Russia Sanctions at One Year

Learning from the Cases of South Africa and Iran

By Maria Snegovaya, Tina Dolbaia, Nick Fenton, and Max Bergmann

Introduction

Since Russia’s invasion of Ukraine on February 24, 2022, over 11,000 new restrictions have been placed on Russian individuals, companies, products, and technologies. While the sheer number of such restrictions is impressive, the “sanctions from hell” so far have not delivered as much hell as originally expected. Throughout 2022, Russia’s economy generally defied apocalyptic forecasts.

Will sanctions deliver? Much depends on the envisioned goal. The real question is not whether sanctions will lead to a full collapse of the Russian economy—it is unlikely Moscow will run out of money to fight the war—but whether sanctions can inflict sufficient economic, social, and political pressures on the Kremlin to constrain its options for waging war and push it toward a cessation of hostilities.

This paper provides an overview of the currently identifiable impacts of the international sanctions regime imposed on Russia in early 2022. It also compares Russia’s current situation with that of two other sanctioned economies: contemporary Iran and apartheid-era South Africa. While the relative resilience of Russia’s economy should not be underestimated, the currently available data does indicate that sanctions will have a pronounced impact on the country’s economic development. In the cases of Iran and South Africa, sanctions never delivered a dramatic, immobilizing blow, but they did exacerbate existing structural vulnerabilities in the countries’ economies. Sanctions degraded the quality of life for the average citizen, which existing opposition movements were able to point to in their efforts to organize widespread civil disobedience. In South Africa, the effects of sanctions contributed to undermining the apartheid regime, while in Iran they have driven social discontent, even if the sanctioned government remains in power.

If the economic situation in Russia continues to deteriorate, it could create a vicious cycle for the Kremlin, whereby a struggling economy creates increased social discontent, prompting a domestic
crackdown, which in turn leads to further social instability and resentment. This dynamic will greatly concern the Kremlin and could create constraints on its ability to prosecute the war in Ukraine over the longer term. Overall, this analysis suggests that there are reasons to remain moderately optimistic about sanctions against Russia.

The Impact of Sanctions to Date

INDIVIDUAL SANCTIONS
Sanctions against individuals have expanded dramatically since the beginning of the 2022 war. The United States alone has designated roughly 2,600 Russian, Belarusian, and Ukrainian individuals for their involvement in or support for the war. Sanctioned individuals have been banned from entering selected countries, and their assets have been blocked or frozen. The goal of these restrictions is to prosecute specific groups of people for their involvement in perceived legal violations and to incentivize the development of internal factions in the regime by making political and business elites distance themselves from the regime and withdraw their public support.

With these considerations in mind, what impact have the individual sanctions had thus far? Over the last year, many of the sanctioned tycoons, coming primarily from a more liberal Yeltsin-era cohort, have consistently complained about their lost social standing, such as Petr Aven, a Russian industrialist and the co-owner of Alfa Bank, the country’s largest private bank. In the wake of the invasion, some of Russia’s richest people even attempted to speak out against the war. For example, Oleg Tinkov, another billionaire banker, denounced the “special military operation” as a “crazy war” on Instagram, while another oligarch, Mikhail Fridman, called the invasion of Ukraine “a tragedy.” Some of the sanctioned, including Aven and Fridman, have been staying outside of Russia since the war began, while others have rejected their Russian citizenship, including Tinkov, Yuri Milner, and Nikolai Storonsky. Several oligarchs, including the former owner of Chelsea Football Club Roman
Abramovich, have been offering their help—publicly or behind closed doors—in brokering talks for Ukraine and the West in exchange for avoiding sanctions.

Some less obvious signs may signal the effective impact of individual sanctions. For example, many Russian celebrities appear to have become somewhat reluctant to publicly associate with war-linked events. For example, the political team of jailed opposition politician Alexei Navalny observed in September 2022 that only a few known singers took part in the concert Putin held to celebrate the annexation of four Ukrainian regions, with younger and more popular stars choosing not to perform at the event. This contrasts with the past participation of well-known performers in the Kremlin-organized concerts devoted to the annexation of Crimea.

However, individual sanctions, as of yet, have not resulted in major divisions within the Russian elite. Since the sanctions were introduced, few of the elite associated with Putin’s Russia have seriously attempted to dissociate themselves from the system. In the spring, Anatoly Chubais resigned from his position of Russian climate envoy and fled Russia. More recently, a longtime Putin ally Alexey Kudrin cautiously stepped down from his position as head of the country’s Audit Chamber to lead the Russian tech giant Yandex. Both Chubais and Kudrin are softliners in the Kremlin, the so-called “Kremlin system liberals” whose positions were seriously weakened as hardliners came to dominate the official line. Thus, their leaving the system may have other drivers beyond sanctions. More recently, billionaire Alisher Usmanov asked to resign from his membership in the bureau of the board of the Russian Union of Industrialists and Entrepreneurs “due to retirement from active work.”

Overall, the individual sanctions campaign of the past year has not appeared to incite cracks within the Kremlin system. Instead of leaving the system, organizing against it, or publicly expressing their disagreement with the war, the major visible change is that sanctioned Russian elites now vacation in Turkey, the United Arab Emirates, and Dubai rather than the European Union. If there is any grumbling, discontent, or scheming being done by disaffected oligarchs, it is being done behind closed doors and well out of the public eye. While Putin does not appear to be too concerned by the prospect of disgruntled oligarchs undermining his regime, he did in the first weeks of the war make a point of issuing a public warning to those with “villas in Miami or the French Riviera.” This came after a number of oligarchs publicly criticized the war.

The difficulty of splitting elites from the regime might be attributable to Russia’s highly personalistic regime, in which even those who disagree with the official line are terrified, atomized, and isolated as others continue to back Putin. Potential dissenters therefore lack the ability to organize and exert pressure on Putin and may even lack the ability to willingly leave the system. Under such circumstances, at least for now, complacency appears to be their dominant strategy.

Individual restrictions, however, might still work in unexpected ways by affecting the calculus of lower-ranked elites (this is why Alexei Navalny’s team has suggested expanding the list of the sanctioned individuals up to 6,000, claiming that the people on the proposed expanded list enabled President Putin’s invasion of Ukraine). Most importantly, these restrictions serve as an important instrument for decreasing the Kremlin’s soft power in the Euro-Atlantic community by blocking the access of the Putin-aligned oligarchs and others to Western markets through real estate, artwork, private equity, and donations to political parties and nonprofits. Additionally, oligarchs have often been targeted.
by Western intelligence agencies as potential sources of information on Russia and the Kremlin. It is unknown if expanded sanctions or the threat of additional sanctions has increased the willingness of potential sources to cooperate.

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Going forward, individual sanctions may need to be expanded to target not only members of the Russian elite but also their families, who often continue to reside in Europe. In addition, the European Union and the United States should explore the possibility of revoking citizenship for Putin-linked oligarchs who may have **bypassed** routine security checks. For instance, a number of Russian oligarchs effectively **purchased** EU citizenship through Cyprus. Along with such “sticks,” the West could consider introducing “**carrots**,” such as outlining a **specific set** of criteria to be fulfilled before one is removed from the sanctions list.

**EXPORT CONTROLS**

So far, allied export controls appear to have been one of the sanctions regime’s successes. The denial of exports of Western-produced sensitive technology to Russia has primarily targeted the Russian defense, aviation, and maritime sectors and has resulted in some of these industries experiencing a visible decline. If the Cold War is any guide, export controls can prove to be very effective in limiting the growth potential of key industries within a sanctioned economy. By **targeting** munitions, nuclear technology, and critical industrial materials and components, the anti-Communist alliance was able to limit the Soviet Bloc’s technological advancement. The technological gap that emerged was most prominent at the end of the Cold War, when Western economies had clearly outpaced the Soviet Union in terms of electronic technology and the emerging **information revolution**. A similar phenomenon **could appear today**. Indeed, in specific crucial categories, such as artificial intelligence (AI), optics, certain chemicals, advanced materials, and semiconductors, Russia has been experiencing a shortage of the technologies. This is further exacerbated by the **exit** of about 120 (8.5 percent) of the EU and G7 companies with commercially active equity investments in Russia following the invasion.

For example, in the aviation industry, about **95 percent** of Russia’s passenger volume is carried on foreign-made planes, and the lack of access to imported spare parts could lead the fleet to shrink as they go out of service. In fact, by mid-2022, Russian airlines started stripping jetliners to **secure spare parts** no longer available to them from abroad. The restrictions are also hurting domestic production of planes. By some estimates, the construction of planes decreased by **25 percent** in 2022, reaching the lowest level since 2008. This decline is being driven by the ban of imported components, which, for example, constitute over 50 percent of Russia’s Superjet SSJ-100. This is partly compensated for by the overall decline in air traffic in Russia (also due to sanctions), leaving many planes available to be used for **spare parts**. Nonetheless, in 2022, due to the lack of necessary spare parts, Russia experienced more than 100 **civil aviation accidents**, including **around** 28 crashes. Likewise, in the first few weeks of 2023, seven additional accidents related to the malfunctioning of specific plane equipment had been **reported** at time of writing.
The situation is similarly dire in the machine-building industry, where only about 30 percent of machine tools are made in Russia. According to some forecasts, the machine-building industry was expected to shrink by 10 percent in 2022. Car manufacturing has been affected particularly strongly. As a result of the exit of major foreign automakers following the imposition of sanctions and export controls, Russia’s passenger car manufacturing fell by about 50 percent in the third quarter of 2022. Recent media reports claim that only about 450,000 cars have been produced in Russia since the war began—the lowest number since the first few years of Leonid Brezhnev’s rule. In addition to drastically reduced production, the Autostat statistics suggest that the average price of a domestic car increased by around 20–30 percent, while anecdotal evidence points to a far steeper rise, with a standard subcompact Lada model tripling in cost since the war began.

The pharmaceuticals industry has also been significantly affected by the sanctions, with nearly 80 percent of domestic production dependent on imported raw materials. Throughout 2022, Russia consistently experienced shortages of different kinds of medical supplies, including some hormonal and cancer treatment medications and various types of prostheses. Prices for antibiotics and other vital medications have risen as pharmacies have struggled to substitute for lost imports. In several Russian regions, import-intensive surgeries, such as knee arthroplasty, have been removed from free assistance programs. Likewise, some public clinics stopped offering joint replacement surgeries. This problem is further exacerbated by younger and more established medical professionals fleeing the country.

In the defense industry, sanctions have been impacting the Kremlin’s ability to get access to Western dual-use electronics and components necessary for manufacturing key Russian military equipment. In some cases, sophisticated Western options have been replaced with Soviet-era technologies produced back in the 1960s and 1970s. However, while this may signal that the Kremlin is running out of newer equipment and technologies, it is also possible that Moscow is exhausting its Soviet-era
Military reserves before it turns to its more advanced stockpiles. The allied export restrictions on foreign-made electronics and components also aim to impact Russia’s ability to produce sophisticated unmanned aerial vehicles (UAVs), which play a vital role on the battlefield in Ukraine. Many of the missiles and drones that have been manufactured in Russia—such as the KUB-BLA “kamikaze” UAV, the E95M target drone, and the Orlan-10 UAV—have relied on key Western components, including communications systems, GPS modules, and microchips, which now have been restricted. Export controls have contributed to the Kremlin’s decision to turn to less technologically advanced countries for military supplies and equipment, including Iran and North Korea.

However, there are reasons to believe that Russia continues to access restricted Western goods through illicit or black-market channels. In August, a report showed that military technology manufactured by U.S.-based and other Western firms were still abundant in the Russian military equipment found on the battlefield in Ukraine. Some evidence suggests that cruise missiles that Russia deployed in Ukraine in late November could have been produced months after the introduction of new export controls. While this may be due to reserves of Western components and electronics that Moscow stockpiled before the 2022 invasion, experts also warn of emerging sanctions-evading supply chains, running through China and former Soviet states, that deliver restricted Western components to Russia.

As time goes by, Russia is more likely to find ways to circumvent sanctions, even if it means purchasing equipment from unknown sellers or buying products of inferior quality. For example, while Russia’s limited supply of semiconductors has been widely discussed as a success of export controls, recent reports suggest that Russia has increased imports of semiconductors from Turkey, China, and Hong Kong. A new paper from the Free Russia Foundation found that Russia not only continued to import semiconductors and integrated electronic circuits in 2022 but also dramatically expanded such imports.

Yet Russia’s reliance on black market and illicit supply chains is prone to delay and disruption, which increases the time needed to produce new systems and raises the costs for the Kremlin as it scrambles to get hold of sensitive technology. Furthermore, Moscow may have to prioritize military applications of such items over civilian uses. For instance, in the beginning of February 2023, Russia’s official government services portal, Gosuslugi, temporarily ceased accepting applications for biometric foreign passports, alluding to a problem in the supply of the microchips necessary to produce biometric passports.

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**MACROECONOMIC SANCTIONS**

At the start of the war, the United States introduced a group of unprecedented financial sanctions, including barring transactions with Russia’s biggest state-owned banks, prohibiting the trading of Russian sovereign bonds, limiting the ability to lend to major Russian companies, blocking key banks from the SWIFT financial messaging system, and freezing the Russian central bank’s foreign-exchange reserves.
However, through 2022, this group of sanctions was generally unsuccessful in achieving the desired outcome—collapsing the Russian economy. The sanctions were offset by Russia’s current account surplus from energy revenues, which have skyrocketed amid high global commodity prices and the sanctions-induced collapse of imports. Other measures have also been put in place. The Kremlin introduced strict capital controls, including banning Russians from transferring foreign currency abroad above a small, fixed amount. The Russian central bank temporarily increased interest rates to 20 percent, and Russian exporters have been forced to sell 80 percent of their foreign currency revenue for rubles. As a result, Russia managed to stabilize and even strengthen the ruble. Subsequently, by the end of the spring of 2022, the ruble emerged as the world’s best-performing currency, defeating the original expectations of sanctions experts.

In 2023, however, the macroeconomic circumstances are unlikely to continue to be as favorable for Russia. Energy sanctions are expected to strike a major blow. In early December 2022, Europe introduced an embargo against maritime shipments of Russia’s Urals crude oil as well as a price cap of $60 per barrel on oil purchases, which was agreed to by the G7 and Australia. The price cap required the mostly Western-based shipping insurers to only service the purchases of Russian oil below the set price level. Prior to that, the European Union also introduced an embargo on Russian coal. In February 2023, this was followed by a ban on refined Russian oil products, including jet fuel and diesel.

The introduction of the oil embargo and price cap immediately began to make an impact. Even before these measures were in place, Urals crude had been trading with a higher-than-usual discount (likely reflecting the market’s anticipation of the coming restrictions). Following the introduction of the oil embargo and price cap, the price of Urals crude started to decline further, and the ruble (which is closely tied to Russian oil) started weakening as well. In December, Urals crude fell in value by almost 30 percent, as its price discount compared to Brent crude increased to almost 40 percent. While other factors, like unusually warm weather in Europe, have also played a role, the new energy restrictions have so far been successful in institutionalizing the deep discounts for Russian oil. By some estimates, the first month of the oil embargo and price cap cost Moscow approximately €160 million ($172 million) per day, or about a 17 percent decline in Russia’s earnings from fossil fuel exports. This pushed the country’s energy revenues to the lowest level since August 2020. What has followed is a rapid decline of oil and gas tax revenues in early 2023, resulting in the biggest January budget deficit since the crisis year of 1998.

To counter the impacts of energy sanctions, Russia has ramped up its oil shipments to Asia, which by some estimates now account for about three-fourths of what used to be shipped to Europe. For example, in the pre-invasion period of January 2021 to February 2022, China’s seaborne imports from Russia averaged about 590,000 barrels per day (bpd), while in the post-invasion period up until December 2022, they averaged around 857,000 bpd, an increase of 267,000 bpd, or about 45 percent. Still, Asia is unlikely to serve as a full substitute for the volumes Russia used to ship to Europe. In addition to taking much longer to ship (about a month for shipping oil to India as opposed to only a couple of days to Rotterdam or Genoa), tankers now must go through a set of bottlenecks—namely the Danish straits, the Strait of Gibraltar, the Bosphorus Strait, the Suez Canal, and the Bab el-Mandeb Strait—where they run a risk of delays. As a result, shipping oil to Asia may generate an estimated extra cost of at least $10 per barrel. Some observers thus believe that China and India’s crude oil purchases will likely fall short of offsetting the decline in shipments to Europe (which constituted 75 percent of Russian gas exports and 55 percent of its oil
exports prior to the war), making the Kremlin lose another battle in its energy war with the West. The recently introduced European embargo on refined Russian oil products may further exacerbate this situation, as Asian countries do not have a high demand for those products. Some estimates project a 15 percent decline in Russian refined oil products in 2023. According to the estimates of Alexander Isakov, an economist for Bloomberg Economics, losing half of the current EU export of oil products may cost Russia around $8 billion per year.¹

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Russia’s metals industry faces similar problems. Lacking access to the European Union, where Russia used to export up to 4.5 million tons of rolled steel per year, Russian producers now must find new destinations, often farther away, and are no longer fetching price premiums. By some estimates, Russian metals producers are losing $5.7 billion a year from the restrictions. By the end of 2022, regions with developed automotive, engineering, and metallurgic industries were reporting sharp declines in tax revenues.

Future Forecasts

Despite the sanctions, Russia’s budget deficit will likely remain manageable, and even if Russia’s defense spending peaks at 5 percent of GDP, Russia will still have resources to fund its war in Ukraine. Thus, what sanctions will truly mean for Russia’s future is still up for debate. Will the Kremlin muddle through? Will the Russian public continue accepting the war and associated financial and human costs?

¹. Email correspondence with the authors, February 9, 2023.
This paper’s projections in this regard are based on the experiences of the current Iranian regime and apartheid-era South Africa. While direct comparisons between these regimes and Russia clearly have limitations, examining other examples of the use of sanctions can contain illuminating insights. Sanctions on Iran and South Africa severely aggravated existing structural vulnerabilities in both countries’ economies. In South Africa, sanctions ultimately helped undermine the apartheid regime, while in Iran they remain a driver of social discontent and economic hardship, though the sanctioned government remains in power. This analysis aims to highlight these vulnerabilities and examine similarities with the existing challenges faced by the Kremlin.

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1. Russia is likely to experience economic decline.

Today, Iran is considered one of the most sanctioned economies in the world. Since the 1980s, Tehran has been subjected to different sets of sanctions coming from the United States, United Nations, and the European Union. But the major blow came in late 2011, when President Obama sanctioned the central bank of Iran and announced significant reductions in Iranian oil exports. This was followed by the European Union’s decision to ban imports of Iranian crude oil and petroleum products in January 2012. As a result, between 2012 and 2013, Iran’s GDP fell by more than 5 percent, inflation reached 30 percent, and Iran’s currency, the rial, devalued by 48 percent. Overall, during the Obama-era sanctions from 2012 to 2015, Iran’s GDP fell by 0.8 percent each year on average, the rial devalued by an average of 23 percent per year, and unemployment and inflation rates rose to 11 percent and 27 percent, respectively. While the sanctions were relieved temporarily following the signing of the 2015 Joint Comprehensive Plan of Action, President Trump withdrew from the nuclear deal and reinstated the sanctions in 2018. In addition, banks in Iran were also cut off from the SWIFT system. During the short period of sanctions relief between 2015 and 2018, Iran’s economy rebounded with its GDP, increasing by an average of 4.8 percent per year. However, renewed sanctions between 2018 and 2021, combined with the Covid-19 pandemic and the decrease in global oil prices, led Iran’s GDP to contract by approximately 2.7 percent each year on average, while inflation increased to 36.2 percent and the rial was devalued by 44.4 percent each year on average.

International sanctions on South Africa began as early as 1946 but did not take on serious economic significance until the 1980s. While comprehensive trade and export control bans were not pushed by major trading partners such as the United States, the European Economic Community (EEC), and the Commonwealth of Nations until 1986, a U.S. congressional amendment blocking International Monetary Fund (IMF) loans as early as 1983 combined with a long-standing drop in investor confidence starting in the 1970s to strongly exacerbate the country’s vulnerability to a current account crisis. At their height, sanctions touched almost every facet of South African society, from travel and sports to restrictions on technology transfers. While they did not deal the regime a comprehensive death blow,
the sanctions degraded the country’s economic capacity and exacerbated the preexisting political weaknesses of the regime. Foreign private and government sanctions on lending and investment contributed to a slowdown in economic growth in the late 1980s. In this case, the reversal of the flow of capital proved more painful economically than trade sanctions per se.

Drawing on Iran’s and South Africa’s experiences, Russia’s economy is unlikely to collapse from Western sanctions. However, sanctions will constrain its ability to generate economic growth. Following the imposition of earlier rounds of sanctions in 2014, Russia’s economy was already stagnating, achieving only 2 to 3 percent growth per year. In 2022, the country’s economy contracted by approximately 2.2 percent, while forecasts for 2023 vary from predicting a marginal economic growth of 0.3 percent to a decline of 2.5 percent. But in 2023, the contraction of Russia’s economy may be stronger if Moscow fails to find new markets to fully substitute for losses driven by the European oil embargo and G7-backed price cap. Overall, the cumulative impact of sanctions, as well as the collapse in natural gas flows to Europe, will likely make Russia’s economy decline or stagnate for the next several years. Even the Kremlin’s own internal scenarios tend to suggest that Russia’s GDP will return to prewar levels only at the end of the decade or later.

If this dynamic continues, Russia’s budget deficit in 2023 will rise by at least 1.5 percentage points above the government’s projections of 2.3 percent. Russia is already burning through its rainy-day funds, as about a fourth of its sovereign wealth fund has been depleted since February 2022, and only $87.2 billion of the fund is in liquid assets. The Kremlin is therefore considering alternative sources, such as borrowing from the population and raising taxes on individuals and companies, which will further strain the economy and might potentially drive social discontent.

2. Nationalization of the Russian economy is likely to continue and yield negative impacts.

While Russia-based small and medium-sized businesses will find ways in the economic gray zone to circumvent Western sanctions, growth prospects will likely be offset by increasing nationalization of the economy, which will further undermine its competitiveness. In Russia, the state already represented close to 40 percent of formal sector value added and 50 percent of formal sector employment by 2016. These trends were further aggravated in 2022 as sanctions led many Western companies to flee Russia. The assets these firms left behind have been actively nationalized or redistributed to Putin’s cronies. It is likely that Putin’s elite members will continue enriching themselves, putting further pressure on the economy by exacerbating inefficiencies and corruption.

Iran offers a parallel example of this dynamic and its negative impacts. After the 1979 revolution and concomitant sanctions, many business owners fled the country and private enterprises were nationalized. This was further exacerbated by nationwide purges and political elimination of the old regime’s sympathizers. The confiscated enterprises were often left in the hands of lower-level ideologically loyal state employees. Ongoing government interference and flawed privatization efforts led to reduced economic effectiveness and low competitiveness. In part, this was driven by rampant bribery and corruption that made a small group of government-linked cronies highly influential within the country.
3. **Russia is likely to engage in flawed import substitution.**

The Iran and South Africa case studies also suggest that Russia's much-advertised import-substitution efforts are unlikely to yield much success. For example, Supreme Leader Ayatollah Ali Khamenei introduced the concept of a "resistance economy" in Iran, intending to boost domestic production and ultimately make the Islamic republic less dependent on global trade while still retaining close trade ties with regional neighbors such as Russia and China. Yet lack of access to global markets makes it more likely for Iranian producers to close their businesses than to seek new technologies that reduce their dependence on the global economy. Furthermore, with sanctions on Iranian banks, the costs of imports and exports continue to be more expensive, thus impacting Iran's trade relations with neighboring states.

Similarly, South Africa's efforts to respond to international sanctions by investing in domestic industries in spite of the economic competitiveness of their respective products led to increased production costs and an anemic manufacturing average growth rate of around 1 percent from 1975 to 1992. One exception was the defense industry. Beginning in the 1960s—and notably before the country faced the comprehensive trade sanctions of the 1980s—the South African government successfully grew a large domestic arms industry. By 1987, Armscor, the corporation set up by the South African government to coordinate defense procurement, was the country’s largest exporter of manufactured goods. However, by the 1980s, the country found its defense production base materially constrained by the wide range of sanctions imposed against the country, leading to shortages of critical aircraft components for the country’s ongoing war in Angola.

Russia’s own import substitution efforts since 2014 have failed to produce the desired effects in most sectors except for agriculture and animal breeding. If South Africa's and Iran's experiences are any guide, Russia's efforts to turn toward import substitution and investment in domestic industrial champions will ultimately come up against increasing inefficiencies and rising costs.

4. **Russia is likely to experience rising inflation.**

In Iran, inflation has been "an endemic economic and social issue," contributing to rising poverty and social tensions. According to the IMF, Iran's customer price index (CPI) inflation has fluctuated significantly throughout the past 20 years around its annual average of 20 percent. As a result of the Covid-19 pandemic, trade and financial sanctions, and aggravating supply constraints, annual CPI inflation reached 50 percent at the end of fiscal year (FY) 2020 and 40 percent the year after.

In South Africa, the apartheid regime used capital controls as a means of stabilizing its local currency, the rand, in the wake of its own international isolation. Yet its ability to do so proved limited. Capital flight eventually triggered a decline in the rand’s exchange rate. This, in turn, made imports more expensive, causing inflation in South Africa to rise at a steep 12 to 15 percent per year. Despite the various monetary and fiscal efforts of the government, international anti-apartheid sanctions led to a pronounced impact on the cost of living for the average South African.

These experiences suggest that the Russian government is likely to have limited capacity to get inflation under control, particularly as convertible foreign exchange earnings fall due to a drop in oil exports and defense expenditures continue. Just as in South Africa, the effectiveness of Russia's fiscal and monetary tools
will wear out over the longer term. Rosstat, which set the 2022 inflation rate in Russia at 11.9 percent, likely underreports the true levels of inflation inside the country.

5. **Continued economic challenges might drive discontent among the Russian public.**

Over recent years, Iran, a country with a highly repressive government, has seen a series of large-scale protests and demonstrations. While a combination of various social and political issues has triggered such protests, noteworthy drivers of discontent have included sanctions-induced economic hardships, high levels of inflation, rising prices, and increased unemployment. More recently, demonstrations followed a sharp increase in the price of eggs in 2017, water shortages in 2018, and an up to 200 percent increase in gasoline prices in 2019.

Similarly, sanctions in South Africa, in combination with global economic changes, mechanization, and rationalization, contributed to considerable job losses and escalating poverty. While the average wage increase in 1985 was 11 percent for all racial groups, consumer prices rose at 17 percent. From 1980 to 1987, personal disposable income for all racial groups only grew at 1 percent annually on average, reaching a low of negative 4 percent in 1986. These effects undermined the legitimacy of apartheid even among white South Africans, bolstering the anti-apartheid movement. Increasing social instability and the international divestment campaign further exacerbated the country’s ongoing economic struggles. Even before the most comprehensive sanctions came into place in 1986, a coalition of employer groups representing 80 percent of the South African workforce released a public statement calling for major changes to the apartheid system in January 1985. In June 1988, a three-day general strike of over 3 million workers and students showed deep dissatisfaction within the country and was a prelude to an even larger industrial action in August 1989. The worsening economic situation and the associated social instability were contributing factors and ended up putting more strain on the regime, eventually making apartheid too expensive to sustain. Having attempted to placate its opponents with minor changes, the government eventually had to concede to major reforms.

Russia has also exhibited links between declining economic well-being and social discontent. The 2011–12 protests, for instance, were partly a product of the 2008 financial crisis, which undermined the Russian public’s confidence in the Kremlin’s ability to deliver economic prosperity. This led to declining regime support among low-income groups and consolidation of modernized Russian urbanites around an anti-Kremlin agenda. The 2011-12 protests resulted in some concessions from the regime, including electoral reforms, which were subsequently reversed after Putin’s return to the presidency. Similarly, in 2018, the Kremlin’s unpopular decision to increase the retirement age provoked protests in dozens of Russian cities, leading to a decline in Putin’s approval rating and forcing the authorities to soften the reform in order to reduce social discontent.

Support for the war in Ukraine and perceived economic security also seem to be linked. Polls consistently show that Russians who are concerned about their economic well-being are less supportive of the “special military operation” in Ukraine. For instance, in the spring of 2022, 40 to 50 percent of respondents felt personally affected by Western sanctions (especially those in the 24–35 age group, those employed and with a higher education, and those belonging to the poorest groups). In October 2022, 52 percent of respondents said they had to cut back on groceries due to rising prices, 50 percent reported a significant increase in the cost of utilities, 39 percent noted a drop in family income, 16 percent
reported the disappearance of essential medications, and 9 percent said some of their family members had lost their jobs. Finally, recent polls suggest that economic concerns are lowering the effectiveness of propaganda and that support for peaceful settlement in Ukraine has been growing.

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The experiences of Iran and South Africa indicate that the accumulation of economic misfortunes, exacerbated by sanctions, may trigger dissatisfaction with the Kremlin’s current war efforts, leading to growing social discontent and, perhaps, protests inside Russia.

6. **Sanctions are unlikely to drive a "rally-around-the-flag effect."**

In the examined cases, evidence that sanctions generate a so-called rally-around-the-flag effect is limited. In Iran, the months-long protests that have usually followed the introduction of important sanctions have demonstrated the government’s failure to gain popular support. In fact, one study discovered that the imposition of sanctions correlated with the emergence of more democratic trends within the country. In the early years of international protest in South Africa, diplomatic sanctions did reinforce white South Africans’ sense of outside hostility as well as some isolationist tendencies and group solidarity. Yet any domestic rallying in resistance to sanctions by whites was counteracted by a growing effort on the part of Black South Africans to demand an end to apartheid.

Similarly, there is little evidence of the sanctions inducing such an effect in Russia, despite the Kremlin’s control over state media and its attempts to blame sanctions for slow growth. It is true that the Russian public’s attitudes toward the West worsened and that support for Putin increased after the 2014 annexation of Crimea. But this response was not necessarily due to the sanctions and instead seems to be typical of the Russian public’s response to all wars started by the Kremlin. In fact, the negative feeling toward the West dissipated by 2018, around the same time as the so-called Crimea effect on Putin’s approval rates eroded. Prior to the 2022 war, polls showed a strong demand for resetting the relationship with the United States and the European Union as well as lifting the post-2014 sanctions. Empirical studies find little effect of priming Russian respondents with information about Western sanctions on their attitudes toward Russia’s leadership. Respondents who are reminded of sanctions do not change their answers compared to those who received no information on sanctions before answering. In contrast, reminding respondents of the poor performance of the economy since 2014 tends to sharply reduce support for the Russian government. In short, efforts to use sanctions as a scapegoat for poor economic performance have had limited effect.

7. **Growing repression is a double-edged sword for Putin’s regime.**

To suppress growing social unrest, both Iran and South Africa invested heavily in repressive policies and social policy. However, this spending further exacerbated budget pressure, deepening rather than solving the regimes’ problems.

Iran has been spending beyond its means in recent years, including on social allowances and the security apparatus, and running budget deficits amounting to billions of dollars, including roughly
$16.7\ billion$ in 2021 and an estimated $10\ billion$ in FY 2022. Similarly, in South Africa, the maintenance and defense of apartheid created immense bureaucratic and military apparatuses. For example, the South African police increased from 35,000 in the early 1980s to 115,000 in 1993, and the budget of the South African Defense Force grew tenfold between 1960 and 1985. To fund these spending costs, the government had to raise taxes on the population and businesses, which further intensified the economic strain on the regime. Growing repression has not been a very effective response to social instability in Iran today and was similarly ineffective in apartheid South Africa.

This analysis suggests that repressive tactics under serious economic strain do not resolve problems for the sanctioned regime. In Russia, similar trends are already visible. According to a draft budget in 2023, the Russian state has been simultaneously increasing spending on law enforcement by some 58 percent, while also increasing spending on social policy (including allowances for low-income families with children, indexation of pensions, and maternity capital) by about 14 percent compared to 2022. As in the comparative cases, these trends can possibly weaken the regime’s fiscal sustainability over the long term and are unlikely to fully mitigate social discontent.

**Conclusion**

The sanctions imposed on Russia by the international community following its unprovoked invasion of Ukraine have had a noticeable impact to date. But the strongest blow is yet to come. To evaluate possible scenarios concerning Russia’s future, this paper examined comparative cases of sanctioned regimes from Iran and South Africa.

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2. These numbers originate from a document of the Russian Ministry of Finance prepared in September 2022. At that time, total budget expenditures for 2022 were 27.6 trillion rubles. Actual expenditures for 2023 totaled 31.1 trillion rubles. However, it is not known how the additional 3.5 trillion was allocated to different sections.
Of course, every comparison has its limits. There are many different factors that can help Moscow circumvent sanctions, such as Russia having a comparatively larger economy or it benefiting from skyrocketing energy prices. Other factors that contributed to the struggles of South Africa and Iran, including the established tradition of social protest or the regime’s susceptibility to international pressures, are lacking in the case of Russia. The average age of the population, which has increased in the past two decades in Russia, also tends to reduce the risk of instability. However, other factors play against the Kremlin, such as its stronger integration into the international economy, making it more vulnerable to external shocks; the regime’s lack of ideological legitimacy, making it harder to justify economic costs on society; or the ongoing war that is incurring further economic and human costs.

Overall, this analysis suggests that there are reasons to remain moderately optimistic about sanctions. Over time, major sanctions embraced by the international community have created dramatic social challenges for the Iranian and South African regimes, pushing them toward concessions to the international community and domestic opposition. In all three cases, the sanctions did not deliver the deathblow that may have been originally expected, as targeted countries continue to circumvent restrictions and export to various markets. Yet, in Iran and South Africa, sanctions delivered major economic pain to the regime after several years. A declining or stagnating economy, rising fiscal inefficiencies, and escalating inflation eventually led to growing social discontent, making it harder for the regime to sustain the status quo. In both cases, the authorities attempted to stifle social protests through a combination of repression and social spending, yet those solutions only exacerbated the existing pressures on the regime. This analysis, therefore, leads the authors to conclude that the international sanctions regime will eventually make it much more arduous for Putin to sustain his war in Ukraine.

**Maria Snegovaya** is a senior fellow with the Europe, Russia, and Eurasia Program at the Center for Strategic and International Studies (CSIS) in Washington, D.C. **Tina Dolbaia** is a research associate for the Europe, Russia, and Eurasia Program at CSIS. **Nick Fenton** is a program coordinator and research assistant with the Europe, Russia, and Eurasia Program at CSIS. **Max Bergmann** is the director of the Europe, Russia, and Eurasia Program and Stuart Center at CSIS.

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