Pointless Punishment

How the Sanctions on Russia Will Hurt Asia

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The Obama administration has responded to increasing Russian aggression by stepping up its own efforts to inflict economic pain on Moscow and isolate it diplomatically. The United States and the European Union announced a new round of sanctions [1] on July 29 that bar a number of Russian banks from U.S. and European capital markets, deny Russian energy companies sophisticated oil development technologies, and expand restrictions on Russian defense technology.

Even worse for Moscow, the new measures make it harder [2] for Russian companies to raise medium- and long-term financing in Western markets, and extract oil from the Arctic and new deep water and shale reserves. They also hurt the Russian economy [3] by increasing investor anxiety, which is likely to accelerate capital flight and cause foreign bankers to cut back on loans to Russia.

After announcing the latest sanctions, U.S. diplomats traveled [4] to China, Japan, Singapore, and South Korea to urge their Asian partners to support efforts to tighten the economic vice on Russia.

From a Ukraine-centric perspective, this makes good sense. A U.S.-EU-Asian sanctions regime could inflict serious damage on the Russian economy. The EU is Russia’s largest trading partner. And Russia’s trade with China, Japan, and South Korea amounts to about 45 percent of total Russian-EU trade. In addition, access to U.S., European, and Asian markets and currencies is necessary for Russian economic growth.

Yet Russian President Vladimir Putin seems unlikely to back down. In fact, the conflict has only escalated, most recently, with Russia reportedly deploying troops along the Ukrainian border. If the crisis worsens, the United States might be tempted to continue slapping more and more sanctions on its nemesis. But it will eventually have to face the reality that further Russian isolation might be more costly than it is worth. U.S. allies in Europe are facing substantial economic costs as a result of their participation in the latest efforts to deter Putin. And no less significant, further U.S.-led sanctions will also begin to undermine American interests and harm U.S. allies and partners in Asia.

The majority of the Asia-Pacific governments -- including U.S. allies Australia and South Korea -- have
little appetite for imposing harsh sanctions on Russia. The fate of Ukraine simply doesn’t rank among their top priorities with Moscow. South Korea not only values Russia as an important trading partner, but also as a member of the Six-Party Talks, the multilateral grouping charged with reining in North Korea’s illicit nuclear weapons program. Beijing, for its part, not only won’t get on board, it will actively oppose a multilateral sanctions regime given, among other reasons, its own concerns about how the international community might respond to Chinese assertiveness at home or abroad.

But even sanctions that don’t involve Asian governments will reverberate throughout Asia as private participants in the banking and energy sectors seek to avoid the penalties of U.S. sanctions and the reputational risks of doing business with Russian firms. East Asian energy equipment fabricators, production services providers, and project financiers will rescind plans to work with Russian firms. And that will hit Asia’s highly integrated regional economy hard.

Meanwhile, those Asian countries that are willing to join U.S. efforts to increase economic pressure on Moscow will almost certainly be forced to forgo cooperation with Russia in other areas of national interest. That tradeoff is likely to be most pronounced for Japan, where Tokyo’s recent sanctions on Russia have already compromised Prime Minister Shinzo Abe’s efforts to improve ties with Moscow. For instance, once-encouraging efforts to restart bilateral talks over disputed islands in the northwestern stretches of the Pacific Ocean have frozen in the wake of Japan’s most recent round of sanctions. The mood has deteriorated sharply, with both sides now trading barbs over subsequent Russian military exercises on the islands, which Abe called “totally unacceptable.”

Perhaps more troubling are the costs to Japan’s economic well-being and energy security. The country is already in a tight spot; its economy is struggling to pick up momentum while the Abe administration tackles tough issues at home, including reinterpreting the country’s pacifist constitution, restarting nuclear power plants, raising the consumption tax to rein in the national debt, and pursuing structural economic reforms that take on powerful special interests in Japan. Furthermore, its energy future is uncertain. Japan imports more than 90 percent of its energy and uses imported liquefied natural gas (LNG) to meet half of its electric power needs.

Russia could help. Roughly 10 percent of Japan’s LNG comes from Russia, along with non-negligible amounts of Russian oil and coal. Tokyo is eager to purchase significant volumes of new Siberian and Arctic Russian LNG exports in the coming years. Russian natural gas is especially attractive to Japan because of its geographic proximity, large potential volumes, and the greater diversity of suppliers it would bring to Japan’s LNG portfolio.

Yet a substantially stronger U.S. and EU sanctions regime against Russia, even without extensive Japanese participation (but surely with it), will make one of the United States’ most important allies less wealthy and less secure. Moreover, if future sanctions on Russia target its natural gas sector, Russia’s customers in Japan and the rest of East Asia, as well as Europe, will pay a heavy price.

This isn’t, however, just about economics. In Asia, Russian isolation from U.S. partners also runs counter to key U.S. security interests in the region. The Obama administration has sought to drive a wedge between Moscow and Beijing -- by pressuring China to not support Russia at the UN Security Council, for
example -- to prevent the Ukraine crisis from leading to deeper ties between the two powers. This is a 
worthy effort, given that such a partnership would almost certainly complicate U.S. goals in almost every 
foreign policy arena, including Afghanistan, Iran, North Korea, Syria, the South China Sea, climate 
change, and nonproliferation.

But the best way to preclude such an outcome is not to coerce or seduce China away from Russia 
(probably in vain), but to instead ensure that Russia has even better relations with other Asian countries 
-- India, Japan, and Vietnam -- that see China as a potential threat. Washington needs to remember that 
Russia's diversified partnerships in Asia are a major factor preventing greater collusion between Moscow 
and Beijing, particularly on critical security issues in Asia that directly affect the United States. To support 
the maintenance of these relationships, the United States should not attempt to curb Russian participation 
in Asia's leading multilateral political and security institutions, such as the East Asia Summit and the 
ASEAN Defense Ministers’ Meeting-Plus, a forum for the ASEAN ministers and eight of their dialogue 
partners to discuss defense and security issues.

Although the Russia-China relationship is largely transactional and is defined by competing interests and 
mutual distrust, the countries have also proved they can cooperate when they have nowhere else to turn, 
seen most recently from their decision to sign a $400 billion natural gas deal [10].

If the crisis over Ukraine deepens, it will be up to the Obama administration to follow a policy that 
punishes Russia, but also directly addresses the deleterious effects of further isolating it. This will require 
expanding U.S. efforts to support the energy and economic security of East Asian nations, including by 
finalizing the Trans-Pacific Partnership and expediting the export of LNG from the United States.

Taking actions that sever ties between Russia and its partners in Asia invites the reordering of Asia’s 
balance of power to the detriment of the United States. By no estimation would a weaker Japan and a 
stronger Sino-Russian relationship be good for the United States.

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