

PAL WORKING PAPER

**Combating Authoritarianism:
Will sanctions on Russia be effective?**

Natasha Lindstaedt | March 2022

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COMBATING AUTHORITARIANISM: WILL SANCTIONS ON RUSSIA BE EFFECTIVE?

Natasha Lindstaedt

Russia's invasion of Ukraine represents the biggest security challenge facing Europe since World War II. In response, countries around the world have imposed an unprecedented array of sanctions. Never before has the global community worked so quickly and efficiently to cut off a country economically from the rest of the world, and never before has such a powerful country been hit so hard by economic weapons.

But what exactly are economic weapons? And will they be effective in dealing with Russia? To answer that question, I look at what can be learned from the literature on sanctions. Economic weapons, most commonly referred to as sanctions, are a way of impacting a target state without resorting to military force. They are usually aimed at regimes to deter, constrain and compel them to change course. While democracies have been targeted by sanctions in the past, most targets are authoritarian regimes and/or regimes engaged in conflict activities.

The term "sanctions" is often used as if this is one approach. But there are many different types of sanctions and economic statecraft. These include targeting individuals and organizations, diplomatic sanctions, travel bans, asset freezes, bans on the import and export of commodities (such as arms and defence articles, high tech goods, natural resources and other goods), debt and equity restrictions and restrictions on banks.

Russia is facing all of these types of sanctions at once. There are unprecedented penalties on Russia's central bank, which has seen its US assets frozen. This prevents it from using its foreign reserves to prop up the value of the ruble, currently worth a penny.¹ Most Russian banks were also ousted from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the inter-bank messaging service. This would make it extremely difficult for Russian banks to move money around the world and would force them to use slower forms of communication. About 70% of transfers in Russia used the SWIFT system, thus being removed from SWIFT will also make it harder for Russian businesses and citizens to pay for imports they may need.² Two huge banks tied to Russia's defence industry have been targeted. Restrictions have also been expanded on purchasing Russian debt.³

Additionally, top Russian officials including Vladimir Putin and Foreign Minister Sergei Lavrov have been personally targeted, along with other oligarchs.⁴ For these individuals, any assets held in the global banking system are frozen and people in sanctioning countries are legally barred from doing business with them. The US Justice Department and European law enforcement agencies have established a Trans-Atlantic task force to go after the wealth of Russian individuals and companies, targeting their private jets, yachts, and luxury homes. The UK is also investigating wealthy individuals and money laundering.⁵

The US has restricted the export of high-tech products such as computer and semi-conductors to affect Russian military capabilities, while the EU has restricted exports to Russia in the energy, transport and technology sectors. Taiwan, the world's leading producer of semi-conductors, will restrict exports. Germany stopped certifying the Nord Stream 2 gas pipeline.⁶

Banning Russian oil and gas are the biggest points of contention. Europe relies on Russia for about 40% of its natural gas, and would struggle to run its power plants and heat up homes without Russian pipelines. As a result, the Russian central bank Sberbank and the financial wing of Gazprom have yet to be removed from SWIFT. Thus, while the US announced that it has banned oil, natural gas and coal imports from Russia (as it only gets 3% of its oil from Russia) and the UK announced that it would phase out its reliance on Russian energy (the UK gets about 8% of its oil from Russia and 5% of its natural gas), other European countries are unlikely to follow suit. If European countries were to ban Russian oil, this would create huge shockwaves (for both Europe and Russia) as about 60% of Russian oil exports go to Europe.

Russia has tried to prepare for this moment, hoarding more than \$600 billion worth of foreign reserves in its central bank.^{7 8} But much of these reserves are in foreign bank accounts in countries imposing the sanctions. With the exception of 17.7% in China, the rest of Russia's Central Bank's foreign exchange reserves are in banks in EU countries, Japan, the US and the IMF.⁹ Western banks won't provide currency swaps and China has shown reluctance to finance the purchase of Russian commodities in dollars to provide dollar swaps. As a result, Russia is likely to see runaway inflation, and a decline in living standards. Russia's economy could shrink by 7-15% this year, and 35% in the second quarter.^{10 11}

No doubt, these are the most comprehensive set of sanctions ever applied to a global power so well integrated into the global economy. But will they compel Putin to change course in Ukraine? Will they lead to political instability and unrest in Russia? Will the sanctions fuel the ambitions of Russian coup plotters?

Will the sanctions work: what can we learn from the literature?

Sanctions are still a relatively recent tool of the international community and powerful states. Sanctions were used very infrequently for the bulk of the 20th century. But after the Cold War ended, the use of sanctions was ramped up considerably, with as many sanctions employed after the end of the Cold War as there were from 1900-1990. An overview of the literature suggests the following:

- Sanctions have limited effectiveness, working in a third or less of the cases studied.¹²
- They work best when the target state is economically weak and in some way dependent on the sanctioning state.¹³
- They are more effective against democracies and are less likely to work on authoritarian regimes no matter what the objective.¹⁴

Why can authoritarian regimes better resist sanctions?

- They don't worry about elections as do democracies¹⁵
- They can encourage rally-round-the-flag, emphasizing the country is under attack¹⁶
- They can engage in blame shifting to counteract the signals sent by sanctions¹⁷
- They can distribute the losses (and gains) from sanctions in ways that penalise their opponents and reward their supporters, strengthening authoritarian rule¹⁸

How can sanctions affect authoritarian regimes?

While authoritarian regimes are better able to withstand sanctions, they can be affected. Thus, the regime may believe that general public support is important to sustaining power, and/or support needed from the minimum winning coalition. The autocrat may worry about the public turning against him which makes it more costly to maintain power since they will need to rely on more repression. More plausibly, the autocrat worries that the economic constraints imposed by the sanctions will affect their ability to pay off their clients, such as members of the military or other party members, and the elites themselves. Additionally, if an authoritarian regime faces sanctions because they are involved in hostilities/conflict with another state and/or non-state actor, sanctions may impact their ability to finance the war.

Does the type of authoritarian regime matter?

Because sanctions need to hit elites, some studies have looked at how the *type of authoritarian rule* is affected by sanctions. They suggest that:

- Personalist regimes – or those that are essentially one-man rule with a high concentration of power in the hands of one leader and the military and party apparatus severely limited under his power—are the most vulnerable.¹⁹
- Single party and military regimes are better equipped to deal with sanctions²⁰

Nevertheless, personalist regimes tend to have the bloodiest and most protracted exits, and they tend to cling to power until the very end. For some personalist regimes, giving in to sanctions is a last resort. It would make the autocrat look weak to his elite support group and supporters and thus coping strategies are employed before compliance. Personalist regimes also have the worst military intelligence when it comes to conflicts. As the personalist leader fears being ousted, they are surrounded by sycophants who engage in false reporting. This can make the personalist dictator more likely to take on risks when it comes to conflict.²¹

What are the coping strategies of authoritarian regimes that face sanctions?

Authoritarian regimes that are not inherently weak and impoverished have many tools at their disposal to deal with sanctions. The longer the sanctions have been applied the less bite they have: the economies of authoritarian regimes can work around them.²² The same can be said for Russian oligarchs close to Putin,²³ and Maduro's cronies in his inner circle and military.²⁴

A more extreme coping strategy is to rely on purchasing gold. In 2014, the Central Bank of Russia started to increase its purchase of gold to deal with the sanctions, taking a play out of Hugo Chávez's playbook.²⁵ In Venezuela, Chávez repatriated 160 tons of gold reserves from Europe before he died in 2013 which helped Maduro hold on to power despite crippling sanctions which started in 2014. Gold can be sold on shadow markets to criminal groups and other authoritarian regimes to evade the impact of a country being banned from the international financial system. As sanctions continued, including those on Venezuela's central bank in 2019, the Venezuelan financial system was isolated from the global economy. Maduro was able to turn to Russia for support, as Putin claimed he would do whatever was needed to help, including assistance, arms, and helping it sell its gold in unregulated markets, which was exchanged for euros used to purchase imports while other proceeds went to support military cronies.

Autocrats facing sanctions have also successfully relied on other authoritarian regimes. In August 2011, a European sponsored draft which tried to impose UN sanctions on Syria included asset freezes, travel bans and an arms embargo. Russia and China opposed it, which emboldened Assad. Russia props up Belarus by exporting energy resources at below market prices costing Russia about \$2.4 billion a year.²⁶ Both Russia and Iran have offered significant support for Maduro and Assad. China provides Kim Jong Un massive amounts of food and fertilizer, and over \$55 billion in exports.²⁷ China appears to be Russia's main source of support in weathering the onslaught of sanctions from the West. But there are already signs that there are cracks in this alliance. China declined to support the ruble from Western attack and Chinese banks have steered away from Russia. Also the Chinese renminbi is not widely used outside of China.

Authoritarian regimes have also been successful in preventing a united approach to sanctions by having an effective lobbying team play to the self-interest of individual countries. In the EU, there has not been unanimous support for the sanctions since they inflict too much economic harm on the senders. After the ruble initially tumbled, Russia's ability to export its natural resource products to European countries and elsewhere has helped the ruble stabilize.

Why have the sanctions not worked yet in Russia?

After being selected to be Boris Yeltsin's successor and later winning an election in 2000, Putin started to consolidate his power over the Russian state, officially turning it into a personalist dictatorship by 2012. Putin's legitimacy was partially based on the perception that he brought Russia out of economic chaos that succeeded the fall of the Soviet Union. After growth rates in Russia stalled, Putin shifted to instrumentalizing the history of the Russian empire, which denies an independent Ukrainian identity. With total control over the media, Russian propaganda endlessly spews misinformation about the regime and the West that has been fairly effective with many Russians.²⁸ It's unclear how long a majority of the Russian public will believe the false claims about the conflict in Ukraine.²⁹

While Putin's personalistic rule makes Russia the most vulnerable type of dictatorship to sanctions, Russia is by the far the most powerful country facing sanctions of this nature. Russia is not dependent on export earnings to access weapons and other military hardware to fund the war. Personalist regimes that caved to pressure were dependent on foreign aid, and Russia is one of the richest countries in the world in terms of natural resource wealth, including minerals in addition to its large gas and oil reserves (as Russia holds the largest natural gas reserves in the world, 2nd largest coal reserves and 8th largest oil reserves). Sanctions of the past have not involved Russian energy exports (which are 25% of the Russian economy) as that would impact Western consumers. The initial rounds of sanctions imposed by the US and other Western countries which followed the annexation of Crimea slowed economic growth in Russia but did not have far-reaching effects. By still being able to sell oil and gas to the US and Europe this enabled Russia to accrue dollars and euros which could be used to purchase rubles to prop up its value.

But, now oil corporations such as Shell and British Petroleum have halted extraction projects in Russia and have abandoned partnerships with Russia state-owned oil companies. As a result, Russia is struggling to find buyers for its top export. As already mentioned, the US just banned Russian oil exports and the UK announced that it would phase itself out of relying on Russian energy products. Russia needs its economy to be relatively stable to support its defence industry, its nuclear and chemical programs and its broadcasting industry. Additionally, rarely has a target country been this interconnected with the global economy. Research shows that sanctions may be increasingly effective with globalization³⁰

What next?

Though the West has unleashed an unprecedented array of sanctions, Russia has responded by being more repressive at home. Sanctions have targeted key individuals in the regime, but it remains to be seen if these individuals will be able to circumvent the sanctions, as Iran's Revolutionary Guards have by engaging in black market activities. Putin's inner circle remains committed, loyal and unlikely to oust him any time soon.³¹ Putin also purged expertise in the upper ranks of the military to coup-proof his regime.³²

Yet the US, and the EU and other major players in the global community have little choice but to increase the sanctions in spite of concerns about their limited effectiveness. Inaction would be worse because sanctions are a form of signalling. To some extent the sanctions help to strengthen the resolve of the Ukrainians, just as sanctions were part of a larger anti-Apartheid strategy of the African National Congress (ANC).

Additionally, though sanctions will not cause authoritarian breakdown or leadership turnover, they may impact Russian effectiveness in the conflict. Weak morale of Soviet troops vis-à-vis the mujahideen affected the decision to withdraw from Afghanistan after 9 years of war. Many Russian conscripts in the war against Ukraine are being paid about \$25 a month, far less than Russians in the regular army, who earn about \$900 a month.³³ With the ruble worth about a penny, Putin will have to spend more to keep the military happy. The

morale of Russian troops is already low, and the sanctions play a role in worsening it.³⁴ Further, sanctions could affect Russia's supply of military hardware.³⁵ Sanctions are thus more impactful on authoritarian regimes who are *also* engaged in conflict; the regime is not just focused on leadership survival, but on being financially stable enough to conduct full scale military operations.

The big problem, is that sanctions are going to take time to affect Putin's war chest. Though there are plenty of signs of cracks in Russian military invincibility—as Russia is reportedly seeking economic and military support from China (and testing China's loyalty), there are concerns about how long the Ukrainians can hold back the Russian advance.³⁶ Thus, the effectiveness of the sanctions is dependent on how long the Ukrainians can defend their territory, to what extent China is willing to be Russia's lifeline and if the West can ramp up sanctions on oil and gas. True, sanctions will weaken Russia economically, and cause some internal instability, but the biggest impact will be if they can affect Putin's ability to wage war effectively and force Russia to the negotiating table.

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Endnotes

¹ <https://markets.businessinsider.com/news/currencies/russian-ruble-worth-less-than-1-cent-ukraine-bombs-sanctions-2022-3>

² <https://www.vox.com/22968949/russia-sanctions-swift-economy-mcdonalds>

³ <https://www.reuters.com/markets/europe/washington-targets-russian-debt-sanctions-sweep-2022-02-23>

⁴ <https://www.cnbc.com/2022/02/26/here-are-the-russian-oligarchs-targeted-in-bidens-sanctions.html>

⁵ <https://www.bbc.co.uk/news/business-60549927>

⁶ <https://www.politico.eu/article/germany-to-stop-nord-stream-2/>

⁷ The Russian government has stipulated that any resident with savings abroad can bring these savings back to Russia with no questions asked about taxes or criminal activity. There is also a ban on foreign investors selling Russian assets.

⁸ <https://www.cfr.org/in-brief/will-international-sanctions-stop-russia-ukraine>

⁹ <https://www.atlanticcouncil.org/blogs/new-atlanticist/the-russian-central-bank-is-running-out-of-options/>

¹⁰ <https://www.bbc.co.uk/news/business-60529926>

¹¹ <https://www.reuters.com/world/europe/jpmorgan-shock-russian-gdp-will-be-akin-1998-crisis-2022-03-03/>

¹² The results of earlier studies on sanctions deemed them to be largely ineffective, succeeding at best a third of the time (Hufbauer et al., 1990) and at worst 5% of the time (Pape, 1997). Some subsequent studies have offered more optimistic assessments about their effectiveness, but many caveats were made (Cortright and Lopez, 2002; Hovi et al, 2005; Von Soest and Wahman, 2015).

¹³ (Agbonifo, 2017; Olson, 1979).

¹⁴ There is also a general consensus that sanctions are more likely to be effective in countries that are democratic or at least semi-democratic (Allen, 2008; Elliot, 1997; Marinov, 2005) and work less well against autocrats. Biersteker and van Bergeijk, 2015; Brooks 2002; Lektzian and Souva 2007; Nooruddin, 2002).

¹⁵ Peksen (2019) argues that when it comes to sanctions, democracies are more affected by sanctions because they cannot use repression and will be forced to make concessions or suffer from poor chances at re-election when the sanctions start to hit the population

¹⁶ which can be an effective way of garnering more support, especially if the autocrat enjoys some legitimacy (Grauvoge and von Soest, 2014; Jaeger, 2016; Wood, 2008).

¹⁷ (Nincic, 2005). This effect increases with the financial damage inflicted upon civilians (Tostensen and Bull 2002, 376). Sanctions that are comprehensive may weaken the economy and in turn, weaken civil society (Fathollah-Nejad, 2014), thus negatively influencing societal pressure for democratic freedoms (Peksen and Drury, 2010).

¹⁸ This was observed in Iraq during the 1990s (Biersteker and van Bergeijk, 2015; Kaempfer et al, 2004). If the sanctions against an authoritarian regime are comprehensive, they create opportunities for target states to allocate rent-seeking opportunities to those supporters. The supporters of the regime become more dependent on the leaders for the goods and services they enjoyed prior to the onset of sanctions (Peksen and Drury, 2010), while the flow to opposition groups may stop. The groups that the regime chooses not to shield from the impact of the sanctions will be increasingly disempowered, further augmenting the regime's grip (Drury and Li 2006; Gibbons 1999; Weiss 1999; Weiss et al. 1997). Sanctions generally harm the socioeconomic and political status of average civilians, while political elites remain insulated from the coercion (Andreas 2005; Gibbons 1999; Peksen 2009; Weiss 1999; Weiss et al. 1997

¹⁹ Personalist regimes are typically the weakest institutionally and therefore tend to be the most reliant on foreign aid in order to prop up their regimes, while single party states are the most resilient to sanctions (Escribà-Folch and Wright, 2010; Peksen, 2019). Though there are very few theocratic regimes, sanctioned theocratic regimes are shown to strengthen themselves using religious rhetoric (Naghavi and Pignataro 2015). This is because targets with a strong ideological conviction are almost impossible to coerce (Biersteker and van Bergeijk, 2015). The most vulnerable to sanctions are personalist regimes because they rely so heavily on external rents from foreign aid and don't usually have efficient state institutions to build government revenues since the government is built around one leader (Escribà-Folch and Wright 2015). The state apparatus is further weakened by the rotation of elites. If the elites who are part of the ruling coalition are not receiving the benefits that they are accustomed to, this will undermine the dictator's grip on power. This gives personalist dictators an incentive to concede to external pressure, if the dictator realizes that not doing so will put his own rule in jeopardy (Peksen, 2019). Personalist leaders cannot make credible commitments to provide patronage like single party regimes can (Escribà-Folch and Wright, 2010). Patronage-intensive government consumption as a share of GDP under personalist rule is 6% higher than single-party regimes and 15% higher than military regimes. Sanctions that target elite access to rents are most likely to undermine authoritarian rule in personalist dictatorships than in other types of dictatorships (Escribà-Folch and Wright, 2010).

- ²⁰ Single party regimes have the most party cohesion, an established party network, and have already established bureaucratic control over the state and society. This all helps to ensure that party elites are able to maintain their access to resources and distribute scarce resources to their supporters, shielding party leadership from hardship and preventing defections. Control over the state enables single-party regimes to better monitor and punish dissent (Davenport, 2007; Geddes, 1999). Single-party and military regimes are better equipped to shift fiscal pressure to gain revenues from other areas, such as increasing taxes on goods and services. They also have greater control over their territories and population (Escribà-Folch and Wright, 2010). Sanctions against military regimes are less effective in achieving their intended policy goals relative to democratic regimes. Military regimes may be inclined to and able to use repressive tactics to eliminate opposition to their regimes once sanctions are imposed (Davenport, 2007). Their control over the security services makes them more likely to opt for coercive methods to quell dissent. Selective use of rewards and repression of opposition to their rule makes them less likely to give in to external demands (Peksen, 2019).
- ²¹ Frantz and Ezrow, 2009
- ²² <https://www.cfr.org/background/irans-revolutionary-guards> In the case of Iran, much of the support of the status quo comes from the massive security apparatus which includes the Revolutionary Guards. While many Iranians have been impoverished by runaway inflation, the Guards can earn their wealth by engaging in black market activity
- ²³ <https://www.atlanticcouncil.org/in-depth-research-reports/report/the-impact-of-western-sanctions-on-russia/>
- ²⁴ <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/the-maduro-regimes-illicit-activities-a-threat-to-democracy-in-venezuela-and-security-in-latin-america/>
- ²⁵ If there is any evidence that it is starting to liquidate its gold, this would demonstrate that Russia is in dire straits.
- ²⁶ <https://www.europenowjournal.org/2019/02/04/sanctions-on-russia-effectiveness-and-impacts/>
- ²⁷ <https://www.ft.com/content/a8f270ae-5cce-4ef3-a179-244b3d40311b>
- ²⁸ Van Herpen, 2015
- ²⁹ <https://foreignpolicy.com/2022/03/08/russia-propaganda-ukraine-failure/>
- ³⁰ Drezner et al, 2021; Farrell and Newman, 2019
- ³¹ Though a coup in the immediate future is unlikely, former Russian Foreign Minister (1990-1996) Andrei Kozyrev claimed that Putin's advisors would overthrow him before giving him bad news.
- ³² <https://www.ft.com/content/503fb110-f91e-4bed-b6dc-0d09582dd007?shareType=nongift>
- ³³ <https://eutoday.net/news/security-defence/2022/russian-military-pay-does-size-matter#:~:text=Conscripts%20receive%20a%20stipend%20of,of%20regular%20or%20contract%20soldiers.>
- ³⁴ <https://www.forbes.com/sites/craighooper/2022/03/01/shaken-russian-army-conscripts-make-perfect-targets-for-morale-crushing-operations/>
- ³⁵ In the case of South Africa, sanctions affected the occupation of Namibia and its conflict with Angola. With an oil and arms embargo imposed since 1973 and 1977, respectively, it became increasingly challenging for the South African government to occupy both Namibia and Southern Angola. The arms embargo, in particular, made it difficult to access modern weapons in the conflict against Angola. New uprisings in 1984 triggered new sanctions in the years that followed, and by 1988, the sanctions started to bite, forcing South Africa to end its military engagement and occupation
- ³⁶ <https://www.nytimes.com/2022/03/13/us/politics/russia-china-ukraine.html>