

# Will the US Sanctions Against Russia Work?

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Wednesday, March 30, 2022



"Peace Now!" photo-illustration by Edward Locke

This opinion article intends to discuss the effectiveness of the full-scope sanctions imposed by the United States and allies against Russia's invasion of Ukraine. Information cited in this article comes from both mainstream and non-mainstream mass media, printed or online, mostly from Chinese language newspapers published in the United States; they include The World Journal, Chinese L.A. Daily News (Taiwan Times), Zhong Guo Daily News, and China Press; despite of differences in political positions of the newspapers' editorial boards ranging from staunch conservative through relatively neutral to moderately liberal, the information cited is judged to be credible.

The targets of these sanctions include international financial or monetary transactions, export of Russian energy products, and of other raw materials, food and manufactured goods including a few high-tech equipment. Due to complicated factors, notably, dependency on Russian exports of the above-mentioned goods, and political and military partnerships between Russia and China, India, and Iran, which offer large loopholes in the global-wide net of sanctions, the effectiveness of the sanctions will vary.

### **Sanctions on International Monetary System and Trade Transactions**

In terms of sanctions in international monetary system, the removal of Russia from the SWIFT, the Society for Worldwide Interbank Financial Telecommunication, a service provider for the execution of financial transactions and payments between banks worldwide, will certainly cause heart-breaking pains in Russia's foreign trade. However, on October 13, 2014, many years before the outbreak of the Ukraine crisis, Chinese and Russian central banks signed an agreement on a 150 billion Chinese Yuan for 815 billion Russian Ruble currency exchange, which allows both countries to bypass US Dollars in their trade of services and commodities. Other deals allow Chinese Yuan to be used as an alternative to US Dollars for bilateral trade. Other countries have signed similar deals with China. According to a Wall Street Journal report on March 15, 2022, quoted by a news titled "*Saudia Arabia's Petroleum Trade with China Might Use Chinese Renminbi*," Saudi Arabia is considering accepting Renminbi instead of US Dollars as currency for payment to sell one quarter of its oil production to China. In addition, over the years, China has developed the Renminbi's Cross-Border Interbank Payment System (CIPS, or 人民币跨境支付系统) to perform functions similar to those of SWIFT, serving around 100 countries; Russia could use this as an alternative to conduct foreign trade in addition to its own smaller-scale and less popular system. Since 1974, Saudia Arabia has established a system of payment with US Dollars for its petroleum export; thus, the above decision is going to shake up the dominant position of US Dollars in international trade. Therefore, this type of sanctions will not deal a deadly blow to Russian economy; instead, it could cause serious collateral damages to the uniquely dominant position of US Dollars in international trade and to American economic interests worldwide.

Due to current US-China military standoff over Taiwan and South China Sea Islands, which is an intensified extension and continuation of "China containment" policies of the previous Trump Administration, it is not realistic to expect China to willingly and actively support US policy of sanctions against Russia in this area. In fact, China's nationalistic business circles, from both ultra-left and ultra-right wings, are now openly celebrating US sanctions on Russia as "the start

of the collapse of US Dollar's global hegemony," for pushing Putin to the corners and forcing Russia to depend on China for financial survival in exchange of military support for China in any potential Sino-American confrontations on the issues of territorial sovereignty over Taiwan and islands in South China Sea. This outburst of Chinese nationalism could be seen in many YouTube videos uploaded by commentators in China's Mainland as well as in Taiwan. Sympathy for Russia among nationalistic Chinese is based on the perceived need for Russia's support in any possible US-China military conflict over Taiwan and South China Sea. In fact, Russia's possible intervention in China's internal or external conflict is not without precedents; from 1933-1938, the former Soviet Union deployed Red Army troupes in China's Xinjiang, wearing Nationalist Chinese uniform, helping Chinese Nationalist warlord Sheng Shicai to defeat his rivals, and protected Soviet Union's exploration of Xinjiang's natural resources. During the Korean War between the United States and China, Soviet Air Force secretly intervened on China's behalf. Based on these historical records, it would not be a surprise to see Russian involvement in US-China standoff over Taiwan and South China Sea. Russia is a military superpower but an economic dwarf; China is an economic powerhouse but a middle level military power relatively weak to resist US pressure on issues of territorial integrity with regards to Taiwan and South China Sea islands; therefore, to the nationalistic Chinese, it appears that China and Russia could cooperate to satisfy each other's needs, especially the needs to protect each other's interests against perceived pressures from the United States and NATO, on a "Comprehensive Strategic Partnership." This type of "marriage of convenience" between Xi Jinping's China and Vladimir Putin's Russia appears to be attractive to nationalistic Chinese strategic thinkers, despite of the fact that in the past two hundred years, Czarist Russia and Soviet Union have taken over close to one quarter of Chinese territory (Outer Xinjiang, Outer Mongolia and Outer Manchuria); this mentality is worrisome to American global strategic planners but nevertheless logical as reactions against the United States Government's policies, since Trump Administration, especially with many announcements by his Secretary of State Mike Pompeo, and many legislations initiated by conservative Republicans and passed with bipartisan support in the Congress, of challenging China's claim of sovereignty over the South China Sea islands, of supporting Taiwan's resistance to China's call for peaceful reunification under a "one country two systems" model, and of supporting political dissidents in Mainland China, Hong Kong and Xinjiang.

In addition, as recently reported in mass media, Iran have made deals with Russia to use their own currencies, instead of US Dollars, to trade with each other; India and Russia recently have reached agreement for a Ruble-Rupee trade payment mechanism for India to import 3 million barrels of oil with a 25% volume discount from Russia. Turkey's President Erdogan has recently announced that Turkey is no longer buying Patriot Missiles from USA but instead, it will buy an alternative system from Russia, and in trading with Russia, Turkey will accept Russia Ruble for payment.

The anti-Russian sanctions have provoked President Putin's strong retaliations. Facing sanctions imposed by 48 states and regions, which put Russia's international transaction of payment for foreign trade on hold, causing severe damages as a "monetary nuclear explosion," President Putin took retaliatory actions or "counter-sanctions," by publishing the List of Unfriendly

Nations and Regions, on March 7, 2022, which stipulates that, (1) Russian citizens, corporations, government institutions could pay debts owed to foreign counterparts whose country or region is blacklisted, with Russian Ruble, instead of US Dollars, in specially opened accounts designed for foreign entities. (2) Russia will limit the numbers of Russian citizens these countries' diplomatic institutions in Russia (ambassies and consulates) could employ. (3) Russia will nationalize the properties of foreign corporations from the blacklisted countries and regions, if they choose to withdraw from Russian markets. On March 23, 2022, Russian President Putin announced that Moscow would require blacklisted countries or regions to pay for Russia's natural gas with Russian Rubles, in a desperate but nevertheless smart attempt to uphold the value of Russian Rubles by EU countries to buy Russian Rubbles with Euros, and thus, striking a blow to the sanction regime; this draconian measure has caused the price of natural gas in European Union nations to rise by 34%. Since around 40% of EU's natural gas is imported from Russia, the daily import cost is between 200 to 800 Euro; thus, Russia's demand on payment by Russian Rubles will cause chaos in the trade on natural gas.

Due to all of the above factors, especially President Putin's recent retaliatory counter-sanctions, the effectiveness of sanctions imposed by the United States and allies in the area of international monetary system is limited.

### **Sanctions on Russian Exports of Energy Products**

In terms of sanctions on the imports of energy products from Russia, the possibilities and consequences vary substantially across the Atlantic Ocean. For the United States, which imports around 8% to 10% of petroleum oil, but practically no natural gas, from Russia, the gap could be filled by encouraging other countries, including friendly partners such as Saudi Arabia and United Arab Emirates with financial incentives, and so far hostile countries such as Venezuela and Iran with partial lifts of some existing sanctions, to increase production and export. For the United Kingdom, our best and most faithful ally, it could be easily implemented because UK is the second-largest producer of oil and the third-largest producer of natural gas in Europe. For Canada and Australia, we probably could expect same level of enthusiasm in the common fight against Russian aggression. For our continental European allies with somehow questionable loyalty to American friendship and fairly different cultural pattern and diplomatic perspective, especially Germany and France which depend on Russia for more than 40% of natural gas and coal, and more than 25% of petroleum imports, for industrial, commercial and residential usages, there is no easy way to find alternative sources within a short period of time; therefore, both Germany and France, though "diplomatically" supportive of "comprehensive" and "targeted" sanctions against Russia, are nevertheless staunchly opposed to the inclusion of energy sources on the list. Eastern European countries, such as Hungary, which heavily depend on Russia for energy products (up to 90% in some cases), are also reluctant to support sanctions in this regard. Furthermore, in the unlikely scenario where both France and Germany are willing to make sacrifices on their own industrial and residential needs and to impose sanctions on Russia's energy products, the later could sell them to other countries including China through open or secret channels. Without strict implementation of sanctions on energy sources, one of Russia's principal export products, the effectiveness of sanctions against Russia will be seriously compromised.

Logistically speaking, due to Russia's important role in supplying oil and natural gas especially to European Union member states, it would take a lot of efforts to implement sanctions in this area. "Russia is currently the world's third largest exporter of petroleum oil, and second largest exporter of natural gas; abundant resources not only allow Russia to accumulate more than US\$630 billion worth of gold and foreign currency reserves, but also its retaliatory means, i.e., limitation on the export of energy products, in case it faces any relatively more severe sanctions," an article in *The Atlantic* stated recently. "Since the annexation of Crimea in 2014, liquified natural gas has been priced at US\$10 or even \$5 and below per BTU; but currently, the price has reached US\$30, letting Russia to possess unprecedentedly enormous power to control energy resources. [...] To replace Russia's cheap natural gas, Europe and the United States have to invest several billion US Dollars in nuclear energy and renewable energy generation plants, plus new natural gas tubing networks linking the Mediterranean Sea, North Africa, and West Asia, as well as receiving stations for liquified natural gas; and the United States needs to cooperate with other countries to increase production of natural gas. But the above actions could not generate visible results within 90 days; the article points out that, as long as Russia's energy resources are isolated from most of the regions, European economy could fall into a recession, so could the American economy" ("*Russia's Ambition Could Subvert the Global Energy Market,*" by Hong Yi, page A5, Friday, February 25, 2022, The World Journal).

In order for the sanctions to work effectively, the majority of countries in the world must sign in, Unfortunately, this is not the case. Many countries in Asia, Africa, Middle East and Latin-America refused to condemn Russia's aggression in the UN General Assembly meeting on March 2, 2022; 141 countries voted yes to condemn Russia's aggression; 5 countries voted no; and 35 countries casted the votes of abstention, and these included China, India and Iran. Cyril Ramaphosa, President of South Africa, the largest country in Africa, blamed NATO's eastward expansion as the root cause of Russia's invasion of Ukraine. During the online meeting between President Ramaphosa and President Xi Jinping, Xi described the relationship between South Africa and China as "comrades plus brothers" with similar position on the issue of Ukraine crisis. The President of Mexico, America's neighbor on the southern border, said that Mexico would not join the sanctions just because Russia invaded Ukraine. El Salvador, Cuba, Bolivia and Nicaragua, all casted votes of abstention. The World Journal, a staunchly conservative, pro-Taiwan and anti-Communist Chinese-language newspaper published in the United States, lamented that "obviously, the influence of the United States in Africa is continuously declining" and that "the United States has lost its capability of mobilizing the whole world" in its editorial titled "*The War in Ukraine Revealed the True Face of the United States Which Can No Longer Mobilize the Whole World,*" March 29, 2022. Countries and regions that joined sanctions basically come from the developed nations from European Union, North America and a few Asian countries and regions (Japan, South Korea, Singapore and Taiwan). Practically speaking, no African or Latin American country joins the sanctions seriously. Important countries with considerable regional or even global influence such as China, India, Pakistan, Israel, Turkey, Saudi Arabia and Brazil have little interests in the sanctions; they choose to continue trading with Russia for mutual benefits. In the trade of energy products, continental European countries are currently incurably addicted to Russian oil and natural gas; thus, unless something magic occurs, it is unrealistic to expect continental Europe to be a vanguard in this fight. In fact, Russia

could simply shut off export of petroleum oil and natural gas to cause an earthquake in European economy and sell them to China and other countries to continue business as usual. Just very recently, India, which historically has been a close partner of former Soviet Union and later Russia in terms of military cooperation, buying around 60% of its weapons from Russia to support its military confrontation with both China and Pakistan, has staunchly declined to join the sanctions; instead, India has cut a deal to buy petroleum oil from Russia with a 25% discount, to be delivered in May, 2022, and a scheme of bilateral trade paid with Russian Rubles and Indian Rubies, bypassing US Dollars; in addition, India has recently been trying to reconcile with China for the purpose of opposing US-led sanctions against Russia. Due to non-cooperation from the above-mentioned developing countries, for the time being, sanctions on Russian energy products will not produce quick results.

### **Sanctions on Russia's Exports of Non-Energy Products**

For sanctions on industrial raw materials, manufactured products, food and other commodities, based on statistics available from the Trading Economics website, at <https://tradingeconomics.com/united-states/imports/russia>, "United States Imports from Russia was US\$30.76 Billion during 2021, according to the United Nations COMTRADE database on international trade." US imports from Russia are mostly low-tech products for which alternative sources could be found without too much difficulty, such as fertilizers (\$1.28B), aluminum (\$657.41M), rubbers (\$187.95M), nickel (\$158.72M), iron or steel (\$149.40M), lead (\$92.82M), copper (\$101.78M) and many others. More high-tech products, for which it would be harder to find alternative sources, include electrical, electronic equipment (\$131.59m), aircraft, spacecraft (\$67.29m), optical, photo, technical, medical apparatus (\$57.33m), railway, tramway locomotives, rolling stock, equipment (\$21.20m). Since Russia's principal exports are weapons and energy products, the impacts of sanctions on the above products are fairly insignificant, for either Russia or the United States and allies.

Rising prices on necessities and soaring energy costs in Europe caused by the Russia-Ukraine war and related sanctions have angered a lot of people in Europe. As reported by Global Times ("*Spain Hit by Yet Another Mass Protest Over Rising Prices*," Monday, March 21, 2022, <https://www.globaltimes.cn/page/202203/1256404.shtml>) and other news media, demonstrations broke out in many European cities, joined by thousands of people. In Madrid, capital of Spain, as many as 150,000 farmers, ranchers and hunters marched on Sunday, March 20, 2022; the mass demonstration came a day after thousands of demonstrators, called by the far-right Vox party, protested against rising food, energy and fuel prices, March 19, 2022. Protests also broke out in France and other European countries.

The above sign of social disturbance and instability could escalate if the war in Ukraine drags on and the conflict between Russia and European Union escalates, causing severe economic hardships to people living at the bottom of social-economic ladder. For Europe that depends too heavily on imports of energy from Russia, sanction against Russia's invasion of Ukraine is a no-winner scenario. This is the cause for France and Germany to desperately seek a mediated solution.

Based on the above fact, we could clearly see that, US-led sanctions might work to a certain degree to warn Russia not to extend its military campaign beyond the border of Ukraine, but it could not stop Russia from imposing some or most of its demands on Ukraine by force, out of its paranoid hysteria based on the fear that a Ukraine with NATO membership will cause its further disintegration or an eventual invasion from NATO forces. Meanwhile, the sanctions, while providing positive effects of deterrence against further expansion of Russia's aggressive military campaign in Ukraine, they could collaterally damage the economic, political and diplomatic interests of the United States and allies as well. Realistically speaking, in the long run, there will be no winner among participating countries in this conflict. The only potential but partial winners might be "neutral" countries like China, Israel, Turkey and India, which try to mediate, openly or behind the scene, between Russia and Ukraine, while pleasing both sides to harvest economic and geo-political benefits. Even these "neutralist" potential winners could suffer some damages due to the negative impact of the war on global economy. Ukraine is so far the biggest loser; according to Yulia Svyrydenko, Ukraine's Finance Minister, her country's economy damage so far exceeds US\$564.9 billion, out of which destruction of economic infrastructure constitutes the largest portion; she pointed out that after Russia's invasion, 8,000 kilometers of roads, several dozen train stations or airports have been damaged for an estimated loss of US\$11 billion; in addition, approximately 10 million square meters of residential units, 2 million vehicles have been destroyed for an estimated loss of US\$90.5 billion. European Union is the second biggest loser, because of inflation, rising prices on commodities and soaring energy costs, plus entry of large number of refugee (3 million so far) causing intensive strains on social service systems. China, as the second largest economic powerhouse in the world today, instead of making profits out of investment in both Russia and Ukraine, has to offer RMB\$15 million worth of humanitarian assistance to Ukraine (approximately US\$3 million), and still invites criticism from some Ukrainian officers for not supplying weapons. United States economy in general suffers too. According to a NBC News report (March 27, 2022), public opinion polls conducted between March 18 and March 22 indicated that, the rate of public support for Biden Administration has dropped to 40%; among those interviewed, 71% believe that the US is on a wrong track, 62% indicate that their families' incomes are below living costs, 83% worry that the war in Ukraine will lead to soaring price in oil and other goods and services, 82% worry about war and use of nuclear weapons, 74% worry about US sending troupes to Ukraine's battlefields, 41% think that US will be at war with Russia by next year, and 44% have very little confidence on Biden's handling of Ukraine's crisis. The poll also indicates that speedy inflation and excessively high cost of living are what Americans worry about the most, followed by job security, economy, voting rights and COVID-19 pandemic. Further escalation of the war between Russia and Ukraine, which is essentially a geopolitical conflict between the United States and NATO on one side, and Russia on the opposite side, could lead to more severe damage to US and European economy.

Therefore, instead of intensifying sanctions, we should seek a more constructive alternative to stop the conflict between Russia and Ukraine, through a cease-fire and continued negotiations, through the good auspices of Israel and China, both maintaining good relations with Russia and Ukraine, and of France and Germany, which so far have been acceptable to both parties in the conflict. Meanwhile, without getting involved in a possibly nuclear conflict with Russia, with no

winner at all, we should take correct measures in the defense of ourselves and of our allies in Europe, without further provocation to Russia, and try our best to build a new type of international security system with both Russia and China, which is balanced, transparent, rational, and sustainable, based on mutual trust and self-restraint, as a viable alternative to the currently fashionable system of mutual deterrence or Mutually Insured Destruction.