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The West's Misdirected Sanctions Against Russia

By Georgy Bovt

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A prominent economist recently tried to reassure me that the sanctions imposed by the U.S. would not affect ordinary Russians' credit card accounts. But with the help of Visa and MasterCard, the West's burgeoning economic war against Russia has already affected about 500,000 cardholders who hold accounts in several banks.

And that is only the beginning. It would be a mistake to recklessly understate the seriousness of the situation as some of the blacklisted Russian officials have done, quipping that the sanctions do not affect them because they have no assets in the U.S. or the European Union. Nobody has spoken publicly about the fact that the indirect consequences might be far greater — not only for a significant part of the population, but also for the economy as a whole.

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Economic sanctions are an invention of the second half of the 20th century. As a rule, they never stop a tyrant and his inner circle, but bring hardships to the common people instead.

Of course, at some point sanctions are removed, but it is hard to say when they will be removed in this case. President Vladimir Putin will not back down until he sees definite signs that Ukraine has stabilized. Ukraine has scheduled the presidential election for May but has not yet specified which version of the country's constitution it will be based on. If the situation worsens between now and May, the election may never take place, which could spark new and more violent Maidan protests. This, in turn, would raise the question of the security of the country's infrastructure and nuclear facilities that could be left without anyone to guard them. The world community seems slow to realize that Somalia 2.0 could be developing right now in the middle of Europe.

Putin himself could cause a further deterioration in Russia's relations with the West. The Group of Eight has all but expelled Russia. Things will never be same between the West and "Putin's Russia." If the disorder in Ukraine becomes so disastrous that it raises the specter of several Chernobyl-like nuclear plant meltdowns, the world community could theoretically unite to impose order using military force. But that depends on Moscow and Washington sharing a common perception of the events in Ukraine. If Putin concludes that the situation in eastern Ukraine is deteriorating badly and that the millions of Russian speakers living there are in danger, he is likely to send in Russian forces to the region. But the West will inevitably consider such intervention as an escalation of the aggression against Ukraine and will respond with severe countermeasures.

The U.S. and EU are determined to make Russia pay for their intervention in Crimea, even when they will end up paying a certain price themselves when sanctions are implemented. It is clear that the West's sanctions against Russia will also have a negative impact on their own countries' business interests and economies.

The U.S. spent a total of $1.5 trillion last year on its operations in Afghanistan and Iraq. That comes out to several billion dollars a day. The overall cost for those military operations are estimated to be from $6 trillion to $20 trillion since 2001, and yet that outlay has not created excessive problems for the U.S. economy. In its "economic war" with Putin's Russia, Washington can inflict irreparable damage to the Russian economy at far less cost. The Russian economy is heavily dependent on the outside world, much more than the Soviet economy was when it withstood sanctions following the Soviet invasion of Afghanistan in 1979. However, even the Soviet economy could not resist the long decline in oil prices, something that is likely to repeat now, especially once Iran is expected to re-enter the oil market next month.

Moscow's deteriorating relationship with the West will begin to affect Russian businesses and the general population in a variety of ways. As collateral damages to sanctions, negotiations in a number of areas will stall, business partners will break contracts and cancel plans for new projects in different fields and a range of travel restrictions might be introduced. Western countries will probably refuse to send anyone to the St. Petersburg

Economic Forum in May, creating yet another blow to Russia's reputation.

Attempts to rally the Russian people around the Putin regime will have numerous consequences for society. The authorities will crack down even further on the opposition, treat any criticism of government corruption as treason, and further limit Russians' access to the Internet. In this sense, Western sanctions could prove counterproductive, levying the highest cost on the most progressive, educated and pro-Western segments of society. The masses, which are Putin's core electorate, are somewhat insulated from Western sanctions. They have no bank accounts or iPhones and they do not travel abroad. They own the least, and therefore have less to lose from the isolation that the West is imposing on Russia.

As a result, the sanctions could create a Russia that is even more difficult to deal with than the current one. In a fit of rage, the West might decide it does not want Russia in any form. However, even if that seems like a desirable outcome to some people, it would also lead to an intermediate stage in which a country with more than 1,500 nuclear warheads would descend into chaos and confusion.

In the initial days after the collapse of the Soviet Union, Western leaders insisted that they had no interest in seeing Russia slide into a state of chaos. And we believed them then.

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