

Lessons learned from Western sanctions on Russia: Knowing your target well



Hybrid CoE Strategic Analyses address timely questions concerning hybrid threats and can serve as an opening for a theme that requires further research. They aim to identify gaps in knowledge and understanding, explain processes behind a phenomenon, and highlight trends and future challenges.

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Lessons learned from Western sanctions on Russia: Knowing your target well

In response to Russia's illegal war of aggression against Ukraine, the West imposed unprecedented sanctions. Two years of economic warfare have yielded mixed results. Financial sanctions on Russian financial institutions and export controls on dual-use goods initially had a shock effect, triggering currency volatility and disrupting Russia's supply chains, but Moscow has successfully adapted. As the war enters its third year, there is an urgent need to critically assess the West's sanctions strategy. Understanding how to design a credible and nimble sanctions policy is crucial to winning economic warfare. This analysis identifies seven key lessons learned from the Russian sanctions regime that have implications for potential measures against China.

1. Calibrating the right pain threshold

The West's failure to deter Russia from invading Ukraine has reignited debate about the usefulness of sanctions, their effectiveness and their limits. Can the prospect of economic losses deter authoritarian leaders from pursuing their nationalist goals, or are the measures futile in the first place? Authoritarian governments' actions are harder to deter due to their lower compliance with international rules, but it is arguably possible to do so.

The West assumed that the amount of economic pain it was prepared to inflict on Moscow would be sufficient to deter its leadership from invading its neighbour. The calculation was based on the idea that Russia would act rationally and withdraw its troops from the Ukrainian border because the economic consequences would be so dire. The Biden

administration threatened to disconnect Russia's largest financial institutions, impose export controls on US-designed technology and halt the Nord Stream 2 pipeline.¹ **The problem with this thinking was that the West underestimated the importance of Ukraine to the Kremlin's neo-imperialist conquest, overestimated the credibility of threats and overrelied on the effectiveness of sanctions alone.**

Russia was willing to endure higher costs than anticipated. The measures, though unprecedented, did not reflect the gravity of the situation. With the invasion of Ukraine the stakes rose sharply, but the West still allowed a large bulk of trade and financial transactions with Russia to continue. The sanctions strategy was heavily influenced by the cost paradigm: the West should not pay higher costs than Russia.

1 Maria Shagina, 'The U.S. Seems Ready for Tougher Sanctions Against Russia. Is Europe?', *The Washington Post*, 14 January, 2022, <https://www.washingtonpost.com/politics/2022/01/14/us-seems-ready-tougher-sanctions-against-russia-is-europe/>.

This principle often masked Western governments' unwillingness to implement painful short-term measures. Ironically, the Western policy of supporting Ukraine "as long as it takes" will incur higher long-term costs.

To design an effective sanctions package, sanctioning countries need to understand the target well. What are the main drivers of the target's misbehaviour? What are the target's key fears and vulnerabilities? Is the target prepared to impose countermeasures, and how? Are there any sanctions that the target has yet to factor into its strategy? For example, targeting Russia's oil sector and financial institutions linked to crude exports at the beginning of the war would have tapped into Russia's key economic vulnerability. It is not uncommon for Western governments to choose measures that are thought to have a deterrent effect from their perspective, but not from the target's. **The inability to design policy through the lens of the target misses an opportunity to impose the right combination of sanctions at the right time.**

As the West wargames a sanctions strategy against China in the context of a Taiwan crisis, the same questions apply. Would Beijing act rationally if a blockade of Taiwan cost the world economy \$5 trillion, or would it trump all cost-benefit calculations and pursue its national objective anyway?² Would Western sanctions on China's financial sector and export controls on advanced technology be sufficiently strong to deter Beijing? A sound "know your target" policy should enable the West to impose

restrictive measures targeting key vulnerabilities. Calibrating the right pain threshold is particularly important for the initial sanctions package. As the Russian case has shown, the timing and sequencing of measures are as important as the type of sanctions themselves. Led by Germany, the EU postponed all energy sanctions on Russia throughout 2022. This allowed Moscow to replenish its war chest and adapt to restrictions.

2. Objective and endgame

Having failed to deter Russia, Western policymakers have articulated the next objective of sanctions reasonably well: to undermine Russia's war funding and military capabilities. However, **the lack of a defined endgame is a significant weakness in Western strategy.** Disagreements among Western leaders on whether to defeat or contain Moscow have led to a disjointed and reactive rather than proactive policy.

Given the wide exposure of Western countries to China, defining an objective and an endgame will not be easy. Despite sharing the same rhetoric on de-risking, the US, the EU and Germany have different understandings of what it actually means.

The lack of a defined endgame is a significant weakness in Western strategy.

2 Chris Anstey, 'China Blockade Simulation Raises \$5 Trillion Risk', *Bloomberg*, 25 May, 2024, <https://www.bloomberg.com/news/newsletters/2024-05-25/bloomberg-new-economy-china-blockade-simulation-raises-5-trillion-risk>.

3. Understanding the limitations of sanctions

The high expectations that sanctions alone could dissuade Russia from invading proved misplaced. The track record of sanctions shows that they have clear limitations in achieving their objectives in peaceful circumstances. They are successful in roughly a third of cases.³ **In wartime the potential of sanctions is even more limited, as the target is willing to pay higher costs, while sanctions take time to work.** The war in Ukraine has clearly showcased the need for an integrated deterrence strategy, combining economic statecraft and military support. In a militarized conflict, economic measures can be an important factor in constraining the target's long-term financial and technological capabilities, but they are ill equipped to halt the war in the short term. They must be complemented with military and diplomatic tools.

Recent research suggests that Taiwan may not have the luxury of time to see sanctions and export controls degrade China's military capabilities.⁴ The US seems to have recognized these limitations as it contemplates its China strategy. Washington has pre-emptively imposed export restrictions on advanced semiconductor technologies to slow down China's military modernization. At the same time the Biden administration has established working groups with Beijing for bilateral policy exchange, while it is quietly bolstering Taiwan's defence capabilities through weapon sales.

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4. Building international coalitions

The ability to build broad sanctioning coalitions has been a hallmark of Western sanctions against Russia. While the importance of multilateralism for sanctions effectiveness is well recognized, before 2022 Western governments rarely engaged in forging such broad coalitions outside the UN forum. The G7 has emerged as a driving force of significant economic measures against Russia, facilitating innovative policies like the oil price cap.

The West can capitalize on the development of the G7 as a new platform to brainstorm China measures. Japan has already started to use the G7 to mobilize support for its security concerns in the Indo-Pacific. However, the challenge of building broad sanctioning coalitions will be even greater in the Chinese context. China is much more deeply embedded in the global economy than Russia. High costs and uncertainty about China's ultimate goals will complicate the formation of a broad alignment.⁵

3 Elizabeth Rosenberg, Dr Daniel Drezner, Julia Solomon-Strauss and Zachary K. Goldman, 'The New Tools of Economic Warfare,' *Center for a New American Security*, 15 April, 2016

4 Mark F. Cancian, Matthew Cancian and Eric Heginbotham, 'The First Battle of the Next War: Wargaming a Chinese Invasion of Taiwan,' *Center for Strategic and International Studies*, 2023, <https://www.csis.org/analysis/first-battle-next-war-wargaming-chinese-invasion-taiwan>.

5 Atlantic Council, 'Sanctioning China in a Taiwan Crisis: Scenarios and Risks,' *Atlantic Council*, 2023, <https://www.atlanticcouncil.org/in-depth-research-reports/report/sanctioning-china-in-a-taiwan-crisis-scenarios-and-risks/#executive-summary>.

The success of forging international coalitions will also depend on China's actions in Taiwan. Anything short of a Chinese invasion of Taiwan is unlikely to galvanize the West. Despite Ukraine's geographical proximity, the Europeans were mobilized to impose sanctions on Russia only after "the visuals" – when the Russian troops had crossed the Ukrainian border.⁶ Taiwan's remoteness and ambiguity about its legal status could prove significant hurdles if a rapid response is required. Moreover, China has many options short of military confrontation, ranging from a maritime blockade and economic coercion to cyberattacks. In a scenario where threat perceptions differ, and red lines are drawn differently, it will be difficult for Western allies to agree on tough measures until the conflict is already underway.

Economic burden sharing among allies and partners will therefore be key to balancing different levels of economic exposure and different degrees of economic resilience.⁷ Any export control measures would require coordination with Southeast Asia, which is at the nexus of technology supply chains. Any financial sanctions would be less effective if financial hubs like Singapore and the UAE do not join the measures.

5. Domestic resilience

Russia's weaponization of energy has highlighted the renewed importance of economic security. Having created a tight energy market before the invasion, the Kremlin has sought to leverage its position as the dominant oil and gas provider in Europe. Due to limited import options, the EU postponed all energy sanctions on Russia throughout 2022. This allowed Moscow to accumulate around \$240 billion in revenue.⁸ These developments have underlined that economic statecraft starts at home: **the more resilient the economies of sanctioning countries are, the less vulnerable they are to economic coercion, and the freer they are to use offensive tools such as sanctions.**

Several countries have elevated economic security to the level of strategic priority. The US, the UK, Japan and Germany have all emphasized the need to bolster economic resilience to counter economic coercion, as has the EU. Strategies revolve around reducing economic vulnerabilities – diversifying energy sources, securing supply chains, onshoring production of strategic goods and technologies, and protecting critical infrastructure.

Yet targeting China on a large scale is a daunting task for the West. A conservative estimate is that \$2 trillion of economic activity would be at risk annually.⁹ While Western

6 Jeffrey A. Stacey, 'Russia's War in Ukraine: An Oral History', *Politico*, 24 February, 2023, <https://www.politico.com/news/magazine/2023/02/24/russia-ukraine-war-oral-history-00083757>.

7 Maria Shagina, 'The Imperative to Build and Sustain Sanctioning Coalitions', *International Institute for Strategic Studies*, March 2023, <https://www.iiss.org/en/online-analysis/online-analysis/2023/03/the-imperative-to-build-and-sustain-sanctioning-coalitions/>.

8 Reuters, 'Russia's Current Account Surplus Almost Doubled in 2022 – Central Bank', *Reuters*, 17 January, 2023, <https://www.reuters.com/world/europe/russias-current-account-surplus-almost-doubled-2022-central-bank-2023-01-17/>.

9 Atlantic Council, 'Sanctioning China in a Taiwan Crisis: Scenarios and Risks', *Atlantic Council*, 2023, <https://www.atlanticcouncil.org/in-depth-research-reports/report/sanctioning-china-in-a-taiwan-crisis-scenarios-and-risks/#executive-summary>.

Policymakers should identify the levers they can pull in the event of economic warfare.

governments are correct to map out their vulnerabilities to China, risk management should not stop there. Policymakers should identify the levers they can pull in the event of economic warfare. Equally, they should identify areas where China can retaliate. The timing of a potential Taiwan crisis will be crucial for Western strategic planning. Depending on whether a confrontation occurs in one year or five, the leverage points may be different as both the West and China de-risk their relationship.¹⁰

6. Target's response

Sanctions are not a one-dimensional game, yet reciprocal economic statecraft is often overlooked in strategic planning. The fact that the Russian economy has been more resilient than Western policymakers expected suggests that the West underestimated the Kremlin's response.¹¹ Russia has had a playbook on how to mitigate Western measures since 2024. Before the full-scale invasion of Ukraine in 2022, the Kremlin's technocrats wargamed various scenarios to keep the economy afloat in the face of blocking sanctions. In particular, the Central

Bank of Russia and the country's major financial institutions stress-tested financial decoupling.

China has been watching the sanctions playbook used by the West against Russia closely. Although Beijing has not completely sanction-proofed its economy, there are concerted efforts to mitigate the risks. China has been building capabilities to strengthen its own resilience to Western sanctions for decades: developing alternatives to the dollar-based financial system; ensuring energy security via land infrastructure; heavily subsidising advanced technologies; and promoting food self-sufficiency. China has also expanded the formal tools of economic statecraft, including the Anti-Foreign Sanctions Law and export controls. While Beijing's capacity to use financial economic statecraft is limited, its main leverage lies in the use of trade-related tools. Given its central position in global supply chains, it is likely China would focus on banning exports of critical raw materials and manufactured goods to the West. Although Beijing tends to avoid high costs to its own economy, escalatory measures remain possible.¹²

7. Enforcement

The scale and complexity of the Russia sanctions have highlighted the importance of sanctions implementation and enforcement. **As the West announced a barrage of sanctions, governments realized they were ill prepared to enforce them effectively.** This was due to a lack

¹⁰ Ibid.

¹¹ Peter Harrell, 'Economic Sanctions: A Key Tool in Addressing Global Challenges', *Brookings Institution*, May 2024, https://www.brookings.edu/wp-content/uploads/2024/05/20240528_ES_Sanctions_Harrell_Final.pdf.

¹² Atlantic Council, 'Retaliation and Resilience: China's Economic Statecraft in a Taiwan Crisis', *Atlantic Council*, 2023, <https://www.atlanticcouncil.org/in-depth-research-reports/report/retaliation-and-resilience-chinas-economic-statecraft-in-a-taiwan-crisis/#assessing-chinas-capacity>.

of capacity, poor inter-agency coordination and insufficient dialogue with the private sector. The EU and its member states especially faced an uphill task because of the lack of legal harmonization, inconsistent interpretation of the rules, and diverging implementation processes. Some EU member states have had to completely overhaul their institutional structures to ensure coordination between customs officials, financial intelligence units, government ministries and the business sector.¹³ Weak implementation and enforcement have forced Western governments to double down on chasing Russian sanctions evaders.

Yet there is a silver lining for China sanctions regimes as states become more strategically and institutionally prepared to face the enforcement challenge. Major transformations to enhance inter-governmental coordination, boost public-private collaboration and improve communication with third countries are already laying the necessary foundations to make sanctions more effective. With the rise of export

controls, industries and financial institutions are obliged to step up due diligence of critical items. The economic fallout from Russia's invasion of Ukraine has also prompted international businesses to reassess their geopolitical risk appetite and explore contingency planning in the event of China sanctions. The private sector is actively developing its "China Plus One" strategy by adding manufacturing or operations outside of China to diversify risk.¹⁴

Conclusion

While devising its China sanctions strategy, the West seems to be underestimating how two economic wars – one against Russia, the other against China – are interconnected. **The credibility of sanctions threats against China depends on the success of Russia sanctions.** If the West struggles to contain Russia, its attempts to contain China – the world's second-largest economy, which is ten times the size of Russia – are destined to fail.

¹³ Clara Portela and Kim B. Olsen, 'Implementation and monitoring of the EU sanctions' regimes, including recommendations to reinforce the EU's capacities to implement and monitor sanctions' European Parliament, 2023, [https://www.europarl.europa.eu/thinktank/en/document/EXPO_STU\(2023\)702603](https://www.europarl.europa.eu/thinktank/en/document/EXPO_STU(2023)702603).

¹⁴ Yuan Yang and Patricia Nilsson, 'Western companies take slow steps towards China 'de-risking'', *Financial Times*, 25 September 2023, <https://www.ft.com/content/6e903c40-a024-4299-9025-f358882813bb>.

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