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Will Economic Pressures Weaken Putin's Position?

Obviously, the West should have been much tougher on Russia earlier. In his speech in Munich in February 2007, Russia's President Vladimir Putin effectively declared war on the West, but he was greeted with thunderous applause. At the NATO summit in April 2008, he claimed that Ukraine is not a state, and he followed up with a war in Georgia in August 2008. Alas, neither the United States nor the European Union imposed any sanctions on Russia. Putin understood that the West was weak and he could continue his aggression.

In February 2014, Putin seized Crimea from Ukraine in an almost bloodless occupation and annexed it to Russia. The united West imposed sanctions on officials directly involved and companies dealing with Crimea. In addition, the US sanctioned Putin's four main cronies – Yuri Kovalchuk, Arkady and Boris Rotenberg, and Gennady Timchenko, dubious businessmen from St. Petersburg. The EU, however, did not sanction Boris Rotenberg and Gennady Timchenko, because they are Finnish citizens. Only now, the EU has sanctioned Timchenko, but not yet Boris Rotenberg.

In April 2014, Putin called for half of Ukraine to be taken over by Russia as "Novorossiya" (New Russia), drawing on the imperialism of Catherine the Great. Russian special forces tried to whip up Russian separatism in southern and eastern Ukraine, but they had limited success in the east of the Donetsk and Luhansk regions. In July 2014, Ukrainian armed forces advanced against the separatists. Russia reacted with substantial force. The US responded by imposing sectoral sanctions against financing, oil technology and defense technology. The next day, a Russian missile shot down a Malaysian airplane and all 298 people on board died. Two-thirds of the passengers were Dutch. Two weeks later, the EU imposed sanctions similar to those of the Americans. In early September, the Russian offensive stopped, presumably due to a great extent to Western sanctions.

Nearly eight years of low-intensity war followed. Pro-Russians thought the EU would ease sanctions that had to be renewed every half year, but the sanctions remained. Both the US and the EU carried out minor sanction maintenance, but little changed. Repeatedly, politicians and officials discussed new "sanctions from hell" in public, but little happened, which undermined the credibility of the threat. The EU tended to be divided with a handful of countries calling for fewer sanctions or more exceptions, but ultimately the sanctions were always prolonged. Nobody wanted to break the consensus, and the two dominant countries, Germany and France, held firm.

Early on, the International Monetary Fund assessed the cost of the Western sanctions on Russia at 1%-1.5% of GDP each year, and Russia's economy did not grow at all from 2014 to 2020. Together with Maria Snegovaya, we have assessed a more likely cost of 2.5% of GDP each year. The Russian government and its banks, on the contrary, claimed that the sanctions cost little or were even good for Russia, which was probably Putin's view.

After Putin's aggression against Ukraine in 2014, the West should have armed Ukraine as much as possible, but President Barack Obama thought that sending defensive weapons to Ukraine would be provocative to Russia. During his tenure, President Donald Trump approved the deliv-

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ery of lethal weapons to Ukraine, but in 2019 he tried to blackmail President Volodymyr Zelenskyy to provide him with false evidence against Joe Biden's son.

With the election of Biden as US president, the floodgates of US arms deliveries have been opened. A few European countries also provided weapons, but only after Russia launched a full-scale invasion of Ukraine on February 24, 2022, did almost all EU countries begin delivering serious arms to Ukraine.

In April 2021, Russia started assembling vast troops around Ukraine, and on July 12, Putin published a long article, insisting that Ukraine was not a state. This resembled a declaration of war, although the timing was unclear. In November 2021, the US started providing the world with extensive intelligence about Russia's war plans against Ukraine to convince its allies that this was serious.

A broad, new Western consensus arose: If Russia really invaded Ukraine, the West would impose far greater sanctions than ever before. Alas, the Kremlin did not take these threats seriously, because they had heard of "sanctions from hell" so many times before, but nothing happened. It would have been better to impose substantial sanctions earlier to clarify that the collective West was serious.

Nord Stream 2 was particularly demoralizing. In the spring of 2021, the Biden administration refused to sanction the pipeline contrary to adopted law and in July, it agreed with Germany to continue construction. Chancellor Olaf Scholz only stopped the pipeline after Russia started the invasion. This US-German agreement seriously undermined the credibility of the West.

Putin's full-scale war against Ukraine shocked Europe. Suddenly, the EU was united and agreed on far more serious sanctions than had been discussed before. The two main new financial sanctions were the freezing of Russia's central bank reserves and the disconnection of major Russian banks from the SWIFT messaging system. Suddenly, Russia was nearly excluded from the global financial system. The ruble and the stock market plummeted.

The US introduced strict export control on about half of its technology exports to Russia, but a popular movement of civil activists, consumers, shareholders and trade unions is prohibiting most Western companies from dealing with Russia in any way. All air traffic between Russia and the EU has ceased. Russia is swiftly becoming completely isolated.

Two big issues remain, Russia's export of oil and gas, and shipping. The US has decided to stop all energy imports from Russia, and many buyers now refuse to buy Russian oil. The International Energy Agency expects that Russian oil exports will fall by three million barrels a day in April, almost half of Russia's oil exports. However, Russian shipping has not been sanctioned as such, even if the UK has sanctioned the main Russian state shipping company Sovcomflot. The whole of Russian shipping should be sanctioned.

The aim of Western sanctions on Russia is no longer deterrence, and not really punishments, but to cripple the Russian economy so severely that Putin no longer can pursue his international wars. The Western sanctions against Russia are now more severe than those on Iran. They amount to nearly complete isolation, further aggravated by Putin's increased state control. The exchange rate of the ruble has fallen by 30%-40% and is now regulated. The ruble is no longer convertible. Inflation is bound to skyrocket with the ruble depreciation. The big unknown is how much the absence of imports will reduce production, but a decline of GDP of 20% would appear reasonable.

The collective West should have reacted earlier and issued more credible threats, but now the sanctions on Russia are truly severe and the West is more united than ever. Further sanctions appear nearly self-reproducing.