Sanctions on Russia's businesses haven't worked, says study

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Following Russia's invasion of Ukraine in 2022, Western governments implemented a suite of sanctions on Russian businesses, escalating the sanctions they implemented following Russia's annexation of Crimea in 2014. The goal in both cases was to inflict enough pain on Russian elites that they would pressure Vladimir Putin to reverse course and end the conflict.

However, new research based on the years following the Crimean annexation reveals that the Russian sanctions only temporarily hurt targeted firms. After suffering modest losses in revenue and employment, sanctioned businesses adapted to the restrictions by reorganizing subsidiaries, altering supply chains, or seeking government support. Two years later, sanctioned firms were no worse off than untargeted businesses in Russia.

The findings suggest that a major tool in the diplomacy toolkit—economic sanctions—do little to deter or reverse aggressive actions by other countries.

"We initially thought this research was going to show that the Russian sanctions worked," said Alexander Settles, a professor in the University of Florida Warrington College of Business. "But once we analyzed the data, we started seeing what we saw on the ground, which is there did not seem to be long-term negative impacts from these economic sanctions."

Settles worked with Ajai Gaur of Rutgers University and Juha Väätänen from LUT University in Finland to analyze the effect of sanctions on Russian businesses implemented after the Crimean annexation in 2014. The team published their findings June 1 in the *Journal of Management*

Studies.

Their analysis was based on information on total revenue and number of employees of thousands of publicly traded companies in Russia from 2011 to 2020. The final dataset included 180 sanctioned firms and hundreds of their subsidiaries as well as a control group of more than 36,000 unsanctioned businesses.

"We did see that sanctioned companies did have reduced revenues and reduced employment in the short term. We attributed those declines to the immediate effects of sanctions, because it takes a while for a firm to adjust," said Settles. "But that effect didn't last."

Sanctions weren't felt evenly across industries, the researchers found. Those firms that relied heavily on exports performed better than those that didn't, likely because they could adjust to export to new markets. Scientific and professional firms tended to lose more employees over time, perhaps due to those employees finding opportunities in unsanctioned businesses or out of the country.

The temporary effect of most Russian sanctions is likely due to the different adaptations firms pursued. These adjustments included identifying unrestricted export markets. For example, oil companies followed this strategy by significantly increasing exports to India. Or businesses might have restructured their subsidiaries to isolate the sanctioned firms and move activities to unrestricted companies.

A powerful stabilizing effect is the role of government assistance, Settles' team discovered. The Kremlin provided sanctioned firms with credit when financing dried up abroad, helping businesses reinvest in alternative export markets or new domestic operations.

The surprisingly short-lived effect of the Crimean sanctions suggests that the similar economic sanctions implemented after Russia invaded the rest of Ukraine are probably not effective. Settles also sees parallels in Asia, as China increasingly threatens to annex Taiwan and the U.S. and other Western countries consider sanctions to discourage that threat.

"What countries need to do is ask the right questions about their sanctions programs," Settles said. "Is this the right policy to enact in a deglobalizing world where people know how to adapt to changing conditions?"

More information: Ajai Gaur et al, Do Economic Sanctions Work? Evidence from the Russia-Ukraine Conflict, *Journal of Management Studies* (2023). DOI: 10.1111/joms.12933

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