



**Sanctions and the War in Ukraine: Lessons Learned**  
A New Voices in National Security Workshop Report

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**Executive Summary**

On September 23-24, 2022, Bridging the Gap convened a workshop on “Sanctions and the War in Ukraine: Lessons Learned” at the Duke in DC Center in Washington, DC. Participants in the workshop included U.S. executive branch officials, Congressional staff, think tank experts, and university-based scholars.

The workshop had two big questions on the agenda: (1) How have sanctions against Russia following the invasion of Ukraine affected the global economy and financial system? (2) How can lessons from the Ukraine case be applied to potential future crises involving China? During an engaged discussion among the scholars and policy practitioners, several major themes emerged. First, Russia’s efforts to insulate itself from sanctions have been only partially successful, but as yet it is unclear whether sanctions costs can continue to be contained. Second, while the US and China have been partially decoupling their economies, this is challenging given how intertwined they are. Third, even given the substantial international cooperation with the Russia-Ukraine sanctions, the cumulative effect of these on top of other US-led sanctions may lead to various efforts at de-dollarization. Fourth, there are key limitations in drawing parallels between the war in Ukraine and a potential conflict in Taiwan. Finally, it is important for the community of sanctions researchers to evaluate when sanctions can be an effective tool of deterrence and how they relate to other foreign policy tools such as military force.

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## **Intermediate results of sanctions against Russia: What has and has not worked**

Some workshop participants explained that, learning from the earlier round of U.S. and European sanctions following its 2014 annexation of Crimea, Russia took steps to sanctions-proof its economy prior to this year's invasion. More specifically, the Russian government focused on protecting domestic actors that are targeted by sanctions, creating Russian substitutes for foreign goods and services, pursuing new economic and political partnerships, and moving towards de-dollarization.

Despite the preemptive actions, the swiftness, scope, and multilateralism of current sanctions were unprecedented and took Russian elites by surprise. Insulating the government from constraints imposed by sanctions became challenging with multilateral sanctions in two primary ways. First, in its attempts to de-dollarize, Russia increased its euro share of foreign reserves. Furthermore, most energy trade deals between Russia and China were in euros, not dollars. In this way, Russia exposed itself to the euro problem when the EU unexpectedly joined the US in levying comprehensive sanctions. Second, Russia's ability to find new or deepen existing partnerships has been constrained by fairly broad multilateral support for the sanctions. As a result, it can no longer pivot to South Korea or Japan.

At the same time, some participants observed, Russia has been quite successful at mitigating the effects of sanctions in the short term. Its budget revenue is projected to reach 300 billion USD in 2022, a rough equivalent of the central bank's frozen foreign reserves; its macroeconomic indicators are stabilizing; and the projected GDP contraction is smaller than initially estimated. China, India, Turkey, and others have served as alternative trade partners, defraying some of the sanctions costs. In the long run, the measures Russia has taken to increase and maintain the value of the ruble, such as capital controls and high interest rates, will be difficult to sustain.

Some participants noted that de-dollarization had been instrumental in mitigating the economic costs of sanctions. Currently, Russia is the largest holder of yuan. Even though it is still considered an unusual currency for Russia, major Russian banks offer domestic loans and bonds in yuans. Future energy deals with China are agreed to be paid in both rubles and yuans. In addition to its deepened partnership with China, Russia also increased its energy exports to India and engaged in barter with Syria, Iran, and Venezuela. As part of its adaptation to sanctions, Russia has put effort into "russifying" its economy: emphasizing and strengthening the ruble, shifting firms from foreign jurisdiction, maintaining the onshore currency market, and import substitution. The Russian government is also dictating the rules for how remaining foreign countries can operate in the country, including the use of the ruble. Similar to China's initiative, Russia is piloting virtual rubles and somewhat unsuccessfully pushing its Mir payment system (supported by Russia's Financial Messaging System of the Bank of Russia known as SPFS) as an alternative to the SWIFT system used globally.

With respect to the overall sanctions' success, on the one hand, the discussion suggested that sanctions against Russia have not been as successful as some people anticipated, and Russia has been able to implement some of its sanctions-proofing strategies and adapt to sanctions by turning more inward. On the other hand, some participants stressed the importance of measuring the sanctions' success not only by their impact on Russia's GDP and the value of the ruble, but also in terms of the role of these sanctions in a broader strategy for countering Russia's aggression that includes massive military assistance to Ukraine. Due to Russia's reliance on Western imports of semiconductors and chips, the sanctions are intentionally limiting Russia's ability to replace the military equipment, which is having significant ramifications for its military capabilities. In addition to the sanctions' effect on Russia's military, they also make countries that are willing to capitalize on Russian isolation (e.g., China) not want to jeopardize their access to the US market and dollar. While not fully complying with the sanctions, these countries are wary of brazenly violating sanctions. In the long-run, Russia risks losing its political leverage over European countries as they grow less reliant on Russian energy.

### **Do these lessons apply to any potential crisis with China?**

Turning to China, some workshop participants observed that as China watches the case of Russia unfold, it is aware of its own vulnerabilities and is building its resilience against potential Western sanctions. China's primary strategy hinges on the global promotion of its national currency, the yuan, and enhancing its domestic technological and manufacturing capacities. Additionally, it has developed its own payment system, is actively pursuing regulatory reforms, and, eventually, will want to reduce external dependencies on overseas supply chains. Despite the possibility of decoupling on a limited basis, many participants agreed that large-scale decoupling between the United States and China is virtually impossible since businesses in both countries prioritize profits, and both sides would lose from it.

If US sanctions are considered in response to a potential crisis in Taiwan, some participants suggested that policymakers should pay close attention to the following differences between both Russia and China as sanctions targets and Ukraine and Taiwan as targets of military aggression to avoid misapplying lessons from the Russia case:

- *Economic power:* China's economy is much more integrated into the world economy, and it's ten times larger than the Russian economy. China has many more ways to retaliate against the US economically compared to Russia. The US is vulnerable in the areas of pharmaceuticals, low-margin and low-value products, manufacturing for information and communication technology, and energy storage and batteries. Especially with the transition to electricity in efforts to combat climate change, the US must pay close attention to the batteries and energy storage that come mostly from China.

Additionally, the partial decoupling with Russia after the 2014 sanctions made sanctions more successful, and such decoupling has largely not occurred with China.

- *Military force:* China would prefer to avoid using military force. In case of a Chinese invasion of Taiwan, it would escalate and accomplish its goals fast. Military developments would influence any decisions regarding sanctions imposition.
- *Allies and partners:* Some participants argued that China believes the US would face challenges in maintaining an international coalition, in contrast with the international support behind sanctions against Russia. In case of potential sanctions against China, the key region would be Southeast Asia, and their private sector would need knowledge and access to know-how if they were to join the sanctions. Even then, many countries desire closer ties with China and would try to avoid being caught in-between the US and China. Thus, building a strong international coalition would present a challenge.
- *Ukraine and Taiwan as military targets:* There are crucial differences between them with respect to sovereignty, geography, and international standing that could affect the extent of international support. In addition to being a full nation-state member of the international community, Ukraine is also a white, Christian-majority nation located in Europe. Coupled with President Zelensky's highly admirable leadership as well as an incredibly successful PR campaign, Ukraine was able to appeal to a wider audience and counter the false Russian propaganda. In the case of Taiwan, these and other factors may make support less extensive globally, and especially if the direct costs to the American economy are greater and US public support is less firm. Furthermore, China views Taiwan as a fundamental identity issue and, unlike Russia, cannot compartmentalize issues in its relationship with the US—any US action would be perceived as a response to Taiwan.
- *Private sector:* In the case of sanctions against Russia, numerous public and private firms withdrew from or reduced their operations in Russia. While de-risking was one consideration, this behavior can be best explained by public pressure. It is unlikely that companies would self-sanction to the same extent in the case of sanctions against China.

Based on the Russian case, policy practitioners might want to work more closely with the private sector to anticipate its reaction and use it strategically. Earlier this year, the US would have actually wanted some tech companies and Russian talent to stay in Russia, but this might not have been evident to the tech sector. One solution is to reach out to business directly and provide political cover publicly to shield companies from potential consumer boycotts and other repercussions. Policy practitioners may also want to reach publics in target countries to deliver the message behind sanctions and try to enhance their understanding of US goals.

Many different factors can unfold in a potential crisis over Taiwan. What is clear is that US sanctions against China would be much more costly to both sides compared to the Russian case. Meanwhile, the US should focus its policies on preserving dollar dominance.

### **Sanctions as strategic complements**

Sanctions are often viewed merely as an alternative to the use of military force, but they are a limited instrument with specific objectives. The proportionality of objectives matters for sanctions success. If the goal is ambitious as is the case in Ukraine and involves an ongoing military conflict, then additional military support may be required to increase the prospects of achieving the desired outcome.

Indeed, in case of the Russian invasion, sanctions have had their greatest effect in tandem with other policies such as diplomacy and/or the provision of massive military assistance to Ukraine. These are best viewed as complementary policies directed at the same goal—avoiding escalation and expelling Russia from Ukraine on acceptable terms. Moreover, sanctions work differently in wartime compared to peacetime. The goals of current Western sanctions against Russia are both to impose sufficient costs on the overall Russian economy to indirectly pressure it to end the war and more directly limit its capabilities to continue its military campaign. Although the Russian government is taking steps to adapt its economy, the adjustment is costly: receiving chips and financing is more expensive from non-Western countries. It is worth noting that it often takes time for the full effects of economic sanctions, especially with a military component, to be realized. This ties back to the idea that there should be a more holistic approach to sanctions' success, with a nuanced understanding of how they complement other tools. For now, it is evident that sanctions are not prompting Russia to abandon its campaign of aggression in Ukraine but are impeding Russia's ability to perpetrate war effectively.