarily mean it will reverse an action that unexpectedly provokes this.

3. **Regime change.** Here, the goal of sanctions is to achieve a change not just of policy but of the political authority driving it. They threaten or impose costs so great that the government steps down or is forced by popular pressure to do so.

4. **Condemn transgression**. Sanctions may be used to condemn unacceptable behaviour and reaffirm violated norms and standards. This expressive purpose is akin to a sporting boycott or a limited military strike. But such measures may have concrete, as well as symbolic, consequences if they influence the perceptions, expectations and future behaviour of other actors.

In sum, sanctions "work" by deterring actions, reversing actions, undermining a regime, and upholding principles of international order. The last of these functions is mainly symbolic (which is not to say unimportant). The other three are instrumental: their efficacy derives from threatening or imposing costs on the target state that exceed the benefits it derives from its sanctioned behaviour. For sanctions to succeed, compliance with their demands must be preferable to defiance of them. How likely is this condition to be fulfilled? The most comprehensive and influential study concludes that they have been "at least partially successful" 34% of the time.[5] But this is an average score derived from analysis of 115 cases since 1914. What factors influence the probability that a specific sanctions measure will succeed? Five factors stand out:

Goal. As with any instrument, the more ambitious the goal of sanctions, the less likely they are to succeed. Sanctions are most effective in inducing modest policy change, and least so in stopping military action or bringing about regime change – though there are successful cases of both.[6]

Prior relationship. Sanctions are more likely to be effective if "sender" and "target" states were previously partners rather than adversaries, especially if they enjoyed a strong trading relationship.[7] A strong prior relationship sensitises the target – sanctions are an unwelcome development to be resolved, not an expected one to be borne – while a high level of trade makes the target economically more vulnerable.

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[4] For the classic statement of this distinction, see Schelling (1966).

[5] Hufbauer et al (2007).

[6] See Hufbauer et al (2007). See also UN Targeted Sanctions Consortium (2013), which finds that sanctions intended to constrain or signal targets are nearly three times as effective (27-28% of the time) as sanctions intended to coerce a change in behaviour (only 10% of the time).

[7] "Sender" refers to the state, or states, applying sanctions. "Target" refers to the state against whom these are applied.

Target state's regime. Sanctions are more likely to succeed against democratic than authoritarian regimes. The latter are better able to distribute the domestic costs of sanctions, and thus to prevent economic discontent from becoming a political threat.

Nature and timing of sanctions. Sanctions may target trade or financial flows. Export embargos have traditionally been the dominant form. But recent evidence suggests that financial sanctions, on their own, are almost as effective as a full combination of trade and financial restrictions.[8] Furthermore, this finding emerged just as the United States was innovating potent new forms of financial sanctions after 9/11. It is therefore very likely that the contemporary significance of financial sanctions is greater still.

Timing also matters. Sanctions are typically most effective when they impose high early costs, creating a shock effect that their target will struggle to withstand. Conversely, if applied slowly and incrementally, the target will find ways of building resilience. Sanctions policy advice is "slam the hammer, don't turn the screw".[9]

International support. Sanctions are more effective if the sending state builds wide international support for their implementation – so long as this is not won at the price of diluting sanctions and undermining their efficacy. Conversely, if other countries are willing and able to supply sanctioned goods and services to the target, sanctions are less likely to be effective.

Imposing sanctions on Russia, then, might appear an unpromising endeavour. Sanctions have been applied in response to major policies that will be very difficult to reverse; the prior relationship between Russia and the West was poor; Russia has a highly authoritarian regime; and Russia is a major power that will be impossible to isolate. All the correlates of sanctions' success are absent.

But there is more to say. While statistically significant, the correlates of sanctions' effectiveness explain only 15-24% of variation in outcomes. Reliable prediction of sanctions' efficacy in any individual case "still lies beyond the grasp…of current political and economic theories".[10] There is no substitute for detailed study of Russia itself, its distinctive position in the global economy, and the specific sanctions that have been applied to it.

3. Russia's position in the global economy

This is not the first time the West has imposed sanctions on Russia. During the Cold War, transfer of militarily useful technologies to the Soviet bloc were restricted by the Coordinating Committee for Multilateral Export Controls (CoCom). In 1974 the US Congress passed the Jackson-Vanik Amendment that linked normalisation of trade relations to Jewish emigration from the Soviet Union – a measure repealed only in 2012. Among other significant sanctions, the United States halted grain exports to the Soviet Union following the invasion of Afghanistan in 1979, and imposed sanctions on the building the Trans-Siberian gas pipeline two years later in response to martial law in Poland.

In different ways, each of these precedents highlights how political divisions can arise when applying sanctions: between president and Congress in the case of the Jackson-Vanik amendment; between a major interest group (farmers) and the government in the case of the US grain embargo; and between the US and European allies in the case of pipeline sanctions. Such lessons are relevant to sanctions policy today. But overall, sanctions played a relatively minor role in the Cold War. The Soviet Union's avowedly anti-market state socialism supported few economic ties with the West. It permitted no private foreign investment, and "traded" (in fact, bartered under inter-state agreements) largely within the autarchic communist bloc. The major exceptions were, from the 1960s, oil sales

[8] Hufbauer et al (2007), pp. 168-70.
[9] Hufbauer et al (2007), 168.
[10] Hufbauer et al (2007), pp. 188-92.

and grain purchases, and, from the 1970s, foreign loans. Such ties became systemically significant.[11] But the main constraint on a deeper economic relationship remained the state socialist system, not Western sanctions. Today, by contrast, sanctions, not ideology, are the main constraint on Russian-Western relations.

Five features define Russia's position in the global economy and hold implications for the impact of sanctions. First, Russia is the world's 6th biggest economy (measured in terms of purchasing power parity, PPP). No large economy has ever been subject to significant sanctions, with two partial exceptions. In 1935, Italy, the 8th largest economy at the time, was sanctioned by the League of Nations following its invasion of Abyssinia. But major powers did not apply restrictions on oil sales effectively, rendering sanctions ineffective. Then in 1940 the United States froze Japanese assets and suspended oil sales to Japan, then the 7th largest economy. In this case, the sanctions were so severe that they may have pushed a desperate Japan towards war with America. There has been no comparable case in the post-war period.

Second, Russia's trade dependence is limited, with a trade/GDP ratio at around 40%. Furthermore, most of Russia's trade consists of raw material exports, above all oil and gas. This is fundamentally important not only to Russia but to global energy markets. This makes an oil and gas export embargo on Russia, as was practised on Iraq and Iran, unthinkable. The participation of major Western companies in some of Russia's most significant oil and gas projects also militates against such a move.

Third, as a major power Russia cannot be isolated in the way that smaller sanctions targets have been. Even if America and Europe maintain a common sanctions position, Russia will be able to turn to relationships elsewhere – notably with China, now the world's biggest economy (in PPP terms).

Fourth, as an assertive power Russia has the motivation, as well as means, to retaliate with measures of its own. While trade disputes often involve tit-for-tat tariff hikes, sanctions targets, being so much smaller than sending states, have rarely responded with "counter-sanctions". But just as sanctioning states cannot contemplate an embargo on Russian energy, so Russia cannot afford to disrupt supply to major customers, given its heavy dependence on these revenues. Neither side can afford to disrupt the major part of their trading relationship. In this, a compelling mutual self-interest binds them. Any serious attempt to disrupt it would not merely invite a severely costly response, but be inherently self-harming.

The fifth feature of Russia's position is that a significant part of its economic elite is more closely tied to, even dependent on, the global economic and financial system than the country as a whole. This has not generally been true of other sanctions targets, especially recent cases such as Iran, Libya and North Korea.

These features of Russia's global economic position in turn imply three things about the potential effectiveness of sanctions on it. First, Russia's economic size, limited exposure to global trade and critical role as an energy supplier mean that the economic effects of feasible trade restrictions, while real, will be limited. Traditional trade sanctions alone will at most impose chronic pain, not acute crisis, and are unlikely to achieve major political outcomes. Demanding that they do is an unrealistic test of sanctions efficacy.

Second, Russia can retaliate with sanctions of its own to undermine the political will to maintain those imposed on it. Sending countries thus face additional costs, beyond those arising from the sanctions they impose, which will need to be politically managed.

Third, the high degree of Russian elite exposure to Western economies introduces a novel element. Elites are usually well placed to shift hardship onto the wider population. For this reason, sanctions elsewhere have been criticised for harming ordinary citizens most and those close to power

[11] For an excellent account, see Gaidar (2007). For a spirited revisionist argument, see Sanchez-Sibony (2014).

least, prompting design of "smart sanctions" to target powerful individuals rather than populations. Will Russian elites' capacity to avoid sanctions costs be sufficient to match the scale of their vulnerability, especially if "smart sanctions" honed against other countries are applied to them? At the very least, the relatively globalized character of Russia's economic elite raises the prospect that significant sanctions effects could be exerted through it.

By looking first at broad lessons from the history of sanctions, and then at the distinctive features of Russia's own position, we now have some fruitful lines of enquiry into the prospects and limits of sanctions on Russia. We can now consider the specific measures applied against Russia since 2014, examine their direct economic effects, and consider their political effectiveness.

4. Sanctions and standards applied to Russia

Since 2014 the United States, European Union and several other states have imposed a range of sanctions on Russia.[12] Their aim was not to compel Russia to reverse its policy by ending its intervention in Ukraine and returning Crimea. Rather, they were intended to achieve three goals. First, to deter Russia from escalating its military aggression. Second, to condemn violation of international law and European norms by making clear there could be no normal relationship with the violator.[13] Third, to encourage Russia to agree a political settlement by increasing the costs of its behaviour.

Sanctions have escalated over time and varied slightly among sender countries. For the purpose of analysing their political-economic significance, it is helpful to distinguish several features:

Targets. Sanctions have targeted individuals and sectors. Individual sanctions (in the case of the United States, Special Designated Nationals (SDNs)) prohibit transactions with named state officials, heads of key state companies and, later, heads of major private companies.

Sanctions on key economic sectors have banned sales of military and dual-use technologies. They have restricted all but very short-term financing to the financial services and energy sectors (and have since further tightened permissible loan maturity to 14 days for financial services and 30 days for energy). And they have prohibited participation in oil projects that involve deep water (over 150 metres), Arctic offshore and shale exploration and production (the United States later expanded these to include any such project in which a Russian company has a substantial interest, whether or not in Russia). The 2017 Countering America's Adversaries Through Sanctions Act (CAATSA) also provides for sectoral sanctions on railway, metals and mining sectors. Though not so far imposed, their inclusion among potential measures signals that sanctions could be significantly widened.

Scope: EU sanctions on Russia apply to EU citizens and EU-registered companies and organizations. The reach of U.S sanctions goes much further. The 2014 Ukraine Freedom Support Act provides for the United States, at presidential discretion, to impose secondary sanctions on foreign entities that violate U.S. sanctions on Russia. CAATSA made these sanctions mandatory. Any individual or company around the world now faces severe U.S. financial restrictions unless it complies with America's own sanctions on Russia. [14] This is not the first time America has sought to give sanctions extra-territorial force. In 1981 it tried (through the Commerce Department) to exercise this power to prevent European companies helping to build the Trans-Siberian pipeline.[15] After 9/11 the US Treasury innovated powerful financial sanctions, based on the dollar's status as a reserve

[12] Other states imposing sanctions include Canada, Australia, New Zealand, Switzerland, Norway, Iceland, Montenegro, Albania and Liechtenstein.

[13] For a good discussion, see Christie (2016).

[14] Specifically, the Ukraine Freedom Support Act of 2014, as amended by CAATSA, prohibits or restricts correspondent accounts or payable-through accounts by foreign financial institutions that violate sanctions.

[15] Perlow (1983).

currency. This enabled America to exert "strategic suasion" on actors around the world to comply with U.S. sanctions on terrorist networks, and later on Iran, Libya and North Korea.[16]

Duration. While EU sanctions, must be renewed unanimously every six months, CAATSA transferred substantial power to impose and lift sanctions from the president to Congress. This reduces the likelihood that, even in the most optimistic scenario, sanctions will be lifted soon. Recall that the Jackson-Vanik amendment, passed despite executive resistance, was in force for thirty-eight years.

On 6 April 2018 the United States unilaterally imposed further sanctions, this time without prior EU co-ordination. These sanctions designated seven major oligarchs and their companies, as well as seventeen senior government officials (the latter include Gazprom CEO Alexei Miller, despite sectoral sanctions not covering the gas industry). The harshest words and measures were reserved for Oleg Deripaska and eight companies he owned or controlled, including Rusal, one of world's largest aluminium producers. As a result, he and they were largely cut off from the global economic and financial system, triggering prices crashes of company stock, disruption of aluminium markets and board resignations. They demonstrated America's structural power: its unrivalled ability, by virtue of its key role in the global financial system, to impose severe costs on its targets.

Two further features of the 6 April sanctions are worth noting. First, they were justified not as a response to specific Ukrainian events but a broader "pattern of malign activity around the globe" that explicitly referred to a range of Russian policies, including cyber-hacking, electoral interference, Syrian intervention, as well as occupation of Crimea and intervention in eastern Ukraine. The rationale given for targeting oligarchs was that those "who profit from this corrupt system will no longer be insulated from the consequences of their government's destabilizing activities".[17] The breadth of this critique makes it unclear what actions, even in principle, Russia could take to have sanctions lifted. This reinforced the sense that they were here to stay. Second, the mix of targets chosen, from a much wider range of possible candidates, highlighted the unpredictability of these sanctions, and raised the prospect that other individuals could be added at any time.[18]

Finally, Western countries are now scrutinising incoming foreign wealth more closely. Though this applies to money from any source, it is motivated primarily by concerns about Russia. The UK in particular, Russians' favoured destination for their wealth, is moving towards higher standards of probity and transparency of money flowing into Britain. These measures include scrutiny of investor visas and the use of Unexplained Wealth Orders that require investors to prove the legitimate origins of their wealth. Especially significant was Britain's decision in April 2018 to require the Overseas Territories it governs to set up public registries of beneficial company owners by 2020.[19] These lightly-regulated jurisdictions are a favoured destination for those wishing to conceal their wealth, including an estimated £68bn of Russian money over the past ten years.[20]

In sum, since 2014 sanctions have escalated, expanded and hardened. Measures hitherto applied to terrorist networks and "rogue states" are now applied to major business people and internationally-listed companies of one of the world's biggest economies. The US Treasury's Office for Foreign Assets Control (OFAC) has innovated a new category of sanctions, the Sectoral Sanctions

[16] Zarate (2013) provides the most comprehensive insider account.
[17] US Treasury (2018). Even the otherwise sweeping CAATSA had referred to compliance with the Minsk accords as a reason for waiving sanctions. The imperfect but convenient shorthand "oligarch", used by the U.S. Treasury, is used in the present paper.
[18] The inclusion of Viktor Vekselberg, an oligarch with a low public profile, evoked particular surprise. Soon after he was sanctioned, it became known that he had been questioned by the Mueller investigation two months earlier. Media reports also linked one of his companies with payments to President Trump's lawyer, Michael Cohen. This suggested to some that sanctions targeting may have been informed by the Mueller investigation. See, for example Washington Post (2018).
[19] Financial Times (2018b).
[20] Global Witness (2018).

Identifications (SSI).[21] Key Russian individuals and sectors face an international environment that is far more stringent, restrictive and unpredictable than ever before.

4.2. Economic effects and political consequences

What are the effects of Western sanctions on Russia?[22] While difficult to disentangle from the impact of lower oil prices, estimates suggest that from 2014-2017 sanctions reduced GDP by 2-2.5%.[23] The Russian economy is projected to grow by 1.5-1.7% a year to 2023. This is substantially lower not only than global growth (3.7-3.9%) but growth of other developed countries (1.5-2.5%). Even the rest of the Commonwealth of Independent States will grow substantially faster (3.5-3.9%).[24] Russia is thus very unlikely to achieve Putin's goal of exceeding the global growth rate, described in his 2018 address to the Russian parliament as a "fundamental condition for a breakthrough in resolving social, infrastructure, defence and other tasks".[25] This failure will accelerate relative decline and, other things being equal, bring forward difficult policy choices

As predicted earlier, Russia's size and role in the global energy industry mean that overall sanctions costs are real but limited. But their intent was never to cause a rapid decline in GDP. This is rarely how sanctions even on smaller and more vulnerable targets have worked. It is not how the effectiveness of Russia sanctions should be assessed.

More significant is the impact of sanctions on their direct targets, the energy and financial sectors. International oil companies (IOCs) have shelved greenfield development plans, depriving key state companies of Western partners. In 2014, Shell suspended plans to develop the Bazhenov shale with Gazpromneft. ExxonMobil has suspended participation in multiple projects envisaged in its 2011 framework agreement with Rosneft. This implies that up to $500bn in planned investment will be foregone – and, more significantly, technology and skills that only IOCs can currently provide.[26] The fact that Exxon announced these project halts only in 2018 suggests the full consequences of sectoral sanctions are still working themselves out.

Gazpromneft will seek to develop shale oil on its own, but the absence of a Western partner is likely to mean a delay of at least five years. The impact on Arctic and deep offshore development will be more severe. Investment, technology, expertise and project development lost today mean future growth foregone. Thus, while the West cannot embargo Russia's energy exports, it can hinder its future productive capacity. In contrast to many previous, trade-focused sanctions cases, the effects of sanctions on Russia are likely to cumulate rather than diminish over time. In early August, the Secretary of the Russian Security Council Nikolai Patrushev, told regional heads that Western sanctions had "identified the problem of vulnerability and dependence of the domestic energy sector on foreign capital and technology", creating "serious problems" in the oil and gas sector.[27]

Unsurprisingly, Russia's relationship with the global economy has weakened due to sanctions. Lending from all major countries "has declined, in many cases radically".[28] Foreign bank exposure and FDI inflows have both halved since 2013. Since 2013, too, the proportion of Russian interbank loans and deposits outside the country has fallen from 60% to 37%. In their most important foreign

[21] On this innovation, see Skadden (2015).
[22] This paper focuses on present and future welfare implications. For a wider range of effects, see Korhonen et al (2018).
[23] Gurvich (2018).
[24] IMF (2018), pp. 240-44.
[25] Putin (2018).
[26] Reuters (2018a).
[27] Interfax (2018).
[28] Korhonen et al (2018), p. 20.

location, the UK, they have fallen from 24% to 11%.[29] A wave of Russian companies has delisted from the London Stock Exchange, hitherto the most attractive foreign exchange for them. The exception proves the rule: the 2017 flotation of Deripaska's EN+, the biggest Russian listing since 2012, was conducted in part to avoid sanctions: much of the capital raised was used to repay a loan to VTB, a sanctioned entity.[30]

What have been the political consequences of these economic effects so far? Russia has not reversed its behaviour: it still occupies Crimea and continues to intervene militarily in eastern Ukraine. Nor have sanctions led to regime change. But they were neither intended nor expected to do either. As we have seen, sanctions were imposed to encourage Russia to reach a political settlement; to deter military escalation; and to reaffirm principles of international order. How have these goals fared?

At key moments, sanctions appear to have curbed Russian escalation. In particular, as Stanislav Secrieru has argued:

The second wave of sectoral sanctions in September 2014 stopped Russia's offensive against almost defenceless Mariupol. The threat of new sanctions impeded the full legitimisation of the separatists' political structures in Donbass: at the last moment, Russia refrained from recognising the results of the November 2014 'elections' in DNR and LNR.[31]

Even some who call for sanctions to be modified acknowledge this.[32] Russian restraint appears to have been induced not so much by sanctions already imposed, but by the credible threat of more severe measures.[33] As with all deterrence, it can be hard to establish why something did not happen, and other factors were present, including the unexpected strength of Ukrainian ground forces. But this merely highlights the fact that sanctions are rarely the sole instrument used to achieve a goal. The key point is that, as noted earlier, the deterrent function of sanctions works in part by instilling expectations of future costs if unacceptable behaviour escalates. This is effective because the West enjoys "escalation dominance" in economic conflict: a menu of measures, such as debt sanctions and isolation from the global payments system, to which Russia would struggle to respond.

Sanctions have also powerfully signalled international condemnation of Russia's behaviour. Since they have been costly to sender countries, they are more significant conveyors of resolve than mere verbal condemnations. The cohesion they have instilled has supported subsequent actions, notably the unprecedented co-ordinated expulsion of 150 diplomats following the Novichok nerve agent attack in Salisbury.

Sanctions have not succeeded in the third and most ambitious goal of inducing Russia to reach a political settlement. The Minsk agreements have not been implemented. Actions such as Russia's recognition of identity documents issued by the Donetsk and Lugansk People's Republics, make fulfilment appear remote.

4.2. Russian responses

Russia has responded to sanctions in four ways: adaptation, evasion, avoidance and retaliation. These have produced important second-order effects, which must be factored into assessment of the consequences of sanctions.

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[29] IMF (2017), Table 7 p. 35.

[30] Only two Russian companies now have full listings. The number with a secondary listing has fallen from 67 in 2011 to 44 in 2018. See Financial Times (2017).

[31] Secrieru (2015). On sanctions' effectiveness in curbing Russian escalation in Ukraine, see also Christie (2016).

[32] Fischer (2017).

[33] Bloomberg (2014).

Adaptation. As any state suffering an external shock would do, Russia has used policies and resources to limit the impact of sanctions. Directly and indirectly, the state has bailed out vulnerable banks and companies.[34] Four years on, the state is offering new forms of support through credit lines, reinsurance, possible nationalisation of sanctioned assets etc. [35] However, the terms of such support may not always be welcome to oligarchs.[36]

In July 2018, after lobbying from the Russian Union of Industrialists and Entrepreneurs (RSPP) to provide "systemic support to victims of sanctions", the government drew up a comprehensive plan to combat the impact of sanctions, and set up a working group to co-ordinate this. The plan will be rolled out in coming months.[37] It includes:

- ways to reduce use of the dollar in foreign trade payments.
- ending fines on sanctioned companies for not returning hard currency to Russia;
- ways to support access of sanctioned companies to the domestic financial market
- further import restrictions on foreign goods
- "Special Administrative Regions" for companies to re-register, allowing them not to reveal ownership structure (the government has been withholding some data about state procurement since late 2017).[38]
- financial sanctions on Ukrainian officials and other individuals
- measures to reduce dependence on foreign patent holders

The new sanctions era has also heightened Putin's long-standing preoccupation with reducing external financial vulnerability, driving an even more conservative fiscal policy. A 2% VAT tax rise is planned for 2019 despite a projected budget surplus and ratings upgrade back to investment grade. Russia's reserves are also climbing back towards $500bn, with a steadily higher proportion of them held in gold. There are also signs of "anticipatory adaptation" to reduce exposure to further potential sanctions. Since the April 6 US sanctions, Russia has sold 80% of its US Treasury bonds, possibly to pre-empt a potential asset freeze.[39]

The sanctions prohibition on providing anything more than short-term financing has added to oil companies' transactions costs, but not fundamentally constrained their ability to conduct day-to-day financial operations.[40] The IMF assesses that "most corporates have enough foreign exchange to cover their short term external debt obligations".[41]

Evasion. Russia is seeking ways to induce Western companies to violate sanctions, knowingly or not, and so undermine their implementation. Proposals are being drafted to allow companies to conceal their ownership structure and details of their agreements. The government is also exploring the creation of a "cryptorouble" to conceal payments.[42] But these measures may have adverse consequences. In particular, by making parts of the economy less transparent they will reduce the

[34] A notable example was Rosneft's financing by Otkritie Bank, Russia's biggest private lender, in late 2014 to meet debt servicing needs (Otkritiye has itself since been rescued by the Central Bank).

[35] Reuters (2018d). For example, support for Renova is being provided by Promsvyazbank, which was taken over by the Central Bank in December 2017. Promsvyazbank is also being used to protect defence procurement from sanctions risk. See Reuters (2018c) and Vedomosti (2018e). From 2014-16 five large SOEs were also forbidden from to increasing their net foreign assets.

[36] Vedomosti (2018f).

[37] Kommersant (2018), Vedomosti (2018a), Vedomosti (2018g), Vedomosti (2018h).

[38] The Central Bank does not want banks and other financial institutions to be allowed to register in such a zone, as this could undermine financial stability.

[39] US Treasury figures give aggregate holdings by Russian residents and do not distinguish between Central Bank, commercial banks and others.

[40] Reuters (2017b).

[41] IMF, (2018), p. 6.

[42] RBK (2018b). On Russian plans to develop a cryptorouble, see Financial Times (2018a) and Time (2018).

attractiveness of Russian companies to investors, both within Russia and from countries not imposing sanctions.

In any case, given the risks that companies face, especially from US secondary sanctions, evasion is unlikely to work on a significant scale. The $2m fine of ExxonMobil in July 2017 (for agreements signed with Rosneft when then-Secretary of State Rex Tillerson had been Exxon CEO) illustrated the risks. Siemens halted sale of gas turbines when it emerged these were being transferred to Crimea. Dutch prosecutors are investigating alleged participation of companies in the building of the Kerch bridge. Some EU companies appear to be using local subsidiaries and third parties to breach the spirit, if not the letter, of sanctions law.[43]

Avoidance. Russia seeks to mitigate sanctions by finding other partners to replace Western ones. China and the Middle East are increasingly important sources of finance. China stepped in to support the Yamal gas project, enabling Russian to showcase it as a successful defiance of sanctions. In a complex and opaque deal, Qatar's sovereign investment fund, the QIA, acquired an 18.93% stake in Rosneft for over $10bn. But since Chinese investment, in this and other projects, takes the form of specific project financing approved by national authorities, rather than free capital, it cannot perfectly substitute for Western finance. Nor are there clear non-Western sources of sanctioned energy technology and expertise.

Sanctions thus hasten Russia's movement towards non-Western countries, especially China. Given the more general deterioration in Russian-Western relations, closer ties were inevitable. But Russia is now much more the economic *demandeur*, allowing China to shape their deepening relationship on more advantageous terms. The commercial terms of the May 2014 Sino-Russian gas supply agreement, agreed after a decade of negotiation in the wake of Russia's annexation of Crimea and the imposition of the first Western sanctions, set a trend that will continue.

Retaliation. As noted earlier, Russia is unusual in having the means and motivation to respond to sanctions in kind. Russia's "counter-sanction" ban on Western food imports was designed partly to inflict costs that might weaken Western resolve.[44] This ban has since boosted Russian agriculture, but also raised consumer food prices, hurting poorer citizens who spend a higher proportion of income on food.[45] It has become part of Russia's longer-term import substitution policy, and seems unlikely to be lifted quickly even if the West eases sanctions. This ban has the character of semi-permanence. Currently the ban is set to run until the end of 2019, so it is completely delinked from those EU sanctions that are renewed every six months, for example.

Some suggest that import substitution strengthens the Russian economy, pointing, for example, to the rapid growth in Russian wheat exports.[46] A few Russian voices have even "thanked" the West for making Russia stronger and more self-reliant. There arguments are doubtful. Self-sufficiency that substitutes for mutually-beneficial market exchange is always a less efficient, second-best solution. The import ban does not cover cereals, so could not have stimulated domestic production.[47] In any case, imports of all agricultural products from the EU, whether sanctioned or not, fell substantially after 2014 – a consequence of falling incomes and sharp ruble depreciation.[48]

[43] See Reuters (2016) and Reuters (2018b).
[44] Hedberg (2018) argues that these sanctions were carefully crafted "to cause greater economic damage to states the Kremlin has long viewed as promoters of policies that undercut its interests".
[45] Gurvich calculates that Western sanctions have caused average household costs to rise by 2000 rubles, and that the food import ban has added a further 450 rubles to this. Gurvich (2018). Analysts at the Russian Central Bank calculate that overpayments by consumers to producers of food have more than doubled since 2014. Vedomosti (2018c).
[46] See, for example, Granville and Mau (2018).
[47] The boom in Russian wheat exports is the result of a weaker rouble, good harvests, government financial support, and the belated effects of liberalisation of land holdings.
[48] Korhonen et al (2018).

Further "counter-sanctions" proposed in the Russia Duma, such as a ban on titanium exports, were severely criticised by business as harmful to its interests, and subsequently withdrawn. The Duma also watered down a draft law that, by punishing implementation of Western sanctions, would have further discouraged foreign investment. Russia's ability to retaliate in kind to sanctions is, in practice, limited.

In sum, Russia's responses to sanctions are producing further consequences. They will reshape the psychology and reality of Russia's political economy and foreign relations. The state's role in the economy will grow further, leading to greater inefficiency and corruption, less transparency and lower growth. Russia will become closer to China, but on less favourable terms. And Russia will become more isolated from the West. As Evsey Gurvich, head of the Economic Expert Group, puts it:

growing isolation will inevitably result in prolonged stagnation [zastoi] of the Russian economy, which will lose its international positions: developing market countries will start to catch up and overtake us, and developed countries will move further ahead in technological development.[49]

Gurvich's use of "zastoi" here implies comparison with the Brezhnevite "era of stagnation" described in a similar way.

5. Elites and sanctions

Russia is highly unequal: its economic elite holds a larger proportion of national wealth than in most countries. This elite is also far more exposed to the global economy than Russia as a whole. Some of the most potent sanctions – measures previously applied to terrorist networks, and states deemed "rogue" – are now targeted at some of the wealthiest members of this elite. Others know they could face them too. What will be the political impact of these sanctions?

While it is too soon to forecast their consequences reliably, we can identify the range of possible outcomes, and factors that will shape these, by asking two questions: How is the business elite affected by sanctions? What choices are available to it?

Unlike any previous elite in Russian history, most oligarchs are highly dependent on access to the global economic and financial system. There are several strands to this relationship:

- Revenue: sales of output to world markets. This still mainly comprises raw materials exports to Western countries;
- Corporate finance: access to Western financial markets to raise capital through IPOs or loans;
- Security: the use of financial, legal and related services to store and protect wealth. This also includes the use of Western (primarily English) law to conclude agreements, and Western courts to arbitrate business disputes between Russian businessmen;
- Consumption: personal access to Western societies for residence, shopping, personal enjoyment, children's education, etc.

While these purposes – making money, securing investment, protecting assets, and spending wealth – are distinct in principle, they may blur in practice. For example, securing a Western loan or stock market listing may serve a "security" purpose by helping to legitimise reputation or protect assets from Russian or other authorities.[50] Similarly, buying property in Western countries can be a way of both protecting and consuming wealth.

[49] Gurvich (2018).

[50] The US Treasury's April 6 designations, especially against Oleg Deripaska and his companies, have notably weakened this device Deripaska has a history of using Western financial systems in this way. The most recent example was the November 2017 EN+ flotation on the London Stock Exchange.

Oligarchs and their companies use each of these relationships to different degrees. For example, as noted earlier, raw materials sectors depend on exports to a degree that newer sectoral sources of great oligarchic wealth, such as retail, do not. Being capital intensive, their financing needs are also more likely to exceed retained earnings and other domestic sources, and so require international financing. Individual oligarchs also differ in the amount of time and money they personally enjoy spending abroad. For example, when renewal of Roman Abramovich's UK investment visa was delayed, he quickly acquired an Israeli passport that would enable him to return to Britain.

The most important and widely used of the four functions is the third one: "security". Easy access to Western economic, financial and legal services has become a key means of protecting elite interests, and thus a major part of Russia's political economy. From 2003, when Putin reasserted political dominance over oligarchs and their businesses, he indicated that they would be allowed to operate as long as they did not try to interfere in questions of governance. But weak institutions and rule of law incentivised businessmen (not only the big oligarchs) to send money out of the country, even as their businesses became increasingly profitable.

Putin tolerated this, and even found uses for it. Like all important business decisions, major investments overseas required the Kremlin's consent. Such ties could be used to cultivate influence in Western commercial and political circles. But as Putin began his third presidential term in 2012, and his attitude towards globalization darkened, he became increasingly critical of large annual capital outflows. His demands for capital repatriation, though, were largely ignored. On the contrary: capital flight spiked in Q4 2014 following the collapse of Russian-Western relations, despite a sharp fall in the oil price that *ceteris paribus* would, by reducing earnings, normally lead to a decline in capital outflow (as there are less liquid funds to flow out).

Stronger sanctions and stringent standards thus disrupt arrangements that oligarchs have long enjoyed, changing their calculations and forcing unfamiliar choices on them. But while the West is becoming a harder place, Russia is not becoming an easier one. On the contrary: recent cases suggest it is now a more unpredictable environment for business – possibly as a consequence of sanctions provoking a harsher struggle for a smaller pie. [51] The oligarchs cannot come to an accommodation with the West, as they could with Putin in 2003. Indeed, many worry that efforts to lobbying against sanctions might only intensify unwelcome attention. Three options are available to them.

1. They can settle outside Russia. This involves giving up any significant role in Russian business life, though they would preclude business activity elsewhere. A few took this step before sanctions. In the past year, a few more have chosen to sell their assets, though it is not yet clear whether they will stay in Russia or emigrate.[52]

2. They can deepen their relationship with the Russian state. This involves seeking compensation for the effects of sanctions and repatriating the wealth held overseas. Putin has long called for money sent overseas to return to Russia, but has not been able to persuade or compel this on any significant scale. Indeed, his "de-offshorization" was, if anything, counter-productive, encouraging some oligarchs to become non-resident – leaving Russia, rather than returning their money. Putin's message is now, in effect, "I told you so". Sanctions and scrutiny, he argues, show that the West is unwelcoming and cannot be trusted; business people should therefore bring

[51] The Ulyukaev, Yevtushenkov and Magomedov cases are only most high-profile recent examples of prominent figures losing liberty or assets. Boris Titov's efforts, mentioned below, to encourage fugitive business people to return has foundered on skepticism about assurances of safety.

[52] A recent example is the sale by Sergei Galitsky of nearly all of his Magnit retail chain, despite retail being less directly vulnerable to Western sanctions. Galitsky had made "the biggest fortune in Russia that's not derived from natural resources". See Bershidsky (2018).

themselves and their wealth back to Russia.[53] Boris Titov, presidential ombudsman for entrepreneurs' rights, has sought to facilitate the return of wealthy Russians who have fled from criminal cases.[54]

3. They can try to influence policy. This involves arguing privately within counsels of state to moderate or halt the behaviour that leads the West to impose and maintain sanctions that harm core oligarch interests.

We have seen that oligarchs are not uniformly impacted by sanctions. They may also vary in their responses. And the three options outlined above are not mutually exclusive.[55] In particular, a supple combination of 2. and 3. is plausible: demonstrative public loyalty that helps oligarchs exert quiet influence more effectively.

But each approach has drawbacks. Emigration entails a personal sacrifice of home country ambitions, networks and culture that may be too heavy for many – even assuming oligarchs can, in the new climate, find an attractive place to settle without unwelcome scrutiny. Nor is it clear how safely and completely they can cut their ties with Russia. In some cases it appears that emigrant oligarchs have chosen, or been required, to serve Kremlin functions overseas.

The second option, repatriation, carries risks. Capital flight has been a persistent feature of the Russian economy precisely because those who have acquired wealth in Russia understand that it is better kept elsewhere. Caught between a less-welcoming West and still-insecure Russia, oligarchs might seek to move wealth to other jurisdictions, such as Singapore and Hong Kong, which they have largely ignored until now.[56] If these are insufficiently safe and attractive – everywhere is potentially vulnerable to U.S. secondary sanctions[57]– and oligarchs conclude that Russia is now the least-bad option, they will face the uncertainties that have until now impelled capital outflow. There is no evidence that asset security and the rule of law have strengthened – if anything, recent cases suggest the contrary. Whether and how returning capital would be taxed remains unresolved. Government and business alike are exploring ways to facilitate repatriation through "oligarch bonds", "internal offshores" and other mechanisms. But at best these would ease return of assets, not ensure its security thereafter.

The third option – seeking to influence policy– could be seen to challenge Putin's long-standing stricture to the oligarchs: stay out of politics. Putin listens to business voices and maintains close ties with many oligarchs. The latter have been careful not to express views that differ from clear policy priorities. But for the first time, a critical mass may become motivated to press for important change.

This prospect has been raised before. Soon after the annexation of Crimea, influential public voices began calling into question oligarch loyalties, arguing that their foreign interests led them to advocate a more accommodating course towards the West. Putin's "de-offshorisation" campaign was motivated by such concerns.[58] Possibly in reaction, some of the oligarchs closest to Putin have loudly declared their loyalty to the Russia state.[59] Kremlin and oligarchs alike argue that sanctions are designed to create a split between them – while insisting that any such attempts will fail.[60]

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[53] Vedomosti (2018d).

[54] Daily Telegraph (2018).

[55] In Albert Hirschman's classic analysis of responses to organisational decline, these three approaches represent, respectively, exit, voice and loyalty. For a thoughtful use of this schema to analyse Russian elite options, see Markus (2017).

[56] Russian investment in Singapore and Hong Kong totals about $2bn, comparable with that in Berduda alone. Vedomosti (2018b). Anti-corruption drives are reportedly making China an unattractive destination.

[57] Rusal's share price in Hong Kong as well as London has been hit by sanctions.

[58] See, for example, the views of influential "Eurasianist" ideologist Aleksandr Dugin. Dugin (2014).

[59] For example, long-standing Putin associate Yuri Kovalchuk declared that Russia had a "nationally oriented elite" that knew "what side of the barricades it was on", while asking those with property abroad "where is your home?" Financial Times (2018c).

[60] See, for example, the comments of Putin's presidential press spokesman in Vedomosti (2017). See also those of sanctioned oligarch Farkhad Akhmetov in RBK (2018a).

But overt public loyalty is to be expected. None dares criticise the president – though as noted earlier, major Russian businesses have vigorously, and successfully, lobbied against draft Duma "counter-sanctions". The real question is whether Russian businesses have the power, as well as motivation, to influence the policies that harm it. On this, opinions are sharply divided, even among those with broadly similar views of Russia.[61]

While it is too early to offer an answer, we can map out a range of possibilities. The scenario of elite-driven policy change is merely a possibility, not a prediction. If sanctions are maintained or strengthened, at least three factors will determine whether they will become politically significant: how strong oligarchs' common interests are; how effectively they can co-operate; and how much power they have to press their preferred policies.

First, Russia's economic elite is not homogenous and may not share common interests. Dominated by energy, mining and metals (as well as banks largely built from these sectors) since the early post-Soviet years, it has seen further sectors – notably property, retail and agriculture – generate fortunes over the past fifteen years. These sectors are more domestically-oriented and less reliant on external ties, though they still account for less than a fifth of elite wealth.[62]

More significant are the varying relationship of oligarchs to politics. In Russia's patrimonial state, wealth is at most private, never independent, and always conditional on the approval of power. As the state has grown under Putin, a larger proportion of Russia's wealth has come to be held by it, especially through "silovarchs" with a security or defence background and those with deep personal ties to Putin. They are more deeply tied to the political power and more intrinsically loyal to the president.

Second, even if a significant proportion of the business elite recognises a shared interest in the easing of sanctions, they may find it hard to co-operate in asserting this. Despite the high concentration of wealth in Russia, they face a collective action problem that deters individual oligarchs from raising their head above the parapet unless they are confident others will do the same. As economic problems deepen, a shrinking pie could intensify rivalries. They continue to wage major legal battles with one another – significantly, in Western (especially British), not Russian, courts. Even silovarchs with deep ties to Putin may clash with one another. Nor is there a history or culture of co-operation between oligarchs. Even when far more powerful in the late 1990s, with some speaking openly of forming a "board of directors" for the country, they feuded bitterly in the "bankers' war".[63]

Third, even if oligarchs wish to concert their interests to achieve policy change, they may lack the power to do so. Russia's economic elite may be just too weak and state-dependent. In his first presidential term (2000-04), Putin gained dominance over the oligarchs remarkably quickly, imprisoning and exiling those who resisted him and cowing the rest. Since then, officials who have a security background, or are old associates of Putin's (or both) have been promoted across all institutions, including the business world, while the state's role in the economy has also grown. As a consequence, business leaders enjoy less autonomy and influence than at any time since a market economy began to emerge in the early 1990s. This implies that they may come to the state as supplicants for compensation and protection from sanctions, but will not seek to change Russia's underlying policies (let alone government), however strongly motivated to do so.

[61] Compare, for example, Bill Browder's comments in Reuters (2017a) with those of Shevtsova (2018).

[62] According to Forbes Russia 2018, the richest 50 Russian businesspeople have at total of $342bn, only 17% of which is not obviously linked to energy, metals, mining or finance. For a recent discussion of the changing composition and fortunes of the wealthiest oligarchs, see Treisman (2016).

[63] For example, at the time of the Salisbury nerve agent attack, Vladimir Potanin, Oleg Deripaska and Roman Abramovich were fighting in a London court over shareholdings in Norilsk Nickel. For an example of conflict between two silovarchs and old Putin associates, Igor Sechin's reported ambition to acquire the Novorossisk port pits him against Transneft and its CEO Nikolai Tokarev. On the "bankers' war", see Hoffman (2002).

But it is worth considering how far any state can go in neglecting the interests of a large number of private wealth owners. All politics, not only in Russia, is based on elite networks. As Henry Hale has shown, major political upheaval in post-Soviet countries has repeatedly taken place when (and only when) a critical mass of elites no longer believes the leader is able to protect their interests. These moments have occurred, almost without exception, around national elections, however imperfectly conducted, when the leader is no longer able to stand.[64] Such a view implies that, if sanctions are maintained, and even more if they are intensified, then deepening concern among oligarchs could crystallise into the goal of influencing the post-2024 transition – when, under the present constitution, Putin is obliged leave the presidency.

There are other variables to consider, not least how Putin will try to resolve the "2024 question".[65] It is worth asking, too, whether recent personnel changes to governorships, state companies, and other bodies reflect confidence, or its absence, that the elite will remain cohesive and loyal.

The implications of sanctions for elite interests and thus for elite-state relations is a critical question that awaits an answer. What is clear, though, is that a critical mass of major Russian wealth holders faces a new, discomfiting uncertainty and difficult choices. The security provided to Russian wealth by the West – which compensated for its absence in Russia – can no longer be relied on. It is hard to overstate how important this security has been. In effect, *Western jurisdictions became part of the Russian system*, providing essential functions that stabilised state-elite relations within Russia. For the first time, the West has begun to call this arrangement into question.

In this context, it is worth reflecting on predictions sometimes made by Western commentators in the 1990s that new private wealth owners would demand institutions to stabilise and protect their assets. The implication was that we need not worry too much about how this wealth was acquired: the very fact of private property would generate an endogenous demand for the rule of law. This argument was a political-economic twist on Mandeville's adage that private vice leads to public virtue. Speculative rather than empirical, it has not aged well. One important reason is that wealthy Russians simply outsourced wealth protection to the West, so retaining the best of all worlds: privilege in Russia's rule-of-relationships and protection under the West's rule of law.

How will elites respond if this regulatory arbitrage becomes unfeasible? At the very least, and however reluctantly, they will be incentivised to take a closer interest in how institutions work and key decisions are made, especially if they repatriate assets to Russia.

6. Conclusions

Let us revisit the two questions posed at the outset. How should we evaluate the effectiveness of sanctions? How effective are they, and are likely to be in the future?

Sanctions are one foreign policy instrument among many. We should not devise more demanding tests for them than for others, nor simply ask whether "sanctions work". We do not ask, in such a general way, whether or not war, military intervention, international organisations, ministerial statements or other foreign policy tools "work". In each case, we judge *how* effectively a given instrument supports *which* goals under *what* conditions.

Sanctions are no different. We should evaluate them by how far they have achieved their stated aims, given the conditions in which they are used. In the case of Russian sanctions, this means asking:

[64] See Hale (2015) and Hale (2017).

[65] Putin's options are: to leave the presidency but retain *de facto* power (as in 2008); change the constitution to remain president (an option he has previously rejected); or to leave power entirely.

how far have these encouraged Russia towards a political settlement of the conflict in Ukraine, deterred military escalation, and reaffirmed international norms – given Russia's uniquely challenging characteristics as a sanctions target?

So far, sanctions have played an important role both in deterring military escalation and reaffirming international norms. They have not, though, induced Russia to reach a political settlement (specifically, implementation of the Minsk agreements). It appears that maintaining influence and controlled instability in Ukraine are too important to Russia for the current costs of sanctions to shift its behaviour. While sanctions have curbed escalation, they have not moderated policy (let alone reversed it, always the most difficult goal, and one not attempted by current sanctions).

This real, if incomplete, success is notable. It has been achieved despite the correlates of sanctions success, derived from study of many other cases, predicting failure. The speed of this success is also striking. Sanctions often take years, even decades, to produce significant results. And the impact of sectoral sanctions, compounded by the second-order effects of Russia's response to them – adaptation, evasion, avoidance and retaliation – will continue to grow with time. They will cause Russia to fall further behind the rest of the world, and to foster closer ties with China on relatively less favourable terms.

This is a scenario of erosion, not implosion. In the past decade, Russia has shown it is large enough to pay the high opportunity costs of authoritarian statist rule. As long as Russia avoids a systemic financial crisis – and the lessons of 1991, 1998 and 2008 are deeply ingrained in policy – the current regime will find these costs tolerable. But erosion can have major political consequences. Over the coming decade, chronic relative decline, accelerated by sanctions, may deepen dissatisfaction with the status quo.

But the newest sanctions and standards, targeting oligarchs, could prove the most potent. By depriving wealthy elites of asset security and global financial access, they have the potential to disrupt Russia's political economy – the balances of interest between state and business, and among elite factions that, while never wholly stable, has underpinned the Putin presidency until now.

This remains speculative territory. While the effects of sanctions on oligarchs may be traced, their influence on oligarch behaviour, and thus on political outcomes, is harder to predict. This will shape, and be shaped by, dynamics of Russian elite politics that can be obscure even to the participants. It is too soon to tell – the new sanctions and standards are only a few months old – and we should not push the evidence further than it can go. But two conclusions are already clear. First, these sanctions are an unprecedented adverse development for targeted oligarchs, one that presents them with unfamiliar and difficult choices. Second, there is much potential for applying wider and more rigorous international sanctions and standards to Russian (and other) economic elites.

Finally, two broader conclusions for evolving sanctions practice emerge from the experience of imposing sanctions on Russia. First, while as noted earlier the orthodox advice on sanctions tempo is "slam hammer, don't turn the screw", a combination of both can be effective. The April 6 American SDN measures are "slamming the hammer" by demonstrating the ability to isolate individuals and their business empires with financial sanctions, while U.S. and EU sectoral sanctions are "turning the screw" by depriving key sectors of the finance and (especially) technology needed for future development.

Second, this experience continues a longer-term trend in sanctions design away from traditional trade embargos and towards financial restrictions. The latter predominate in Western measures against Russia, while few trade restrictions have been applied.[66] Conversely, Russia's own trade-restricting counter-sanctions have failed to achieve their goal of undermining Western unity and resolve.

[66] Apart from preventing the transfer of technology, the main restriction is the banning of trade with Crimea and Sevastopol.

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