

# Ukrainian Crisis: Who Has the Upper Hand or Russia-West Possible to Lift the Sanctions?

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In the 2022 Russian-Ukrainian conflict, the EU shouldered the heavy burden of breaking trade and economic ties with Russia and dealing with the problem of Ukrainian refugees; The losses in the United States are significantly lower than those in the European Union. But Moscow's confrontation with the West has brought NATO a rare unity and prompted European countries to increase spending on security. China has benefited from the crisis, mainly in the form of reduced military and political pressure on it by the United States, increasing its influence in Central Asia, and at the same time gaining access to most of the Russian market and cheaper access to Russian resources because of Western sanctions. Japan's prospects for a peace treaty with Russia over the crisis have become extremely murky, and India has been minimally affected by the crisis, with other beneficiaries including other countries that have been severely sanctioned by the United States. However, even if a compromise is reached between Russia and Ukraine, sanctions may be partially or fully retained for political reasons. It is likely that the West will show flexibility in easing sanctions based on its own economic interests. The main problem is the stability of the decisions made. The sanctions regime could be reinstated at any time.

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The military operation in Ukraine raises the question of the balance of losses and gains of key participants, as well as global players. Such a balance has yet to be struck for Russia and Ukraine. Hostilities continue and a political settlement has not been reached, which means that it is still difficult to say to what extent each of the parties will be able to achieve the political goals for which a huge price has already been paid, both in human lives and in terms of enormous damage to the economy. The contours of the balance for global and regional players — the EU, the US, China, Japan, Iran and others are more clearly visible.

The European Union bears the most serious losses and costs. They are associated with the rupture of numerous trade and economic ties with Russia. The main challenge is the replacement of Russian oil, gas, metals and a number of other commodities on the European market. This process will require a serious concentration of resources and political will. In the next few years, it will affect the economic growth of the EU and the competitiveness of European industry. At the same time, the displacement of Russian raw materials, painful in itself, is a feasible task. For oil, this process can go faster, for gas, slower. Within the EU, there will be differences between the member states, as dependence on Russian raw materials is heterogeneous. However, the replacement

of Russian goods in most areas, apparently, can be carried out over the course of several years. Regardless of how the Ukrainian crisis develops and what Russia's foreign policy is, ousting the latter from EU trade will be a rather long-term process.

The EU today also bears the heaviest burden of dealing with Ukrainian refugees. The calculation is still difficult given the rapidly changing situation, but it is already clear that the number is in the millions. The EU countries are faced with the task of receiving, providing for, adapting, and possibly integrating migrants. Social spending in many countries of the Union will increase. However, here the European Union turns out to be a beneficiary in the medium term. The EU countries, especially Germany, have accumulated vast experience in working with migrant labour. Ukrainian migrants are culturally close to most, if not all, EU countries, in contrast to previous waves of migration from Islamic countries. They are more educated. They are less inclined to form closed diasporas, and they adapt and integrate more quickly. The EU economy is getting a rich demographic injection.

Most EU countries will actively increase defence spending. Such growth will not necessarily be proportional to the political subjectivity of the European Union. The EU remains a junior partner of NATO. However, the military-political role of individual member countries will grow significantly. Here again, Germany should be noted, as it has a high potential for increasing defence spending, modernizing the army and developing its defence industry. The highly developed military-industrial complex of the EU countries receives a long-term gain.

You can also talk about how the European project itself wins, so to speak. In the face of Russia, it now receives a powerful consolidating factor that enhances internal discipline, nourishes identity and holds together the Eastern European flank.

The United States, at first glance, incurs significantly lower costs than the EU, although the rejection of Russian oil may lead to local difficulties and an increase in fuel prices. The main problems for Washington lie in other areas. The sharp escalation of confrontation with Russia is again diverting resources from the Asia-Pacific theatre. The United States will have to increase its military presence in Europe, which means that the concentration of resources on containing China is now declining. The United States is also anxious about the prospect of the Ukrainian crisis escalating into a war between NATO and Russia. This at the very least is fraught with the danger of nuclear escalation. Washington will have to simultaneously contain Moscow, but at the same time act within certain boundaries, fearing an escalation from now on. Controlling the intensity of the conflict and preventing it from escalating uncontrollably seems to be a key priority.

In other areas, the US is more likely to win.

The new quality of confrontation with Moscow makes it possible to significantly increase NATO's internal discipline and achieve a more significant contribution of European countries to common security. Neither Trump, nor Obama, nor G. W. Bush could complete such a task before. Now it has been solved without a great amount of debate. Moreover, the further expansion of NATO is possible.

While membership in the organization of neutral Sweden and Finland is not predetermined, the number of supporters of such a move within both countries has grown significantly. The possible accession of Finland to NATO will mean the projection of power on the entire Russian North-West border.

The need to divert resources to Europe, in theory, can also be used by the United States to its advantage. Washington and its allies have received *carte blanche* to deliver an unprecedentedly powerful blow to Russia's economic and technological potential. There is no doubt that Russia will remain the most important military challenge for the US and the West. However, the economic base of the military potential is likely to be

undermined by the prospect of further concentration on Asia.

The US energy sector wins. In the near future, it will receive a significant part of the European market. In addition, it will now be more convenient for the Americans to oust Russia from the world arms markets. China and India will remain major buyers, but competition for other markets will be more difficult for Moscow due to stronger US opposition.

The United States has accumulated a set of internal problems. The Russian factor once again makes it possible to at least partially consolidate Congress and society. However, the impact of the crisis on the 2024 elections is still highly uncertain.

China gets a lot of room for manoeuvre. Unlike the EU and the US, current costs for China will be minimal. Military and political pressure from Washington is declining. Given the large-scale anti-Russian sanctions, China can claim a significant part of the vacating Russian market. Russian energy resources will now be more accessible to China, and their price is likely to be much lower than before. However, there may be difficulties in the infrastructure plan for their delivery to the Chinese market. China is also becoming Russia's most important financial partner, and such a partnership will asymmetrically favour China. Beijing is further strengthening stability on its northern and north-eastern borders.

Russia's partnership with China is becoming uncontested. China has new opportunities for influence in Central Asia.

Based on the experience of sanctions against Russia, China will do significant work to improve its own economic security in the event of similar complications with the West. At the same time, the ongoing processes are still unlikely to lead to the emergence of a full-fledged Russian-Chinese military-political union. By all appearances, China will keep its distance and free hand.

For Japan, the balance of gains and losses in the short term is rather negative. The prospect of a peace treaty with Russia is becoming extremely vague. Even before the new phase of confrontation, it was clear that the negotiations had reached an impasse. There was not even a hint of any advancement, but the very theoretical possibility of such advancement remained. Since 2014, Tokyo has pursued a balanced and pragmatic policy, imposing symbolic sanctions, but maintaining the Russian market and constructive relations with the Russian leadership. After February 24, 2022, this concept gave way to solidarity with the actions of the US and the EU. Japan will suffer losses due to the loss of the Russian market and the replacement of Russian raw materials. However, they are not critical for Tokyo. The most important thing is that the aggravation of relations with Russia, as in the case with Germany, will become a significant incentive for the final revision of the post-war paradigm of the use of the armed forces. Japan will more confidently follow the path of regaining the status of a full-fledged military-political power. The solution to the problem of the "northern territories" will also increasingly be considered in a military manner.

India is the least affected by the current crisis. Delhi maintains a dialogue with Moscow and will resist attempts by third countries to influence military-technical cooperation. However, the position of lobbyists for Western arms manufacturers in the country may be strengthened. The rise of China against the background of the crisis is a problem for India. However, the changes can hardly be called fundamental.

The beneficiaries of the new phase of the Ukrainian crisis will also include a number of countries that are currently under heavy US sanctions. First and foremost, these include Venezuela and Iran. Washington may very well pursue at least a partial reduction in sanctions pressure in order to compensate for losses in the market resulting from the ban on Russian oil imports. With regard to Venezuela, the easing of sanctions is politically

easier, compared to Iran. Ultimately, only the internal structure of the country is problematic, and the United States can temporarily turn a blind eye. Venezuelan heavy oil may well replace Russian oil in the US market. The Maduro government in this case will receive some respite and a breath of fresh air in the form of foreign exchange earnings.

With Iran, the situation is more complicated, since there we are talking about a military nuclear programme and a new version of the Joint Comprehensive Plan of Action (JCPOA), that is, a multilateral process, of which Russia is also a participant. At the same time, technically, the United States may well allow Iranian oil into the world market without a new JCPOA. As an option, the Biden administration has the ability to allow a number of countries in Europe and Asia to purchase Iranian oil reinstating the exemptions Trump cancelled. The problem for the US will be that Iran will also get a breather and strengthen its negotiating position. In the future, this will cause pressure from the Republicans, who are opposed to deals with Tehran. However, amid Russian opposition, these differences may fade into the background. In any case, Iran has a chance to take advantage of the situation. Such a development of events precludes the formation of a coalition among countries under sanctions, which theoretically could include China, Russia, Iran and Venezuela. China will cooperate with all three, but not to the detriment of relations with the West.

All in all, the new stage of the Ukrainian crisis will have global consequences. For some, it will bring short and medium-term costs, and very significant ones. For many, however, it will create opportunities to increase their influence over the long term.

### **Russia-West: Is It Possible to Lift the Sanctions?**

Diplomatic manoeuvring by Russia and Ukraine on the issue of a peace agreement, or at least a ceasefire, naturally raise the question of a possible lifting of Western sanctions against Russia. American officials have already made it clear that Washington will lift the previously-imposed sanctions if the current military operation is ceased.

The US is trying to use sanctions as an incentive to push Moscow to engage in negotiations. The logic here is simple: the continuation of the conflict means the escalation of sanctions, whereas the end of the conflict would lead to the abolition or mitigation of restrictive measures. However, this simple and logical model does not work in practice. Moscow most likely does not believe sanctions will be lifted or suspects that they could be re-imposed alongside a new set of political demands. Recent historical experience confirms such fears. Is it possible in this case to put sanctions on the negotiating agenda at all? Yes, it's possible. But such a formulation of the question requires a discussion on the specific parameters of sanctions de-escalation, rather than abstract promises or positions of requests. In turn, the specifics imply the segmentation of the introduced restrictions into separate components. Their cancellation can proceed either sequentially or simultaneously.

The key segments of restrictive measures against Russia include the following:

**First.** Sanctions against the Central Bank, the Ministry of Finance and the National Welfare Fund. Among other things, we are talking about the freezing of Russian reserves in the EU. There is the prospect of these funds being transferred to Ukraine for the restoration of the armed forces and infrastructure. It should also be noted here that the freezing and risk of confiscation affects Russian state property, as well as the assets of blocked Russian individuals and organizations, from bank accounts and real estate, to yachts and football clubs. In fact, we are talking about forced seizure. Given Russia's high involvement in the world economy, such a process could turn into an unprecedented expropriation of the state and private property of Russia and its citizens abroad

**Second.** Financial sanctions against Russian banks, infrastructure, energy and other companies. Blocking sanctions (that is, a ban on transactions and blocking assets) of a number of banks and companies, bans on making settlements in dollars (restriction on the use of correspondent accounts in US banks), and restrictions on lending stand out here. The financial sanctions include a ban on the transmission of financial messages in the interests of a number of Russian financial institutions.

**Third.** Blocking sanctions against major Russian businessmen (in Western terminology — “oligarchs”). Similar sanctions against political figures—high-ranking politicians and members of their families.

**Fourth.** Airspace closure, along with the denial of leasing contracts and maintenance of civil aircraft. Here, a number of countries have closed their seaports to Russian ships.

**Fifth.** Bans on imports of Russian fossil fuels, iron and steel products, seafood and other goods that have already been introduced or are only planned.

**Sixth.** Bans on investments in the Russian energy sector and other sectors of the economy.

**Seventh.** Restrictions on the export to Russia of a wide range of goods, including oil refining equipment, lasers, navigation equipment, certain categories of cars, computers, marine engines, and many other categories of industrial and consumer goods. Separately, it is worth highlighting the export control of dual-use goods, although they existed before.

**Eighth.** A ban on the import of cash dollars and euros into Russia, as well as restrictions on opening deposits above certain amounts in some initiating countries.

**Ninth.** The exit from normal trade relations with Russia.

**Tenth.** Tightening visa restrictions.

These measures differ in detail from country to country. For example, a ban on the supply of Russian fuel has already been introduced in the US, but is still under discussion in the EU. At the same time, they can be considered broad standards of sanctions policy for all key initiating countries.

From an institutional point of view, the lifting of new sanctions still seems to be an achievable task. In the United States, they are enshrined in the form of presidential executive orders and the directives of relevant departments. Despite the abundance of bills on sanctions against Russia in the US Congress, none of them has become law. However, two bills have already passed in the House of Representatives. H.R. 6968 suggests the legislative suspension of Russian fossil fuel supplies to the US, and H.R. 7108 suggests the freezing of normal trade relations. If these norms are enshrined in US law, their repeal will become practically impossible. At best, these norms could later be suspended by presidential decree. As far as the EU is concerned, the lifting or easing of sanctions will require a unanimous decision of the EU Council. Differences may arise here, but it is easier to overcome them than in the US Congress. In the UK, the executive branch has considerable manoeuvre in modifying the sanctions regime. Therefore, technically, their significant reduction is quite possible. Bottom line, the lifting of sanctions is largely feasible without unnecessary delay.

At the same time, even if a compromise is reached between Russia and Ukraine, the sanctions may remain partially or in their entirety for political reasons. There are two key factors which would result in their possible conservation. The first is the political capital of the national leaders of the initiating countries. Imposing sanctions tends to raise political capital, while lifting them often draws criticism from the opposition. In other words, the application of sanctions unites elites, but their lifting does not. Russophobia today is so pervasive that any steps back are fraught with the loss of political points. The second, and more important factor, is a possible attempt to squeeze the maximum concessions out of Russia. For example, a ceasefire may be subject to additional conditions

for compensating Ukraine for damages, the failure to comply with which will be a reason for maintaining sanctions. The agreements themselves may imply a certain transitional period in which the parties will be required to fulfil their obligations. The experience of the Minsk agreements showed that such obligations may simply not be fulfilled, freezing sanctions for a long period.

Scepticism regarding the lifting of sanctions is also connected with the existing historical experience. For example, the United States easily violated the Joint Comprehensive Plan of Action (JCPOA) concluded in 2015. It implied the lifting of sanctions against Iran in exchange for the abandonment of the military nuclear programme. The “nuclear deal” was confirmed by a UN Security Council resolution, that is, from the point of view of international law, it received the highest degree of legitimacy. At the same time, in 2018, Donald Trump decided to withdraw from the deal and resumed the sanctions. A new cancellation condition, the so-called “13 points” were put forward, implying significant concessions on many other issues not related to the nuclear programme. Given the risk of secondary sanctions and coercive measures by the US authorities, many other companies were forced to leave Iran. There are no guarantees that after the lifting or easing of sanctions against Moscow, a new “13 points” will not appear. Historical experience has crushed the overall level of trust between Russia and the West, which now can be considered almost zero.

At the same time, the West may well show flexibility in easing sanctions, based on its own economic interests. Some measures have caused significant damage to the initiators themselves. Most likely, the moves towards ousting Russia from raw materials markets, as well as its technological isolation, will not change. However, the mitigation of the economic costs of such transit, especially in the short term, is quite capable of leading to some progress.

In the event of a cessation of hostilities agreement, one can realistically expect changes in the import of Russian steel to the EU, the easing or lifting of restrictions on civil aviation services, the partial or complete opening of airspace, the partial abolition of export controls on “luxury goods”, and the easing of visa restrictions for business to reflect the status quo as of February 24, while maintaining those for civil servants, some relaxations on non-dual-use industrial goods, the lifting of restrictions for banks on financial messages (SWIFT), the lifting of sectoral and blocking sanctions on some (but not all) banks and companies, the removal of blocking sanctions against some businessmen, and a reduction of investment barriers. In the US, such waivers may take the form of general licenses (i.e., exemptions from the sanctions regime) rather than delisting per se. Depending on relations with Iran and Venezuela, whose oil may enter the world market due to relaxations of sanctions against those countries, a partial return to purchases of Russian oil in the US and the UK can be allowed (although this practice is likely to be temporary).

Much more doubtful is the prospect of deblocking Russia’s financial reserves, as well as the numerous assets of Russian citizens arrested, frozen or already confiscated abroad. It is likely that they will be used to finance military and civilian aid to Ukraine from the West. Blocking sanctions against a significant number of government officials will most likely not be lifted. The same is to be expected with respect to export controls on dual-use goods and high-tech products. The partial or even complete abolition of restrictions on the purchase of Russian raw materials will not cancel the long-term course towards their replacement.

The main problem is the stability of the decisions made. The resumption of sanctions regimes is possible at any time. Whereas a military response to such decisions will require much more serious political will and resources. The inclusion of sanctions in the formula for a compromise on Ukraine is quite possible. Total pessimism is hardly desirable here, if only because the initiators themselves incur serious costs and may be ready

to reduce them. However, the complete lifting of the new sanctions and a return to the status quo on February 21, 2022 also appears to be an unlikely, if not unfeasible alternative.

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