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SANCTIONS ON RUSSIAN: WHAT'S WORKING? WHAT'S NOT?

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Ben Harris Good morning everyone. Welcome to the Brookings Institution. My name is Ben Harris. I am the vice president and director of economic studies here at Brookings. So given the topic of today's event, I think it is perhaps also worth noting that I was closely engaged with sanctions policy, including the design of the price cap on Russian oil. While serving as Assistant Treasury secretary for Economic Policy from 2021 to 2023. So let me just briefly discuss the who, what and why for today's event, we're hosting an event reviewing the unprecedented sanctions taken against Russia by the US and other Ukrainian allies in response to the Russian invasion of Ukraine. As part of the event. Hutchins Center director David Wessel and I commissioned nine papers from leading sanctions experts where we asked them to present their best ideas for improving sanctions policy. And we received some incredibly thoughtful and creative proposals. For example, Joe Stiglitz and Andrew Kosenko advocate for the seizure of Russian central bank reserves. In separate essays, Craig Kennedy and then also Simon Johnson and Catherine Wolfram to discuss ways to tighten the price cap on Russian oil exports. Emily Blanchard outlines the sanctions playbook for policymakers. The full slate of drafts, a draft essays has been posted on the Brookings website this morning, and I encourage everyone in the audience to take a look. Following remarks by our keynote speaker, we'll hear from a panel of experts who will provide reactions to the address, give their take on sanctions efforts to date, and offer reactions to draft proposals released this morning. So that's the what, now here's the why. I think it's pretty simple, actually, with the proliferation of sanctions as an economic tool is important to take stock of these actions and ask if they're achieving their intended goal. Are there unintended consequences? Can policymakers do better? These are not new questions in the book "The Economic Weapon: An exhaustive recounting the rise of sanctions over the past century," Author Nicholas Mulder writes the policy debate about sanctions has been repeated almost every decade since the League of Nations was created in the wake of World War One. At its core has been the perennial question do economic sanctions work? Now, Mulder is skeptical about their efficacy, concluding that it is clear that the history of sanctions is largely a history of disappointment regarding U.S. sanctions against Russia. I personally am more sanguine. My reading of the collective sanctions impact that they have had sharply degraded, have sharply degraded Russia's long term economic capacity, inflicting tangible pain on Russian households and businesses. Capital, both human and financial, has fled the country in droves, as has Western companies that previously fueled much of the country's production. Foreign direct investment has plummeted. Just two years into the new sanctions regime. The Russian economy is 5% smaller than predicted prior to the invasion, and the only reason Russia's economy has not entirely cratered is because of an unsustainable wartime push for military production. In short, I simply would not bet on the Russian economy for the foreseeable future. Of course, you'll hear from other experts today as to whether they agree with this assessment. So that's the why. Now, here's the who. In just a moment, we'll hear from Daleep Singh, deputy national security adviser for international economics. This is, Daleep second stint in the position during the Biden administration. And this position is one of the most important economic policy roles in the white House. Across both stretches, Singh played a pivotal role in designing and implementing sanctions against Russia, while also serving as the United States Sherpa to the G7 and G20. In between his stints in the Biden administration, Singh was chief economist at PJM fixed income. Earlier in his career, he was executive vice president and head of the Marcus Group at the New York Fed, and also served as acting assistant secretary for domestic finance at the Treasury Department, among many other roles. So both from his resume and from my own firsthand experience, I can tell you that Daleep is an incredibly brilliant and insightful person. I very much look forward to his remarks today. Please join me in welcoming Daleep to the podium. Thank you.

Daleep Singh I want to thank Brookings for hosting this event to my friend, ex-colleague Ben Harris, for inviting me here and bringing together so many friends from the worlds of economics and national security. To borrow from the 20th century philosopher George Costanza. These worlds are colliding and at the intersection is my job as deputy national Security advisor for international economics. And I know it's the animating theme of this conference, so thanks for being here. For a bit of personal context. And Ben alluded to it. I was serving in my current role. When President Putin launched a full scale invasion of Ukraine on February 24th, 2022. Prior to this tragic decision, national Security Adviser Jake Sullivan had marshaled a team across the U.S. government and worked a phone with allies every day for months so that within hours, we were ready to move in lockstep with almost 40 partners to enact the most severe and comprehensive sanctions ever taken against a major economy. I left government later that summer knowing that our work was far from done, and earlier this year I returned with a strong sense of unfinished business. So I appreciate this chance to take stock of our efforts. What what our efforts show about the power, but also the limits of sanctions as a foreign policy tool. The truth is, even as Russian tanks rolled into Ukraine, it was no sure thing. We could convince our partners to collectively impose severe sanctions on Russia. A G20 member, a permanent member of the U.N. Security Council, a leading nuclear power and a top energy exporter deeply integrated in the global economy, particularly with Europe. It was President Zelensky's address that night to European leaders when he said it might be the last time they saw him alive. That generated the emotional valence needed for decisive action. Before the week's end, we had sanctioned Russia's largest banks and state owned enterprises, cut off the Kremlin from leading edge technology and a mobilized more than $300 billion of Russia's sovereign assets. In some ways, this marked the shock and awe phase of the sanctions campaign. But so much of what makes sanctions and export controls work is stamina, the grinding, painstaking effort to stay the course. So with that context in mind, I'd like to distinguish between myths and realities about what our sanctions are achieving and where we might go from here. Myth number one. Sanctions haven't worked because they didn't prevent or reverse Russia's invasion. I've said many times that the best sanctions are those that never get used. Sometimes a credible economic threat can prevent a far worse geopolitical reality. We understood that President Putin, however, was likely on a pre-set course. Interesting timing. We. Maybe I'll give it a second. I think we understood that. President Putin, however, was likely on a preset course to invade Ukraine again long before February 2022, both from his repeated claims and his recurring pattern of aggression. Even so, we made every effort, starting with President Biden and Jake Sullivan, to shape Putin's expectations about the costs of prosecuting this war by signaling in public and sharing in private our readiness to collectively impose the most severe sanctions in our arsenal, with key partners. Deploying these measures preemptively, as some argued for, would have only broken unity with our partners and given Putin the pretext to invade under the guise that the United States never had a genuine intention to preserve the peace. Once the invasion began, the strategic objectives for sanctions evolved along three dimensions to raise the immediate costs for the continuation of the war, degrade Russia's ability to project power over the medium term, and to deter other would be aggressors over the long run. It bears repeating that in pursuing these objectives and evaluating our success, sanctions are just one tool embedded in a broader strategy to arm Ukraine's fight for freedom on the battlefield, to lessen the global spillovers from Putin's war, to wean Europe from its reliance on Russian gas, and to finance Ukraine's economic future as a successful alternative to Russian style kleptocracy, including by unlocking the value of the assets we have mobilized. And this is a topic I'll return to in closing. Executing on each of these fronts is what gives us our best chance of shaping Putin's calculus. And staying the course is how will create strategic leverage for Ukraine to secure, adjust, and sustain peace. Now, as for the proximate effects of sanctions, reasonable people can disagree about whether we struck the right balance between imposing costs on Putin while limiting spillovers to the U.S. and global economy. Certain macro indicators in Russia are better than many projections at the start of the invasion, including mine. But indicators of Russian resilience are a Potemkin facade. They mask the reality that Russia's prospects are bleak to prevent the collapse of his economy in the short run. Putin has sacrificed Russia's long term potential in at least three important ways. First, capital controls limited the flow of money out of Russia, helping to prevent a free fall in the ruble and a collapse of the financial system. But at the cost of limiting the flow of goods and services coming into Russia and reinforcing its isolation from the global economy. Imports from coalition countries are down almost three quarters since 2022, including a drop of almost 95% in items deemed critical to Russia's weapons production and at least a comparable percentage of imports in the advanced technology sectors of AI, semiconductors and biotech. Second, Putin's decision to weaponize Russia's energy supplies did indeed drive a spike in oil and gas prices in 2022 that contributed to record Russian trade surpluses and flattered its GDP growth in the short term. But at the cost of potentially losing half its market share by the end of the decade, according to IEA estimates. Gazprom is a case in point. Once Russia's most profitable company, it just reported an annual net loss in 2023, its first since 1999, due to the dwindling gas trade with Europe. Lastly, Russia ramped up government spending to as much as 8% of GDP, a post-Soviet record. Fueling a war economy with government spending cushioned the contraction, but at the expense of depleting Russia's economic buffers and undermining Putin's previous ambitions for diversified and productive growth. Since the start of the war, the liquid portion of the national wealth fund has fallen by nearly half. Defense outlays in the budget have almost tripled from pre invasion levels to roughly one third of the total, while the share of spending on domestic infrastructure and education has been frozen, resulting in a real cut to multi-decade lows. Tanks and mortars don't raise living standards. They destroy lives and productive livelihoods. Inflation and benchmark interest rates have subsequently risen to 8% and 16%, respectively, both more than double the G20 median. Nosebleed inflation and interest rates will inevitably choke off Russia's growth, so its loss of access to the world's leading financial centers, cutting edge technology and many of the largest energy consumers. So will the immigration, conscription or flight of over a million citizens from Russia, so will the exit of more than a thousand multinational companies less capital, less technology and less talent, implies a smaller, weaker, less productive Russian economy for a generation to come? And it should be remembered as another tragic consequence of Putin's war. Myth two Russia is adapting and innovating around our sanctions and export controls, and we can't keep up. Sanctions are like antibiotics. Repeat usage builds up resistance. So it's not surprising that Russia is making every effort to circumvent our sanctions. In fact, it's inevitable. But these efforts are not costless. Russia's near constant need to adapt and reorient its supply chains creates inefficiency, uncertainty and complexity by dumping pounds of sand into the gears of Russia's war machine, we're forcing the Kremlin to rely on evermore elaborate and expensive procurement networks. Despite the near tripling of Russia's spending on defense since the invasion, its imports of key components has fallen by roughly a third. Shortages of G7 origin electronics and the depletion of stockpiles are forcing Russia to rely on less reliable alternatives. Nearly 40% of the lagging edge semiconductors China produces provides to Russia, for example, are defective. Countries that continue to trade with Russia and sanctioned goods are charging a steep premium to do so, perhaps more than 60%. Meanwhile, we're adapting as well, and the geopolitical economy of sanctions standing still means you slip behind, particularly when the target is transformed its economy into a factory of war. That's why nearly every day since the invasion began in 2022, Jake Sullivan has convened a team of experts in dogged pursuit of matching circumvention with countermeasures. It's why we've imposed sanctions and export controls on over 4500 individuals and entities, many of which are front and shell companies, intermediaries and service providers in Russia or third countries that didn't exist prior to the invasion but were emerging as nodes in Russia's shadow production network. We know that circumvention networks will continue to evolve. Necessity is the mother of invention. Our ambition is to replicate the sophistication of the financial sanctions architecture, a process that took decades to build after 9/11. In the enforcement of our of our controls for goods and technology at a fraction of the time. I don't want to sugarcoat the challenges and risks involved. We're facing the sobering potential for Russia's military industrial complex to grow stronger than it was before the war, and to directly threaten European and transatlantic security. Meeting this challenge will require an intensification of several efforts underway. First, our monitoring capabilities. They're improving with more personnel and the application of new technology, including big data, analytics and AI tools that help us map critical supply chains and spot anomalies faster and with greater fidelity, but will undoubtedly need more resources. The budget for the unit charged with implementing export controls at the Department of Commerce has remained essentially flat since the war. Despite the expansion of controls to thousands of items destined for Russia, we're strengthening institutional connectivity with regulators and international partners. Yes, 39 countries have joined the Global Export Control Coalition, a pact to impose substantially similar export controls on goods and technologies to Russia. Together with the EU, Japan and the UK, we've developed a common high priority list to harmonize information that exporters, shippers and financial institutions need to conduct due diligence. But we also recognize that an increasingly adversarial geopolitical environment, the legacy approach to consensus based coordination on export controls, needs a refresh to meet the new realities, and we'll keep pushing creative approaches to address these gaps. We're deepening cooperation with the U.S. industry as well, sharing actionable information on high risk suppliers, suspected trans shippers and product flows. Exporters are using this information to improve their red flag systems and inspections, especially for dual use items going to high risk jurisdictions. But on this point, I want to issue an urgent call for corporate responsibility. The percentage of Russian battlefield weaponry with U.S. or allied branded components is alarmingly and unacceptably high. Put your creativity and resources to work. Know your customers, know their customers, and know the end users. Ensure that American firms are not unwitting cogs in Russia's arsenal of autocracy. Lastly, we're looking to expand our own authorities to recognize the shift to recognize that Russia is shifting its entire economy toward war footing, a development punctuated by the appointment of an economist as defense minister. In this regard, we're actively exploring options to broaden the definition of financial facilitation in our sanctions regime, as well as the scope of our export controls for U.S. origin or U.S. branded products. Myth three U.S. sanctions have driven Russia and China closer together. Many observe that our sanctions and our export controls have pulled Russia and China closer together. These observations confuse symptoms with root causes. Russia's decision to invade and terrorize Ukraine, and China's choice to enable Putin's war. These are the root causes, and we think it's a losing bet for both. Russia once had open access to global pools of capital and the most cutting edge technology. Now it's utterly reliant on China giving Beijing enormous leverage over Russia's ability to project power and to exert influence. 90% of semiconductors and microelectronics imported by Russia in 2023 were shipped via the PRC. 70% of its machine tools came from China in Q4 of last year. It may be a partnership without limits. Only time will tell, but it's increasingly without symmetry. China accounted for over half of Russia's imports and more than one third of its exports in 2023. Russia, by contrast, makes up only 3% of China's exports and 5% of China's imports. There are growing risks and costs to China from the no limits partnership as well.

While China, Russia trade has increased, China is well aware that its combined goods trade with the U.S. and the EU was almost seven times larger than that with Russia in 2023. More fundamentally, China has a stated interest in being a responsible stakeholder on the global stage. It therefore has little to gain and much to lose from Russia's intensification of the war, which has driven up energy and food prices across the developing world while causing profound reputational damage to the commercial relationships it needs at a time of domestic weakness. To be clear, we have no desire to disrupt all trade between Russia and China, but we and our partners are prepared to users our sanctions and our export controls to prevent the trade of goods and technologies that threaten our collective security. In this regard, it's worth noting the drop in PRC Russia trade since the president expanded Treasury's ability to target financial institutions that facilitate Russia's war, and these these authorities may expand further. Myth four we failed to make the case on the Russia sanctions regime. To the rest of the world, though, we're acting together with nearly 40 allies and partners to defend principles at the heart of the U.N. charter. We should reflect on the reality that most countries have not joined in the sanctions and export controls we've placed on Russia. Some leaders have raised concerns that are sanctions won't be effective in changing the calculus of President Putin. Others have suggested sanctions are an illegitimate exercise of brute economic force. Now, some of these arguments are made in bad faith by leaders who've refused to condemn Russia's war at all. But they nonetheless deserve a fair hearing, not least because the force of sanctions greatly depends on the size of the coalition upholding them. For that reason, we should continue to put serious effort towards developing a doctrine of economic statecraft that lays out clear principles for employing restrictive tools to ensure these tools are used sparingly, avoid unnecessary spillovers, retain flexibility. Surpass a threshold of efficacy. Allow for maximal coordination with partners, can be sustained, and are designed with a sense of humility towards their consequences, some of which are unforeseeable. Laying down such a doctrine can help to reassure other countries that the United States, as the world's leading economic power, will not fire its economic weapons in an arbitrary or reflexive manner. It would enhance the credibility of our conduct. Having said this, we would never expect that every country will be in a position to formally join in each of the actions we and our closest partners are taking against Russia. But sometimes the measure of sanctions, one that by definition will never make headlines, is what's not happening because of the chilling effect of our actions and our warnings. The banking relationships and trade ties that don't exist, the investments that weren't made to front companies that were not created. It's why we engage a broad range of countries well outside our formal coalition in ways that aren't aren't meant to be publicized with specific evidence of circumvention. And while we may not always highlight the success stories from sanctions diplomacy, evidence of a pullback from Russian counterparts is plain to see. From Eurasia to the Gulf to South and Central Asia. Myth five our coalition won't implement tough sanctions on Russia for fear of spiking global energy prices. From the start, this has been one of the hardest challenges we've had to confront. Russia doesn't have easy substitutes for our coalitions, financial markets and technology, but the dependencies cut both ways when it comes to fossil fuel supply, at least until our energy transition is further underway. In the early weeks of the war, we simultaneously cut off imports of Russian energy exports and surged global supply with releases from our strategic reserves. We saw the risk, however, that in a tight global market, the impact of quantity restrictions could be offset by price increases. That would translate into a net benefit for Putin's revenues and drive up global inflation. For this reason, we now have both a G7 import ban on Russian seaborne oil and price caps on Russian crude oil and petroleum products when G7 services are involved. The leverage to enforce these caps comes from the dominant UK and EU position in global shipping insurance and trade finance services that are prohibited unless there's verification that the oil is being sold below the cap. Now, our judgment is that the price cap, alongside our import bans and other sanctions, they have collectively reduced Russia's earnings. Russia's oil tax revenue dropped nearly 30% from 2022 to 2023, in part due to our sanctions. And when Russia took action to evade the price cap, we worked with our partners to tighten enforcement and we can take further action to increase the cost of Russia using its shadow fleet. Energy analysts and even Russian officials themselves have linked our increased enforcement activities to the increased discount on Russian oil. At the same time, Russian export volumes have remained high, avoiding the price spike that many feared in 2022. The price cap was the product of compromise and it is complex to enforce. But stepping back, I'd argue it provides a powerful template of statecraft in an increasingly weaponized global energy market. Now, the last myth six Mobilizing Russia's sovereign assets would be a generational mistake. Let me just close where I started. Just two days after Russias invasion in February of 2022, and together with our partners, we took the historic decision to mobilize Russia's sovereign assets held in our restrict our respective jurisdictions. Market participants were not expecting this decision. Neither was the Kremlin, for that matter, nor did they expect this step will be taken at once by the world's most prominent reserve currency issuers. Despite its shock value and its and the considerable risks involved, the decision did not lead to an appreciable shift away from G7 currencies. And now, more than two years later, at a moment of great peril for Ukraine, our leaders have the opportunity to generate a financial return at scale from the risk already taken. The need is clear. Even after taking account of the US supplemental package and the EU's €50 billion facility, Ukraine still has a sizable external financing gap over the coming years. If the war continues and military spending remains steady, the G7 summit represents our best opportunity before November to close this gap and to deliver an unambiguous signal that we will not fatigue while maintaining unity and without violating any jurisdiction's rule of law. Of course, there are risks involved with mobilizing these assets. But policy is all about trade offs, and the much greater danger in this moment would be to leave Ukraine insufficiently financed to fight for its freedom, to allow one of the most egregious violations of international law in recent history to go unchecked in the heart of Europe. The precedent that failure would set, the chilling effects it would cause, the economic and financial instability it might trigger, the signal it would send to would be aggressors across the world. These are the costs we find unacceptable. Now we can be on the right side of history while being humbled by the uncertainties of taking this momentous step for the United States. It should only stiffen our resolve to shore up the competitive advantages that gave rise to the potency of our sanctions regime in the first place. The primacy of the dollar, the integrity of our institutions, the dynamism of our capital markets, our capacity to innovate, the unmatched purchasing power of the American consumer, our net exporter status in energy and food, our unrivaled network of alliances and institutions. Our ability to attract ideas and talent and goodwill from across the world. And most of all, the power of our story and trust in our leadership as a faithful steward of the international order. Thank you.

David Wessel Thank you very much for that incredibly comprehensive account of sanctions. But let me ask you a very simple question. I'm convinced that sanctions are causing pain in Russia. And I'll buy your argument that we are long term degrading the capacity of the Russian economy to deliver goods and services to its people. But why should I believe that sanctions are having any effect on Putin's behavior? Given what we see on the ground in Ukraine.

Daleep Singh So, look, I mean, David, when I think about this question of the efficacy of our sanctions regime, I think it first has to be said they are they are one tool in a broader strategy to, number one, change Putin's calculus about the costs of continuing this war.

And number two, to give Ukraine strategic leverage to ensure a just and sustainable peace if and when it decides to pursue a diplomatic settlement, that's the only way this war is going to end. I think a lot of people look, I mean, would I love to cut off all of Russia's energy export flows or put those receipts into escrow and cause Russia to fall into twin deficits for its current account and budget, and really force a balance of payment reckoning. Yes. Of course. Would it be great to unplug China as the factory of Russia's war machine overnight? Of course. But you have to remember, we are Implementing sanctions in a very complex political and geopolitical economy. And the actions we're taking are also meant to preserve unity and to be sustainable. There are multiple objectives we're trying to solve for at one time, so it may feel good. It would feel good, to have economic shock and on maximal economic shock and all the time spillover effects and second order consequences be damned. But that wouldn't be the best long term risk adjusted strategy for broke unity. And it wasn't sustainable. The other the other point I'd make on on efficacy. A lot of people judge our sanctions relative to an exposed geopolitical objective, like have had Putin's troops been withdrawn from Ukraine. And, you know, those were not the proximate objectives of sanctions. You know, what we have to think about is that sanctions were made, ex-ante to the geopolitical events that followed, and they have to be weighed against the counterfactual, the next best alternatives. And those alternatives have to be judged in terms of a conflict that plays out over multiple stages with multiple players and across multiple dimensions. That's to me, that's the fair assessment of whether these sanctions worked. What were the alternatives? The last point is Putin's reaction function, which I think is what you're really getting at. And that's, you know, with time and distance. I reflected quite a bit on, on whether we've influenced it. And the truth is, you know, has revealed President Putin's revealed preference is to think about this invasion. You know, much like an 18th century land grab in the Tsarist tradition of of Peter the Great, Catherine the Great. What he cares about most is what's happening on the battlefield. And while I believe strongly we're causing profound long term economic damage to Russia and therefore his political standing, we have to we have to understand that's probably a distant second in terms of his consideration. So, look, I think sanctions are doing their job relative to the objectives that we set, mindful of the counterfactual scenarios, the next best alternatives, and also when when viewed in the context of an autocrat with an 18th century reaction function.

David Wessel Okay. I have a question on every single sentence of your speech, and we don't have time. So I want to just pick that up on one. At the end of, myth two, you talked about, broadening the definition of financial facilitation and extending sanctions from not just U.S. origin products, but U.S. branded products. What are you trying to tell us there?

Daleep Singh Russia has adapted. As I mentioned in the speech, necessity is the mother of invention. So circumvention networks are alive and well, and we've got to match every circumvention with a countermeasure. I'm going to leave it there, but we can. Let me just put it this way. If Russia is shifting its entire economy to a war footing. Then does it make sense to restrict financial facilitation to a handful of sectors, or to a certain number of products that are U.S. origin? When we know that transshipment is a, is, the is the main way in which China, Russia is continuing to receive critical components that give it battlefield advantages in Ukraine. To my mind, to our mind, that would be mistake. It's time to adapt to.

David Wessel Does that mean you are considering whether there are allies secondary sanctions?

Daleep Singh It means whatever you think.

David Wessel Haha okay. All right. So, in the papers we, commissioned, there's an interesting tension. One set of people say we ought to make it much easier for capital flight from Russia. We ought to let everybody who has $10,000 in a Russian bank take it out, cause a current account deficit, weaken the euro, weaken the ruble, and cause inflation, etc.. The other set of people say we need to just isolate, isolate, isolate. As you pointed out in your remarks, there's always a trade off. How do you see that trade off?

Daleep Singh Well, you know, initially we were we were trying to induce as much capital flight as possible with the initial shock of the measures that we announced on February 26th. We were trying to engineer a freefall in the ruble, which would cause import inflation to spike, which would dent the purchasing power, of of Russian consumers. It would cause the central bank to raise interest rates to emergency levels that would dry up investment. And you'd have a negative feedback loop. The velocity, which would be determined by Putin's willingness to escalate. He chose to address that feedback loop with capital controls. And so the question you're asking is really, to my mind, a question of whether you can overwhelm those capital controls. And if you could, and return Russia to that vicious feedback loop. I think that would be worth considering. But I'm doubtful that you can in the in the Russian economy that he's built.

David Wessel Because of the capital controls?

Daleep Singh Yeah.

David Wessel And finally, before I turn to the audience, could you elaborate a little bit on how you plan to lay out this doctrine of economic statecraft? You listed several bullet points there. But how is this going to be explained to the public, the world? What are.

Daleep Singh Strategy? So thanks for asking that question. I mean, I think we're we're closer to the beginning of that process than the end. I mean, it took it has taken hundreds of years to craft and refine a doctrine for the use of military force. And it's still evolving today. We've just we've just started the process of thinking about how to design the doctrine of economic statecraft, you know, with guiding principles, with rules of engagement, with a code of conduct, with an analytical infrastructure and an organizational model that's fit for purpose. And, you know, I think it's vitally important. Look, we're we're in the most intense period of great power competition in at least three decades, arguably in 70 years. Now, today's great powers are nuclear powers. And that means, barring catastrophic miscalculation, direct confrontation is more likely to play out in the theater of economics and technology than direct military conflict. Now, if that's correct, we have a lot of work to do to to communicate to the world the guiding principles that constrain our use of these restrictive tools, that give them more comfort, that we're not going to fire these weapons in a way that's arbitrary or, or reflexive. Reflexive. We have to do a lot more work, I think, to build an analytical infrastructure that's fit for purpose, that really understands the limitations, the spillovers, and, and the efficacy of sanctions when they're used unilaterally, multilaterally, ex-ante to a trigger event ex-post. We have to really get into build a muscle of simulating how our use of restrictive tools will play out in a multiplayer multi-stage contest. We've got to change the organizational culture in some ways of how we conduct statecraft, because it's, you know, you in every government bureaucracy, you're at risk of lazy narratives, of having blind spots, of not thinking across the entire probability distribution. But, you know, things that have never happened are happening all the time. So that's a cultural shift. And then ultimately, I mean, the most important thing to my mind, more important than principles and even analysis is conduct.

And I do think we need to have more balance in our conduct of economic statecraft. And what I mean is we should convey a standing preference to use economic tools that offer the prospect of mutual economic gain, rather than feed a very, damaging perception that our marginal unit of time and energy and focus is on designing tools that inflict economic pain. And so I'm talking about tools like debt relief or infrastructure finance or supply chain partnerships or trade agreements. You know, these are the kind of tools that each have, I would argue, the potential to forge a more enduring alignment with countries that are skeptical of our use of economic statecraft. And we're. You know, I mean, I think this is all about our imagination and creativity. There are a number of moonshots that if we had the chance, to continue working at the White House beyond November, that we ought to consider, should we have a sovereign wealth fund? Should we have a strategic petroleum reserve, or should it be a strategic resilient reserve that makes long term strategic investments at home and abroad? Can we use sovereign loan guarantees in a different way? That's our only concessional lending instrument. We've issued six sovereign loan guarantees in 30 years. How do you compete with the Belt Road Initiative in that context? So that I am passionate and interested in that part of the work of economic statecraft. And I think laying down a doctrine will be a good start.

David Wessel Well, I have a question about every word you say. That's right. So here's the deal. I'm going to take three questions, short, because we're really pressed for time. We have a crowded program. Let me take over here first. So wait for mic, tell us who you are, and keep the question short.

Audience member I great to see you believed in David. Doug [inaudible] International capital strategies. The question for you on technological sanctions. So what we've seen is over the past decade or two, the bulk of sanctions have been finance related. So banks and other financial actors have had to really boost their compliance departments big time in order to comply. Technology companies under export controls and other related sanctions don't have that in-house capability. So is the expectation of this administration that as we move down the export control and other technology related sanctions, whether it's against Russia or in the context of our our relationship with China, whether technology companies are going to need to boost their internal compliance departments exponentially in order to make those sanctions actually work.

David Wessel Okay. Thanks, Anders.

Daleep Singh You want me to respond to quickly?

David Wessel No.

Audience member [inaudible], the Georgetown University. One simple question. Thank you very much for your excellent presentation. Isn't it time to move to prohibitive, import tariffs on all Russian exports rather than going for sanctioning one commodity after the other?

David Wessel Thank you. There's one more here in the front.

Audience member Thanks. Andrea Shalal with Reuters. Good to see you. I think I heard you say that, seizing the Russian assets or monetizing them in some way could could be risky and this is a obviously been a source of contention among the G7 partners. Can you tell us where you think you are now, whether you think you're closer to some kind of an agreement with the Europeans on this? It does seem like those indicators are there. But also, on the question, that's a very big question of the relationship. When you say Russia is putting its economy solely on a war footing now. Do you see that as being a permanent move or a temporary move? And what was.

David Wessel Your cheating two questions. All right. Daleep, you got three yes or no questions. The first one is, should tech companies be building better compliance departments because you're going after them?

Daleep Singh Yes, I meant what I said. You know, it took decades to build the financial sanctions architecture after 9/11. We've got to do that at warp speed for technology and goods companies. And the reason why, Doug, is, you know, most of our strategic adversaries, they they run current account surpluses. And so if you want to hit them, you have to hit the real economy that flows through goods markets and technology sectors. And that that call to corporate responsibility was very real.

David Wessel All right. Secondly, should we just put tariffs on everything Russia exports?

Daleep Singh Well, look, I mean the history of embargoes is is not a great one. But to the extent that that Russia is transforming its economy entirely into a factory for the war machine, we're going to get to the point where, de facto, that's where we end up on.

Daleep Singh And then on on Russian sovereign assets. I remember that question. I mean, here's the situation. We thanks to Congress, and we really do appreciate it. We now have the authority in the United States to seize the principle of the sovereign assets that we immobilized and transfer the value to Ukraine. That would be the most efficient and potent option available for all of us and the G7. But seizing principal is a red line for many of our G7 partners. Whether you use the theory of countermeasures or whether you use a legal theory of set off in which Ukraine establishes a reparation claim, transfers it to the asset side of the G7 balance sheet, and we set that off against our collective liability, which are the Russian reserves and either an either path. We have, we don't have consensus as a G7. So the question strategically is, do you just wait and hope that we get consensus? And, you know, our our belief is that, no, you don't wait and hope the situation in Ukraine is is difficult. It's dire. You see the situation with air defenses, manpower, the energy infrastructure. So if we have a way to act with solidarity and with speed and an appreciable scale, which I would define as at least $50 billion, that's what you're supposed to do. And I think we have an option on the table for our G7 leaders to consider in a year, that will allow us to to act in precisely that way, at speed, with scale and with solidarity, which has been our greatest strength throughout. And really, it's it's the it's the financial support it provides, but also the signal to Putin that we're not going to fatigue and he's not going to outlast us regardless of what happens in the remainder of the year.

David Wessel All right. Please join me in thanking Daleep. And, if you just stay where you are. Bring up our next panel, and I think you'll introduce the panelists. Thanks. Thanks.

Arshad Mohammed Good morning. I'm Arshad Mohammed. I'm a reporter with Reuters. I'm delighted to be moderating this panel. To my far right Yuriy Gorodnichenko, professor of economics at Berkeley, in the middle, Fiona Hill, senior fellow at Brookings, and coming to us by video from London, Agathe Demarais, of the European Council on Foreign Relations. We'll do a chunk of Q&A amongst us, and then we'll turn to the audience for, some very short yes or no questions. Before we delve into what's working and what's not. I'd like to ask each of the three of you, perhaps starting with you, Yuriy, and then Fiona and Agathe. A first principles question. What is the policy objective of sanctions against Russia meant to plausibly achieve? Yuriy.

Yuriy Gorodnichenko It's a great question. Also very difficult question. As I saw earlier this morning. I think, you know, the first step in thinking about sanctions and their effectiveness is to ask ourselves what is their, you know, the horizon, the what we want to achieve was that, you know, if we want just to do something to signal our displeasure with the invasion, we can sanction a few people here and there and say, we've done our job. End of story. That's one possibility. Another objective, maybe to stabilize energy prices in the U.S. and in Europe. And, you know, if you have this objective, we can certainly deliver this through price cap and other controls. If our objective is really to make the, budget constraints very, very, very binding for Putin. Then I don't see any other, you know, course of action other than, imposing some type of embargo on, on any kind of economic relationship with Russia and most importantly, energy. So it has to be an embargo. And, on the on the flow of goods, on capital flows, technology transfer, that have said, you know, this is what he wants to do, right? But, you know, he faces political constraints. But I think we should be very clear in our mind, you know, what kind of sense we want to achieve and what kind of constraints we have. You know, I'm originally from Ukraine, and I think my objective is very clear. And we want to make sure that, you know, Putin is, you know, this Russian aggression in Ukraine is defeated. And for this to work, you have to have really serious sanctions to, to, you know, inflict significant economic damage on the Russian economy. So, you know, they should just run out of money like the Soviet Union did in 1986 when energy prices collapsed and the Soviet Union just had to reform, itself, from within. So something like this can happen also in Russia today.

Arshad Mohammed Fiona, what's your answer?

Fiona Hill Yeah, I think, you know, part of the problem is the way, that people are conceiving of that question, not you, personally here, because we also, so David put that question to the Daleep in a very straightforward manner, but it's really kind of people's expectations of what sanctions are meant to do. I think both Yuriy and Daleep have been very clear that they just want to, they're not the silver bullet. They're not the catch all. They're not going to be, the instrument that actually changes everything. And I think, you know what? Daleep, said, and I'm sure Yuriy would completely agree with this. If you're dealing with somebody with an 18th century mentality, which, you know, Putin most certainly has, and I'd probably actually take it back even a few more centuries. You've got a real kind of difficulty in just using financial instruments. You know, if we think back to the sort of the medieval era in, in Russia and I'm just going to put this out there because I think it does frame the mentality and the difficulties of using sophisticated modern instruments. You know, Putin's approach to, financial sanctions is like the old medieval, which is, you know, steal all the money. You know, sack all the granaries. You know, kind of make sure that, nobody, can, actually fight against you and destroy everything. And, I mean, that's kind of basically what we're seeing here. And as Daleep said, and as Ukraine has experienced, Putin's number one objective is to conquer the territory. It's not, anymore to, basically investing in the health and prosperity and the wealth of the Russian people. And that's been the real shift. If we looked at the Putin and the early phases of his presidency, and the first, two terms that he was in office, his goals were very different. They were, in fact, to make Russia one of the G7, the G8, countries. That's not where he is at this particular stage. So our instruments were really refined and targeted for different Putin in the different phases of his presidency. And so unfortunately, we have to calibrate them with some more primitive and rather kind of straightforward methods of making sure that we're paying attention to the other battlefield and understanding Putin's mentality. The goal is really at this particular point, as I think we're laying out here, and we're going to talk. About to adapt to the circumstances, to make it more difficult for Putin to wage war, and to make it very clear that a war time economy in the 21st century is going to be much harder to maintain. Putin's got one big advantage. If he's got a really great technological team around him, particularly, I would say kind of an alchemist, one of the greatest central bankers in the world in the case of Elvira Nabiullina. But even she is not so much of a genius that she'll be able to withstand these kinds of things over the longer term. But he has got those advantages. So it's 18th or maybe even ninth and 10th century mentalities coupled with, you know, kind of really a sort of 21st century environment that we're operating in.

Arshad Mohammed Agathe if you'd like to take a stab at that question, please do. But I'm also going to give you another one to, to chew on, which is essentially the topic of our panel as a whole, which is how effective have the sanctions imposed so far been? What's worked? What's failed?

Agathe Demarais Thanks so much. And actually, to answer your second question, I would go back to the first one because I think it's really important to go back to the objectives to assess the effectiveness of sanctions, because otherwise it's a bit like asking whether a screwdriver is working or not. Well, you know, it's got a screw in and you need to turn it. Yes. Maybe because otherwise for a brain surgery, maybe it's not recommended. So, the objectives, what I find really striking is that there seems to be an agreement among yourselves about what sanctions are not meant to achieve. And I think it's really important to discuss what sanctions are not meant to do, because I've seen a lot of confusion around what were the goals of sanctions. So I think it's important to say it. It's not about stopping the war as magical tool. I think that what we've seen since 2014, because the war has really started in 2014, is that sanctions haven't changed Putin's calculus, the second know objective, is a regime change. We know from history that sanctions can never achieve this, and there's no reason to believe that any successor to Putin would completely change his view about Ukraine. And then the third known objective is about economic collapse in Russia. I think that's actually a really important one, especially when we take a look at the debate in Europe, sanctions are not meant to provoke an economic collapse of Russia. It's a large economy. It's the ninth largest in the world, and it has a lot of financial reserves. But more importantly, such an economic collapse wouldn't be in Western interests because then you would have ripple effects all around the world. Given the importance of Russia as a commodity producer and exporter. So now that we've said this, what are the you objectives of sanctions? I think the first one, and it's a really important one, is the diplomatic symbol, the message of unity, of Western resolve and also the symbol that we send to Ukraine. Then there is this second objective has Fiona has mentioned making it more difficult for Putin to wage war, which I think is critical. So it's not about a black and white saying it's not on off, it's not a switch that we could turn off, but it's about making it more difficult to finance the war and making it more difficult to access technology to wage war. So that's all the question about export controls on semiconductors, because this is stuff that is found in all defense gear. And then finally, a third objective that I would throw into the mix. And to me, that's probably the most important objective of sanctions. It's about a long term degradation of the Russian economy, a slow asphyxiation of the Russian energy sector and these are with sanctions that aim to curb the financing and technology access for Russia's energy sector. And this is very important because number of Russian energy fields are coming to maturity, which is the polite way to say that their reserves are fast depleting. So Russia needs to build new oil and gas fields, but without access to Western technology it will be very difficult. So I think that these would be my my three objectives. And now on to your second question. Well, I'm of the view that sanctions on Russia work. I think that's, an important thing to say and to repeat because at least in Europe, I'm French based in London. We see a lot of disinformation coming from Russia claiming that sanctions do not work. So I think that the first thing that I would say is that it's important to highlight the fact that, yes, they do, they have an impact. In terms of their impact and what's working, what's not working. To get to your question, I would say three things that are working very well and that I think are success. And two things are maybe working less well. And then I will say these briefly, and maybe we can delve a bit deeper, into some of these in our discussion. The first thing that I would tell you has worked very well is actually not directly Russia related, but it's transatlantic unity because seen from Europe, the European perspective about sanctions and transatlantic collaboration on sanctions would be that it has at times been very difficult. I'm thinking of the, months after the US withdrawal from the JCPOA, for instance, the Iran nuclear deal. I think that we've seen almost perfect, flawless collaboration on Russia, which has been very positive. The second thing that I think has worked very well, and it's actually related, is about limiting ripple effects from sanctions on emerging economies. I was mentioning that Russia is a big economy. So if we were to completely restrict Russia's energy exports, this would have ripple effects all around the world. And I think that there has been a lot of attention paid to this topic. And for instance, I would say that this is the reason why we're not seeing bigger secondary sanctions being imposed on all Russian, exports. And then the third thing that I think has worked very well, going back to the objective that I was mentioning, well, when we take a look at things, the EU embargo on seaborne oil imports is definitely reducing Russia's hydrocarbon revenues. Sure, Russia is shipping oil to India, but it's less profitable. And when we take a look at export controls, these have a lot of loopholes. These need fixing. These are not perfect, but it's a bit of the same story. You know Russia is circumventing these measures, but it's importing goods that cost more and it takes more time to import them. And it's usually of lower quality. So I think that we should highlight the fact that export controls are not magic tools, but they're also doing something. And I will end on two things. Or maybe working a bit less well, getting others on board. And I think that this is tied to export controls. You know, we talk a lot about export control circumvention, but a lot of countries say, you know, we talk a lot about the UAE or Serbia or Kazakhstan. They simply do not impose these measures. And I think that efforts to get others on board on the Western sanctions effort have been disappointing. And then finally, I will end mentioning getting the population on board has also been very difficult. I was mentioning in Europe, the picture is a bit striking. We see with the European elections coming up in a few days now, that in a number of countries, pro-Russia parties were polling very high. These were calling for an end to sanctions on Russia. And I think that this is, very worrying.

Agathe Demarais Thank you so much. Yuriy, I'd like to turn to, you know, if I may, one, how would you tighten sanctions now and to, to go to Agathe's point? And I understand that, Russia is earning less money out of its oil exports, but how effective can sanctions on Russian oil exports exports ever be when it seems to have quite steady customers in China and in India that are very happy to buy discounted oil?

Yuriy Gorodnichenko Let me start by the, by making an observation that we have so many sanctions, so many regulations. Now, it's really, really hard to enforce this. You know, if you have thousands of people to track, if you have thousands of legal entities to track, you know, you have this old patchwork of, you know, regulations in the U.S. and other countries. And in this sense, it's very, I mean, I shouldn't say very, relatively easy to circumvent the sanctions because you can always say, I didn't know my customer. You know, I don't control this import removes importers in Kazakhstan and so on. I think it's really time to turn the tables and say, well, if you want to have a trade or any kind of relationship with Russia, you have to have a license from from the U.S. government or from some European body. And then I will be very clear, you know, who's responsible for what. You know, I often hear that, okay, we have an embargo on, on on the Russian energy, on oil, gas and so on. And this is going to lead to a spike in energy prices. And I would say, you know, this this can happen. This is a real possibility. But on the other hand, we know that Russia is a big energy exporter, but also have a lot of spare capacity, in the OPEC countries to replace Russian oil. That's number one. Number two is to it's true, Russia can export oil to happy customers like India and China. But it's going to be only a fraction of, you know, their global sales that they used to have. So in this sense they're going to have a lower flow of, dollars they can use to finance, finance the war. And also, I want to remind everybody that, you know, when, when we have an embargo on Iranian oil, everybody said, well, we're going to have a big spike in energy prices. And, in one of those years, in 2013, actually, energy prices and the price of oil collapsed by 50%. So it's a very non-linear benchmark between, you know, sanctions and energy prices. So I wouldn't say that, you know, we necessarily have this linear relationship that you tighten controls on the Russian oil, and somehow this is going to create an explosion of you know, energy prices and so on. And the final point I want to make is that people often say, well, we can't do this because this is going to destroy our economies. But we have been there already. So remember, 2022, you know, many in Europe where saying that we're going to have mass unemployment when we're going to lose our, Russian energy. It didn't happen. We didn't have mass unemployment. Maybe we had a little bit of a slowdown in the economy. But nowhere near mass unemployment. Why? Because we know elasticity of demand for energy is relatively low. But it's not zero. So you can, you know, substitute one type of energy with another type of energy. And Europe is, is a great example of how countries can adapt to, you know, this changing landscape.

Arshad Mohammed Fiona, if I could follow up on that question, or on that issue, you know, if Russia can keep exporting, even if it is earning, income, not in dollars, but in RMB or in rupees, are you ever going to get to a point where you have you have sufficiently impaired the Russian economy that it that Putin cannot maintain his war machine or that he cannot maintain, demand, you know, or keep a lid on domestic discontent? And can you ever get to a point where you have really materially increased the probabilities of changing, his outlook, his decision making? If, you know, if he has the point of view of an 18th century tsarist.

Fiona Hill Well, look, many 18th century czar has got into trouble as well with insurrections. I mean, Russian history is replete, with the consequences of actually everything that you've laid out there. And I think, you know, the Putin has, you know, very much put Russia on a path that it was not on in those first, two terms of his presidency, which is a kind of a strange mixture of, you know, the very creaking, czarist system plus, the rather advanced, mature and let's just say, ossified Soviet system rolled into one I mentioned of it, and I'll be all in it before, although I have, you know, great admiration for the central banker, but he was actually trained under the Soviet period. She's around, you know, my age. She she was not educated in a Western setting. And I think that's actually part of her secret is because she's actually, you know, quite good at doing old Soviet style economics. And I think the Soviet Union was a war machine. That's exactly what it was. And, of course, it ran out of steam. That's exactly why Gorbachev, ended up in his position, because the whole system had run out of steam, which this will do eventually as well, if you're putting everything on a war economy. Just as Daleep laid out and [inaudible], has laid out as well as, you know, you eventually run into, considerable consequences. Putin has got away with a lot of things because of our own inability to keep our act together. I mean, he's banking on all of the things that Agathe just talked about. Right now, he's banking on the fact that, Russian propaganda and influence operations will, in fact, result in the rise of far right populist movements in the European elections, in places like Slovakia and Hungary. We've already seen these kinds of actions that will be a backlash against, sanctions, towards, Russia because they seem to be hurting our economies and of course, at the seams banking on the same thing happening here in November. So he's pulling out all the stops because he knows that there will be a problem. And we have to remember again, the Putin comes out of that late Soviet period. He understands why the Soviet Union collapsed. In fact, there was a book published here, at Brookings, on that very theme by Yegor Gaidar, who was, basically a prime minister under Yeltsin and wrote a book as a kind of a how to a cautionary tale for people like Putin about how to manage the economy and how not to manage the economy. Putin knows all of this, which is exactly why he's trying to actually discredit sanctions. He is trying to basically, talk people into believing, as Agathe said, that they do not work. And while he's actually hoping that we will all fold because it's all too difficult. So I think, you know, the message that we need to be sending, from this panel is Daleep, you know, was I think, you know, laying out extraordinary well, is that we have to stick at it because there will actually come a point, as you've just laid out, I can't say what it will be, but if we keep that unity and we are creative and adaptable and don't always tell him what we're going to do with a big, flashlight on our head saying, we're coming for you, we're just about to do this, that, and the other, that we will actually, you know, eventually hit a point where it becomes very difficult for him to deal with all of this with repression, because that's what he's doing at this particular moment. He is banking on the fact that, you know, he's putting enough money into places like Moscow and Saint Petersburg so that the kind of Russian elites will feel relatively comfortable and that he's repressing any kind of dissent. He's lucky, in fact, that the million plus people have left politically. But he won't be over the longer term economically.

Arshad Mohammed Can I kind of stick with you for one moment on the broader question of the set of tools, the matrix of tools of which sanctions are only one? And I'd like to ask him with particular reference to what appears to be under consideration now by the administration, which is to say, the use of U.S. weapons to strike into Russia, for Ukraine to strike into Russian territory. You know, what might, what more would you'd like to see on all of those other non sanctions tools? And, what might a plausible end state for this conflict, whether it ends up being a frozen conflict or something else kind of look like to you.

Fiona Hill Look, it's a combination of all of these things. I mean, again, just like there's no sanctions are not a, you know, the magic bullet. There is literally not a magic bullet on the battlefield either. So, I mean, that's going to be part of the dilemma. We have to be consistent across the board and diplomacy. Communications, strategic communications are going to be critical as well. I mean, I thought Daleep said was very sophisticated. I, I had a lot of questions like David did, but I thought that it was spot on. But we can't Daleep out, you know, around the country and around the world making this case because he's, you know, he's got a job to do. So all diplomats and the rest of us have to do a better job at this as well. We have to push back against Russian propaganda and influence operations. We have to be on that front as well, 24/7. Because the idea, I mean, the fact that we're having a panel, you know, suggesting that sanctions doesn't work is already because we're trying to kind of counter, this insidious idea that there is nothing that we can do to basically roll back Putin, Putin wants to think, wants us all to think that he cannot be defeated. He knows he can be. And he is genuinely worried at this particular moment. Don't think for one second that he's not. He gets up every single day wondering, you know, if somebody is going to be out to get him, literally, because there's a good chance that somebody else, you know, somewhere up there and the world are in his immediate entourage. That's the nature of the beast. He has, his credit around him and the beast that he's riding at this particular moment. He wants to basically beat Ukrainians and Europeans and Americans into submission, either literally on the battlefield or in the, in the field of political propaganda. So we have to keep on stepping up our game. Look, our big problem that we have here in the United States is our election. Let's just be honest about it. As Daleep said rather plaintively, there from the podium, if we're still here in November, you know we're going to move on to this next phase of economic statecraft. Putin is hoping very much that Daleep will not be here in November and the rest of the Biden administration, either, because that will give him an enormous victory. You know, irrespective of how, you know, Trump decides to display his strength or not, because it will erode America's leadership. And in many respects, this war has become a proxy war against the United States. For anyone else that, Putin has invited in, be it Iran, be it China, be it North Korea, be it others, that is, you know, supporting Putin one way or another. It's not about Ukraine. It's not really, about, you know, kind of what, actually happens day to day. It's really for Putin now. It presented as an opportunity for everyone who wants to pile on against the United States to pile on in Ukraine. So one of the things that we also need to do is get our European counterparts unleashed to make the point to China, as I think our [inaudible] and others did during Xi's visit to Europe, that, you know, there has to be a change in posture, at least of China and other countries, as well, to make, this move in a different direction, Putin is emboldened by the fact that he thinks that everybody else is being able to exercise their frustration with the United States through the war in Ukraine, is inviting everyone to pile on. If we close that off, particularly by Europeans, make it clear that it matters to Europe. This is a matter of European security and European economic future. I think that that, that calculation might change. We need to change the calculation of other players, in this conflict as well.

Arshad Mohammed Yuriy, I'd like to ask you a question that, David appropriately asked to Daleep and Daleep appropriately punted on, which is what did he mean when he talked about, sort of expanding the scope of or how they define how one defines financial facilitation. Is he talking about secondary sanctions? Question one. Question two how significant would such a threat or act by the United States be? Would it, for example, lead to curtailing what I gather are the large amounts of goods now flowing through Central Asian countries and into Russia? Give us your thoughts on that.

Yuriy Gorodnichenko Well, you know, his his response was, whatever it means for you, this is how he can. So I'll give you my interpretation. I think.

Arshad Mohammed The eye of the beholder.

Yuriy Gorodnichenko Yes, right. So I think he is saying that secondary sanctions say come in and this is going to be a part of a broader initiative to tighten the screw in the Russian economy. And there are lots and lots of opportunities to do this. You know, many people have this view that somehow Russia is completely disconnected, for example, from the financial system. It's not true. You know, many banks still have access to Russia, and they do lots and lots of transactions between Russia and the rest of the world. It's not just, you know, the Russian Gazprombank. It's also an Austrian bank called Raiffeisen, which makes a killing on Russia. To me, it's really surprising that, you know, Raiffeisen is still allowed to operate in Russia. It's a systemically important financial institution in Europe. You know, something happens with this bank who is going to pay for their losses. This is going to be the ECB or somebody else. I don't know. But it will be an example of, you know, something that has happened in the Russian economy that should not be happening. And maybe this was going to be one of the next steps. Also technological transfer. He was saying, know your customer. We have already a lot of infrastructure in the financial industry. It's not rocket science, right? So all you need to know is, you know, where the final destination of your chip or whatever it is going to be. Going to be a patent. How effective this is going to be, I think is going to be very effective. Because, you know, one thing is when you issue threats and nothing is happening, then nobody is reacting to the threats. You have to make this threats real. And I don't want to say not, you know, publicly if somebody is to be here. Well, but likely this is what is going to happen. And I think it is going to be very effective because we see that the threats of sanctions from the U.S government have a very chilling effect on any kind of economic transaction between Russia and whoever else. You know, they're talking to.

Arshad Mohammed Agathe, I'd like to, to turn to you. Agathe is the author of a book called backfire, about sanctions and and, you can all guess perhaps what the thesis is, but are we now getting to a point, peak sanctions? Are we now getting to a point where the very effectiveness of U.S. sanctions, has started, you know, to erode their utility, please.

Agathe Demarais Well, I would say probably. And that's a terrifying perspective. I think that to answer this question, we have to remember that sanctions fell into void between empty diplomatic declarations and deadly military intervention. So they're not a magical tool. And in some cases they don't work. But in the Russia case, they certainly work, have an impact. And I think, as Fiona has mentioned, it is really important to say this and repeat this to counter Russian disinformation. What I'm worried about is the fact that a number of countries led by China, are building sanctions proof mechanisms that would provide them with a plan B in case they are disconnected from Western financial channels. What are we talking about? Well, the first step in this edifice is, of course, digitalization. It's been a buzzword for quite a while, actually. When we take a look at the data, we see that China settles around half of its trade. Cross-border trade in renminbi, well, 30%. If we don't include Hong Kong transactions, half if we include them, that's massive. That's really important because that's the first layer of protection for China. And of course Russia is doing the same. Russia, for instance, when we discuss foreign exchange reserves, we always debated to $300 billion in foreign exchange reserves from the Russian central bank. Well, the reserves of the Russian central bank were twice bigger before the war started. But why can we not touch the other 300 billion U.S. dollars? Well, because they are not in Western currencies, so we can't unfreeze these assets. So I think that digitalization efforts are real. It's not going to be massive from one day to another, but it's a structural trend probably. The second thing is alternatives to Swift. Well, as Yuriy has mentioned, Russia is still connected to Western financial channels, including Swift. But what we see is, again, efforts to build alternatives. And China leads the way again with a mechanism called Swft. And that's much smaller than Swift in terms of turnover. But it already connects around 1300 banks around the world. All European banks, mostly all American banks, are connected to it. And what China is doing here is that it is building a plan B if it were to be disconnected from Swift, but it's also doing something very aggressive because one day China could say, well, if you want to do business with us, and China is the world's second largest economy, you need to use our own domestic financial channels. It's called CIPs. And then China would have the ability to cut off entire countries or companies from its market. It would actually mirror what U.S. sanctions can do. So that would be very significant. And then the third bloc in this edifice is, of course, digital currencies and sanctions or mostly ineffective. We're not talking about crypto here. But again, for instance, the Chinese digital renminbi, which is issued by the Chinese central bank and sanctions would be completely ineffective to curb transactions with these digital currencies. So I think what is really striking here is that usually the debate is about the fact that digitalization, may happen, but it won't be a game changer. But same with alternatives to Swift, the same with digital currencies. But I think that all of these channels or tools taken together gives you ability to rogue countries to completely bypass Western financial channels and therefore decrease the effectiveness of sanctions. And so if we go back to the idea that sanctions filling the void between empty diplomatic declarations and deadly military interventions, well, that's a terrifying prospect, because it could mean that this tool may become gradually ineffective. And actually, there would be other implications for national security, because, for instance, tracking financial transactions is a key way to track terror groups or illicit groups involved in, say, nuclear proliferation. If these groups have access to completely Western proof financial channels, then this will have massive national security implications. So I would say, yes, we're probably at peak sanctions. And I think that this is very significant and it could have very significant implications for a future of sanctions. Maybe the future of sanctions will be about export controls. We're certainly seeing this with any China today with semiconductors, AI, biotech, quantum computing. But I think this is certainly going to happen. And it may have important implications for Western diplomacy.

Arshad Mohammed Thank you. I'd like to know, unless you want to chip in, I'd like to turn to questions from the audience. I'm going to follow, David's practice and taking questions in, in groups of three. And I would plead that you make it a question and that you make it short. So, let's start with the gentleman here in the front, the gentleman in the middle with the tie. And do we have one more I'd like? Well, we're going to go to the person in the far back there. Please, can we have the mics? We got one there. Let's do it for the mics. So the the webcast. Yeah.

Audience member On the price cap. I like Chase Winter energy intelligence. On the price cap. I mean, how do you evaluate how it's working out? In March, the nightclubs, which are the there is no, Western insurers, you know, said in a statement to a UK parliamentary committee, that the sanctions were the price cap was unenforceable. And they kind of complained a little bit about having to be, the enforcer of the sanctions. I think the Swedish nightclub had a comment about how there's like a 30 fold increase in paperwork, which is maybe good for collecting intelligence. But maybe not so good if you're, you know, I'm sure, and I think that they cited that eight, something like 800 ships tankers had moved into the shadow fleet away from the DNI clubs. So I guess the question is, how do you evaluate that? And, you know, is the price cap unenforceable? And, it's time to sort of move on to, to other sanctions.

Audience member Hello. Craig Kennedy, Daleep spoke a lot about both unblocking technology going into Russia, but also capital, and having spent 20 years trying to get capital into Russia as a banker, I've been watching what's been happening over the last several years. And we've seen Russia reduce Its or rather western capital moving out of Russia. We had about $725 billion worth of foreign lending in Russia in 2014. That's more than half. But there's still quite a bit of it. And Russia is now trying to refinance a lot of its foreign debt in its own much, much smaller, domestic markets. So my question is this have has anybody been watching how Russia is dealing with refinancing all of this foreign debt? And I'll give you just to two numbers in particular that have struck me as interesting and potentially very problematic for Russia the total size of the Russian domestic corporate bond market is about $120 billion. If you look at two Russian companies, Gazprom and Rosneft, between the two of them, their outstanding debt exceeds that. And much of that is still debt, which they are holding from foreign lenders. What does this mean for Russia? Is it potentially facing its own, financing crisis domestically? And by the way, China has not been stepping up at all with lending to Russia except for, Chinese, except for projects where China's directly involved and back.

Arshad Mohammed Madam, in the very back row.

Audience member Thank you very much. My name is. [inaudible] I am, from the country Georgia. I'm the former member of the parliament. I resigned in protest to what my government is doing today. And probably, you know that today, the Georgian government overrode the veto of the president on the foreign agents bill. So my question, actually, is that what we're observing in our part of the world is Russia is expanding its battlefield not only with the tanks, but marking its territory with the foreign agent laws. So, it was Kyrgyzstan first. Now today's Georgia and the Republika Srpska has also started to initiate this law. There are people on the streets and we are protesting, and we do what we can within the constitutional norms. There is an assistance that is coming through the with the sanctions that, the U.S. has imposed on those who actually voted for this bill. But it seems that it is not enough. I mean, the travel ban mostly, Putin is waging, the war in ou

Arshad Mohammed If you could. Boil it down to a question. Thank you so much.

Audience member So, in this case, we're trying to see what else can be done. And how can we stop Putin? Because this is the war by other means?

Arshad Mohammed Yes. Thank you. Yuriy are you are you up for discussing the price cap and whether it's unenforceable?

Yuriy Gorodnichenko I think it is enforceable. We have some options to do it. And one of the broad consensus on sanctions is discussing this in detail. It's true. It's more difficult and requires, you know, corporate responsibility and solidarity. And so, you know, somebody has to be doing this. It's true. It's a little more, you know, paperwork and everything. But as I said before, know your customer. You know, this kind of tools have been around for a long time. And so this industry will have, to adapt. And, and the question about the financial market in Russia, I can't remember who was saying that Russia is a gas station, pretending to be a state. You know, gas stations don't have developed financial markets. And so they're going to run out of money at some point, and they will have to involve the central bank to do all this refinancing deals that they have to do. Which again, means that we have to keep, you know, a lot of pressure on the Russian economy. Keep it isolated, you know, don't allow them to, you know, have any kind of access to the global capital markets. They should not be able to refinance. Especially in this very difficult conditions. You know, there was some discussion about whether we should have, whether we should allow Russian capital to leave the country. And this was related to the last question about Georgia. You know, my personal opinion, we should not be doing this because we should remember that Russian money have an enormous power to corrupt just about anybody, not just in the U.S. but, you know, everywhere, including in Ukraine. And so we should make sure that this, you know, dirty money of this corrupt money is not going anywhere in our blood system, so to say.

Arshad Mohammed And if we could go in on the on the question.

Fiona Hill I think Agathe was having some problems and not being able to hear, I guess. Can you hear us now?

Agathe Demarais Yes, I can hear you all very well, except when Yuriy speaks, which is a bit frustrating. But this I was wondering if there's anything we can do.

Arshad Mohammed Like for if the technical folks can try to improve Yuriy's mic, that would be great. And Fiona, please.

Fiona Hill Yes. I mean, some of the questions are very technical. I'd much myself prefer to hear from, Yuriy and Agathe, about these because, you know, there are some very specific issues that I know that they're tracking very closely here, but I will speak, to, really the last point, Yuriy already touched on on. I mean, Yuriy is actually talking about the power of Russian money to corrupt, not just in the United States and Europe, but also, in the immediate region. And, I mean, that is one area where Russia has invested very, very heavily in, particular governments. I mean, in the case of Georgia, of course, the power behind, the throne of Georgia, Mr. [inaudible] has made all of his money in, in Russia. And, you know, part of the dilemma, you know, that we are dealing with is that, so many of, the former Soviet republics, which of course, have been even calling them this, you know, seems ridiculous after 30 plus years of independence. But, you know, in 30 years, there's still not been a major generational change in people who, you know, in the 50s and 60s, who spent a lot of their formative years in the Soviet Union and built up their fortunes in the immediate, you know, wild period of capitalism that people, many people here, you know, participated in or, you know, kind of watched as all of the countries that were building up their financial markets, the mullahs, amid their money in Moscow. And that is the case with so many of, the current leaders. Are they made that connections in Moscow and they made that, careers there. And Putin knows exactly, how to push all of. All of their buttons in the case of Mr. [inaudible]. He's extraordinarily worried, in fact, about being sanctioned. This might actually get to this point about peak sanctions and in fact, is actually holding Georgia itself hostage. In, basically, a way of pushing back against the threats from the United States and from other countries to actually sanction him because his billions are all, you know, very much, tied into his, dealings in Russia. We have a lot of complexity here. Putin knows, you know, for example, that he can have all kinds of impacts in places like Serbia, in Slovakia, in Hungary, in Germany, in France, you know, for example, because of many decades of investing in political parties and individuals. So while we're following the money trails of technology, while we're following, you know, the money trails, you know, led by Raiffeisen Bank and many others, we also have to follow the same trails of money and understand those relationships between, Putin, and Russia and many of the other players that political and financial in other countries immediately around Russia and further afield. And that's going to be probably, you know, part of that next stage of Treasury and also, I hope in the case of, of Europe as well. I mean, in London, you know, for example, formerly known as Londonsta, where so many of the oligarchs were heavily invested, all the London laundromat, which is all the kind of recycling of, dirty Russian money. There's been a real wakeup call. It took several poisonings, polonium scattered all over, London. Novichok on doorknobs and, you know, killing innocent British citizens, to actually, bring that home. But I think the message now is loud and clear that the financial ties of Russia and ability to influence, particularly in pushing through legislation that harms countries ties, with the rest of the world, is very much so. And that's going to be another phase, of action that we're going to have to take.

Arshad Mohammed Thank you. I'm sad to say that, you know.

Fiona Hill Do we have a chance to hear from Agathe.

Arshad Mohammed Please, to the extent that you were able to hear Yuriy? Do you have any comments you'd like to add, in particular on the domestic financing or refinancing of a Russian debt?

Agathe Demarais Well, yeah, actually, on the, on the two questions, did the oil price cap and, domestic refinancing, these are questions that I followed a little bit, I think, on the oil price cap, the first thing that I would say is we should always expect private firms to say that sanctions are very difficult to enforce, or unenforceable or that it's not working. And I speak here as a former French Treasury official, this is always what we're going to hear from the private sector. I think what this points at when we take a look at the oil price cap, is that this measure was always intended to work in the short term to medium term. You know, when Russia was still relying on Western vessels to ship oil to its new customers. And I'm thinking mostly about India. But in the long run it was always clear. And in the long run, it's been one year tops, that Russia was going to adapt. And I think that this is something that is really important. When we take a look at sanctions, we should always expect the target to adapt. And what Russia has done is that it has built its, late Goss fleet, of Russian flagged vessels to export its oil, and it can do whatever it wants. You know, we could sanction these vessels. Russia wouldn't really care as long as they have no ties to Western jurisdictions, which is very difficult to do in practice. But I think, again, the point here is about adaptation, and I think Daleep actually made this point that we will always need to adapt. So some tools will be working in the short term, medium term, but not long term. I think that we need to acknowledge this. That's not a flaw about sanctions. That's always going to be the case. Gazprom and short term borrowing. So I can answer actually about Gazprom financials because I've spent some time taking a look at them, over the past weeks. And they are alarming is what I would say. Gazprom has posted a 6.8 billion U.S. dollar loss last year, which is extremely significant considering the company usually well gives around 40 billion U.S. dollars to Russian state coffers every year, either through contributions to the federal budget or the National Welfare Fund, which is the sovereign wealth fund. So obviously, that is going to be a problem because it means that this year and actually it was announced last week, Gazprom isn't going to be able to contribute to the Russian budget. It's not going to be able to pay dividends, to its main shareholder, the Russian state. And of course, that's going to be a problem to finance the war. And that's going to be a problem for replenishing the reserves of the sovereign wealth fund, which have already been depleted by around half or 60 billion U.S. dollars since the war. So we're not talking about small numbers here. We're really talking about big numbers. And I don't think there will be an easy way out for Russia. And when we take a look at borrowing, actually, this points to the fact that difficulties could rise because short term borrowing from Gazprom has doubled last year and it has doubled again in the first quarter of this year. So we're really talking about huge difficulties, possibly. And it's a closed loop, you know, because usually Gazprom would give money to the sovereign wealth fund and then the sovereign wealth fund would bail out some private firms. But if at some point this link is severed and it's the sovereign wealth fund that doesn't have a lot of money anymore, needs to bail out Gazprom. I'm not entirely sure how this works. So it's it's a closed loop, but I'm I'm a bit puzzled about how it's going to work in the long run.

Arshad Mohammed Listen, thank you so much. Agathe, let me say thank you to our panelists, Yuriy, Fiona and Agathe and turn it over to Suzanne Maloney, the director of foreign policy studies at Brookings.

Suzanne Maloney Thanks so much for that. And, I have the pleasure of concluding this terrific event. I'm Suzanne Maloney. As Arshad said, we've been director of foreign policy here at the Brookings Institution. Really what I wanted to do is just thank the brilliant speakers that we've had on our stage, virtually and in person here today. The keynote address by Daleep Singh, Deputy National Security Advisor, I think, really set the tone for a terrifically substantive and forward looking conversation that we've had among our panel, moderated brilliantly by Arshad Mohammed with comments from my colleague Fiona Hill, as well as Yuriy and Agathe. And let me also especially thank David Wessel and Ben Harris from our economic studies program here at Brookings. You may recall that Daleeps remarks made reference to the Seinfeldian philosophy of worlds colliding. This event was very much the product of worlds colliding here at the Brookings Institution. And I think a reflection of the fact that to think about, the tools of economic statecraft, you really do need experts on the economy, the financial markets and national security to come together in a way, in that kind of intellectual collaboration is vital, but all too rare among policy circles. It's one of the tremendous comparative advantages here at Brookings. I won't try to summarize what some of the many important insights that each of our speakers provided today. I will commend you to reflect upon them as you leave our event today, but also to return to the Brookings website, and especially for those of you who are watching this event virtually, jump on there right now and you will be able to read the papers in depth that were commissioned that this event was really intended to launch. Many of those papers, address some of the questions that were, raised by the audience and some of the points that were made by our speakers here today. I just wanted to wrap up by saying I've done a lot of work on sanctions in another important context, the the issue of Iran. And what I heard today resonated deeply with, a lot of what I've come to appreciate about the efficacy and lack thereof of sanctions with respect to U.S. and international policy on Iran. We talked about the principles, the architecture, the instruments of sanctions. We talked about the implications of innovation and evolving types of sanctions. There was a time and an enormous literature that was developed around trade sanctions. We've seen through the past 20 years in the post 9/11 era, seeing the evolution and implementation of financial sanctions and now new innovation around technology sanctions as well. We've talked a lot about the factors that contribute to the efficacy of sanctions, as well as the limitations in the potentially unintended consequences, as well as the bureaucratic challenges and diplomatic challenges of devising, implementing and and most importantly, perhaps sustaining sanctions. I will just close by leaving perhaps a bit of a question mark around the idea of peak sanctions. I recall, with some humility, testifying before Congress on the question of whether or not we could, in fact, sanction the Iranian central bank successfully without wider implications on the global economy. I happened to be wrong when I testified, in part because I think that we were, we hadn't anticipated many of us hadn't anticipated the change in energy markets that, in fact, enable that to be possible. And so what I've seen over the course of my work, looking at these particular issues, is that it really is an evolving landscape, and that we know from this conversation, from another conversation that our friends, that David helped to moderate, a little over a year ago here at Brookings by Jake Sullivan, that economic statecraft is absolutely here to stay is a vital element of U.S. and other countries policies. So thank you all. Please join me. A round of applause for our speakers.