While economic sanctions currently being levied on Russia seem to fall short, they may just be the first steps in penalties that could have a meaningful impact, according to one financial expert.

Campbell Harvey, professor of finance at Duke University, told J.D. Hayworth and Francesca Paige on "America's Forum" on NewsmaxTV that more patience is needed before measuring the effectiveness of the sanctions imposed on Russia by the Obama administration.

"This is kind of round two and the first couple of rounds are pretty mild sanctions but what really counts is Putin's ability to extrapolate where we are heading," Harvey said. "So each round you want to increase the severity of the sanctions and then he can reasonably extrapolate forward to see what the end game actually is.

"The end game is very ugly for Russia and it's ugly for the chances of Putin remaining in control. So it's not as much the sanctions that are imposed today that actually count. What it is the expected level of severity that we can reasonably think could happen in the future. That's what's really going to impact his thinking. It is a very effective deterrent."

Harvey believes that as the U.S. continues to ratchet up the sanctions, it will begin to cripple Russia's economy, which would in turn ultimately deliver the message to Putin that his hostilities in Ukraine and the rest of the region are unacceptable.

"One thing that's totally different with Russia today versus Russia during the Cold War, the Soviet Union was so large that effectively they just traded amongst themselves," Harvey explained. "So they didn't really depend on global trade. So today, it's a completely different story, where 29 percent — 29 percent — of Russian GDP is based upon exports. That's much larger than the U.S. The U.S. is about 14 percent.

"So Russia is hooked into the global system and to disrupt that, you can imagine a severe sanction, the most extreme sanction would kill their exports. That would just send them into a depression and that's not good for the people of Russia and it's definitely not good for the probability of Putin hanging on."

Story continues below video.
Harvey said that although sanctions thus far have targeted select individuals and institutions, U.S. investors need to look big picture at the projected outcome of this situation.

"If I'm a U.S. investor thinking of building a plant in Russia right now that's going to require [a] $100 million green field type of investment, I don't as much care about 45 individuals that are being sanctioned right now," he said. "What I care about is what's going to happen over the next round, the round after that, the round after that, and basically [it] just screams risk and I'm not going to invest. So the money today is not going into Russia. The only money that's going into Russia right now are the Russians that are repatriating their funds because they think their funds are going to be frozen in western countries."

Harvey added that these types of economic sanctions have proven effective in the past.

"The most recent example is a spectacular result that happened in June of 2012 where the imposed punitive sanctions on Iran in the form that they couldn't transfer any money between banks, their banks and foreign banks, and it effectively drove them back to the table," he said. "It was extremely effective. So if you go this route today, it can lead to success."

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