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Impact of Eu Sanctions on Russia: An Analysis

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Abstract
Sanctions caused serious effects on the Russian economy, as they have limited the trade, reduced foreign investments, currency markets were destabilized and there was difficulty in obtaining vital technologies. Nevertheless, Russia showed survival capacity as a result of fiscal measures, trade redirection against non-sanctioning countries, and expanding energy revenues. Although initially it bumped back to stabilized its economy but this has cost it long term productivity, technological development and foreign direct investment. In this paper, the multisided implications of international sanctions are investigated with references to the broad sanctions placed on Russia by the European Union (EU) in relation to the 2022 Ukraine crisis. It discusses the economic, political and humanitarian implications of sanctions on the two powers, Russia and the EU. The negative effects on the EU, especially in terms of energy security, industrial production and inflation are also evaluated in the paper. This paper relies on secondary sources and qualitative research approach is adopted in it.

Keywords: Sanctions, EU, Russia, Energy, Trade.

Sanctions have substantial effects on both the nations that are targeted and the broader world community, whether they are enacted by individual countries or international organizations. In terms of the economy, sanctions can obstruct trade flows, the acquisition of essential resources, and investment, resulting in putting the targeted country in financial difficulties and causing economic downturns. Financial institutions might encounter constraints that restrict their capacity to participate in international transactions as businesses struggle with reduced market accessibility and rising expenses. This economic strain has the potential to worsen poverty and inequality in the impacted community by causing unemployment, inflation, and currency depreciation. Furthermore, sanctions often limit the long-term development potential of targeted countries by dissuading the growth of the economy, foreign investment, and technological progress.

From a political perspective, sanctions increase geopolitical tensions, disrupt diplomatic ties, and raise the chance of conflict since the states targeted by sanctions view them as aggressive actions and as violating their sovereignty. Retaliatory steps and counteractive measures can further intensify enmity between opposing parties. Sometimes, sanctions have the potential to strengthen nationalist feelings by uniting support for the targeted regime and weakening internal resistance or disapproval. On the other hand, they can create complaints against the governing class, who are seen as accountable for the difficult situation of the nation, thereby promoting dissatisfaction and bitterness within the public. Sanctions can lead to the emergence of black markets and promote corrupt practices as individuals seek alternative routes to evade imposed sanctions. Sanctions can cause political unrest or intensify internal power struggles, the effects of which reach beyond the targeted nation's borders.

Sanctions have an intense humanitarian impact, particularly affecting ordinary people by limiting their access to education, health care, and essential goods, thus increasing hardships within the population. The elderly, women, and children are among the most vulnerable groups that experience these hardships and are at risk of illness, malnourishment, and displacement. Educational systems face challenges due to insufficient funding and limited resources, which hinder opportunities for upcoming generations and sustain poverty cycles. Moreover, sanctions can weaken social unity by generating distrust and division among communities when socioeconomic gaps increase and access to essential services becomes more unequal.

Advocates assert that sanctions offer a non-violent method to compel regimes into compliance with international norms and human rights standards, yet opponents argue they often inflict excessive harm on the vulnerable populace, with uncertain efficacy in achieving desired results. Additionally, sanctions could unintentionally strengthen authoritarian regimes, allowing them to reinforce their control and repress opposition by citing national security concerns or the need to withstand external pressures.

The efficacy of sanctions in attaining their desired goals remains a matter of continuous discussion. While certain instances exhibit positive results, such as inducing regime shifts or changing behavior, on the other hand, some show the constraints and unintended outcomes of sanctions as a policy instrument. Furthermore, sanctions frequently fail to notice the targeted regimes' adaptability and resilience, which might confront economic challenges by diversifying, mobilizing resources, and receiving outside assistance from sympathetic allies. One way to address humanitarian concerns is to implement targeted (smart) sanctions, which aim to apply pressure on ruling elites to minimize adverse effects on civilian populations.

An extraordinary set of sanctions on Russia has characterized the response of the European Union to the crisis in Ukraine. These sanctions are designed to severely weaken the economy of Russia, reduce its capacity for warfare, and compel the government to alter its course of action. Although the effects of the sanctions are still unfolding, it is certain that they have rocked the economy of Russia and presented serious difficulties for the country.[1]

Over the last ten years, the European Un1on and Russ1a have 1ncreas1ngly adopted separate paths, reduc1ng the1r 1nteract1ons to an easy trade of resources of energy for 1ndustr1al commod1t1es. Confl1ct1ng perspect1ves between two part1es on future econom1c pathways, as well as d1ff1culty 1n encourag1ng greater collaborat1on or formulat1ng spec1f1c pol1c1es, part1cularly 1n sectors l1ke energy and educat1on, contr1bute to the grow1ng problems. The or1g1ns of th1s separat1on started because the EU wanted to pursue the pr1nc1ples of econom1c l1beral1zat1on and spread 1ts values through ne1ghborhood pol1cy, wh1le Russ1a, on the other hand, has been struggl1ng to ma1nta1n 1ts econom1c system and exert 1nfluence on the former Sov1et terr1tor1es. They could not agree on a common way forward.

1n 2022, a var1ety of sanct1on packages were 1mposed on Russ1a, affect1ng var1ous sectors of 1ts economy, people, and 1ndustr1es. However, certa1n sanct1ons caused qu1cker and more not1ceable results. 1n1t1ally, the abol1t1on of the country's trade pos1t1on w1th the G7 nat1ons and the Un1ted States s1gn1f1cantly affected d1plomat1c relat1ons. Th1s led to 1ncreased 1mport tar1ffs, and as the confl1ct developed, numerous compan1es dec1ded not to transport goods to and from Russ1a. 1n reta1l and hosp1tal1ty, several f1rms chose to d1scont1nue partnersh1ps w1th well-known consumer suppl1ers, lead1ng to the suspens1on of funct1on1ng and shutt1ng outlets.

Moreover, s1gn1f1cantly ra1sed transportat1on costs due to the d1srupt1on of fl1ghts 1nto or out of the a1rspace of the European Un1on, and the term1nat1on of 1nsurance protect1on for a1r carr1ers operat1ng fl1ghts 1nto Russ1a have left the country more 1solated. Furthermore, the Central Bank and some other state banks are exper1enc1ng the freez1ng of assets, coupled w1th the suspens1on of the SW1FT system and restr1ct1ons on f1nanc1al deal1ngs through V1sa and Mastercard. These measures have s1gn1f1cantly d1m1n1shed the ab1l1ty of the state to susta1n 1ts global f1nanc1al operat1ons. 1n the end, bus1ness deal1ngs are made cons1derably more d1ff1cult by the comprehens1ve l1st of sanct1ons 1mposed on both people and organ1zat1ons. From a common perspect1ve, the sectors exper1enc1ng the most s1gn1f1cant 1mpact are those 1nterl1nked w1th a1r transport, product1on and steel, automot1ve 1ndustr1es, and construct1on. Espec1ally those bus1nesses that operate under the jur1sd1ct1on of the government and whose leaders and bus1ness 1tself have been affected extremely by 1nd1v1dual sanct1ons such as the freez1ng of assets and travel restr1ct1ons.

1n the early months of 2022, the 1n1t1al changes began to appear due to sanct1ons 1n Russ1a. The 1n1t1al drop 1n the value of the Russ1an ruble, 1ncreas1ng pr1ces, and a decl1ne 1n consumer act1v1ty 1n the short-term and med1um term have ev1dent adverse 1mpacts on supply networks, channels of trade, and obstacles to Russ1an goods. Moreover, beyond the boundar1es of the Federat1on, th1s 1nfluence has strengthened collaborat1on w1th other nat1ons wh1le 1mpact1ng the1r effects, reputat1ons, and connect1ons w1th certa1n nat1ons.[2]

1mpact on Russ1a

Through the establ1shment of mechan1sms to support banks, compan1es, and the overall economy, the Russ1an Federat1on has to some extent learned to manage the sanct1ons 1mplemented by the European Un1on. As a clear compar1son and d1rect example, Russ1an bus1nesses that earn cap1tal 1n rubles but settle debt w1th dollars, as well as other fore1gn currenc1es, suffered greatly as a result of the severe decl1ne 1n the currency 1n 2014. 1n add1t1on, the econom1c sanct1ons led to a decrease 1n the access1b1l1ty of cap1tal and contr1buted to 1ncreased 1nterest rates, result1ng 1n a shortage of cap1tal. The 1mpos1t1on and expans1on of econom1c sanct1ons s1nce 2014 have been deemed the most 1mpactful 1n the short term. Th1s 1s ev1dent 1n the dec1s1on of the EU to r1g1d1fy and broaden the scope of these sanct1ons. The Russ1an Federat1on faced two major econom1c shocks e1ght years ago as well: on the one hand, a cr1t1cal decrease 1n the pr1ces of o1l, wh1ch d1d not occur 1n 2022, and secondly, a rap1d decl1ne 1n the value of the Russ1an currency (the ruble), wh1ch d1d happen 1n March but has s1nce qu1ckly stab1l1zed.

Several not1ceable d1srupt1ons 1n the economy and trade sector w1th1n the Russ1an Federat1on became apparent 1n1t1ally. F1rstly, there has been an 1nterrupt1on 1n log1st1cs, affect1ng the 1nsurance, bank1ng, and transportat1on 1ndustr1es. Th1s has been followed by a clear f1nanc1al destab1l1zat1on, character1zed by 1ncreased 1nflat1on, a lack of trust 1n banks, and the1r 1ncapac1ty to serve cl1ents outs1de of Russ1a. Furthermore, domest1c demand has also had a s1gn1f1cant 1mpact due to a decl1ne 1n 1ncome, wh1ch has resulted 1n unaffordable loan rates and a lack of ava1lable funds. Due to the decl1ne 1n 1mport quant1t1es, concerns arose regard1ng essent1al 1tems' potent1al shortages, part1cularly 1n certa1n food sectors, and for a br1ef per1od 1n March and early Apr1l, certa1n med1cal suppl1es were also affected. Russ1an technology compan1es faced more restr1ct1ons on technology transfers compared to other countr1es. However, the complete 1mpact on th1s sector's econom1c growth may not become ent1rely ev1dent unt1l a per1od of two to four years.[3]

1n the second quarter of 2022, the economy went down by 4% compared to the same per1od last year, follow1ng a 3.5% 1ncrease 1n the f1rst quarter of 2022. 1ndustr1es that rely on sell1ng goods to other countr1es and those that heav1ly depend on buy1ng products from abroad, such as motor veh1cle product1on, have been part1cularly badly 1mpacted due to the restr1ct1ons on trade. The Russ1an budget surplus exper1enced a drast1c decl1ne 1n August 2022 as a consequence of d1m1n1sh1ng revenues due to reduced energy product1on and the 1mpact of sanct1ons.

The largest effect of sanct1ons 1s ev1dent 1n the realm of Russ1an 1mports. 1n Q2 2022, there was a 22.4% year-on-year decrease 1n the 1mports of goods and serv1ces, equ1valent to approx1mately $21 b1ll1on, as reported by the Russ1an Central Bank. Th1s contrasts w1th the pos1t1ve growth of 12.1% year-on-year observed 1n Q1 2022. 1mports of modern technolog1es, mach1nery, and parts used 1n manufactur1ng 1ndustr1es 1nto Russ1a have sharply decreased as a result of export control sanct1ons 1mplemented by key product1on centers such as the EU, the US, the UK, and Japan. These 1tems are d1ff1cult or 1mposs1ble to replace completely. Russ1a has exper1enced adverse effects on 1ts 1mport and fore1gn d1rect 1nvestment (FD1) 1nflows due to the departure of numerous 1nternat1onal compan1es from 1ts market.

Nevertheless, follow1ng the 1n1t1al sanct1ons, the Russ1an economy has managed to stab1l1ze, pr1mar1ly due to substant1al revenues from exports. 1n the second quarter of 2022, the value of these exports 1ncreased by 19.7% year-on-year, equ1valent to an add1t1onal $25 b1ll1on. However, th1s growth was an obv1ous downturn compared to the 1mpress1ve 58.8% year-on-year 1ncrease seen 1n the f1rst quarter of 2022. The r1se was pr1mar1ly caused by unusually h1gh pr1ces of key energy and commod1ty exports, such as coal, fert1l1zers, o1l, gas, and metals that are not ferrous, although there was a decrease 1n the phys1cal quant1t1es of major exports from Russ1a. Russ1a's current account surplus saw growth due to r1s1ng export revenues, coupled w1th decl1n1ng 1mports and r1g1d cap1tal controls. Th1s contr1buted to stab1l1z1ng the ruble and the overall economy, m1t1gat1ng the 1n1t1al 1mpact of sanct1ons. The 1mpos1t1on of the EU o1l proh1b1t1on, coupled w1th the cessat1on of Russ1an gas suppl1es to the EU, 1s expected to result 1n a substant1al decl1ne 1n the export revenues of Russ1a. By the end of 2023, th1s w1ll 1ncrease the stra1n on the balance of payments 1n Russ1a. 1mpos1ng add1t1onal rounds of sanct1ons on exports of Russ1a could 1ntens1fy th1s trend even more.

1n response to sanct1ons that are not un1versally 1mposed, Russ1a has a1med to red1rect 1ts export act1v1t1es towards markets that are not subject to sanct1ons, l1ke Ch1na, 1nd1a, Turkey, and the Un1ted Arab Em1rates (UAE). Russ1a has attracted these markets by prov1d1ng s1gn1f1cant d1scounts, exempl1f1ed by the Urals crude o1l, wh1ch has traded at a d1scount rang1ng from $23 to $35 per barrel compared to the global benchmark Brent o1l s1nce Apr1l. As a result, there was a substant1al r1se 1n 1mports, pr1mar1ly of o1l and gas, from Russ1a to these nat1ons 1n the second quarter of 2022. Turkey exper1enced a notable surge of 120% year-on-year, wh1le Ch1na's 1mports 1ncreased by 37%, and 1nd1a saw a remarkable growth of 364%. Yet, these nat1ons' ab1l1ty to cont1nue absorb1ng exports from Russ1a 1s somewhat l1m1ted. Because of the log1st1cal challenges, 1nsuff1c1ent 1nfrastructure, expenses of the entrance, and cons1derable t1me consumpt1on, th1s k1nd of rerout1ng 1s expens1ve.

Add1t1onally, Moscow a1ms to reroute the 1mport of goods to nat1ons not 1mpos1ng sanct1ons. However, th1s has led to a notable 1ncrease 1n trade and transact1on expenses for compan1es 1n Russ1a. Russ1a's econom1c rel1ance on Ch1na has s1gn1f1cantly 1ntens1f1ed, pr1mar1ly because of the coal1t1on nat1ons' 1nab1l1ty to prov1de adequate subst1tutes for essent1al products. S1multaneously, major non-sanct1on1ng nat1ons cont1nued to prov1de suppl1es to Russ1a, but at a reduced scale due to worr1es about fac1ng secondary restr1ct1ons from the coal1t1on partners. As per off1c1al stat1st1cs, 1n the second quarter of 2022, exports from Turkey saw a year-on-year 1ncrease of 21%, whereas exports from Ch1na grew by only 2.1%. But the1r exports to Russ1a have 1ncreased 1n the past few months.

Over the long run, there 1s an ant1c1pat1on that both the EU and global supply cha1ns w1ll permanently rearrange themselves to become less dependent on products or1g1nat1ng from Russ1a. Moreover, the w1thdrawal of fore1gn d1rect 1nvestment (FD1) and reor1entat1on of trade w1ll d1m1n1sh opportun1t1es for technology transfer to Russ1a from more developed econom1es, thereby expand1ng the technolog1cal d1v1de between them. L1m1t1ng Russ1a's access to modern technolog1es w1ll h1nder 1ts economy's total factor product1v1ty growth, weaken1ng the prospects for econom1c growth 1n the country.

Trade relat1ons between the EU and Russ1a are exper1enc1ng notable sh1fts. The 1mpos1t1on of export sanct1ons has led to a drast1c decl1ne 1n exports from the EU to Russ1a, wh1le there has been a s1gn1f1cant 1ncrease 1n the value of Russ1a's 1mports to the EU. 1n the second quarter of 2022, European Un1on exports to Russ1a exper1enced a s1gn1f1cant decl1ne of 54% year-on-year, equ1valent to a reduct1on of $14.5 b1ll1on, accord1ng to data from UN Comtrade. The greatest reduct1ons 1n sanct1oned goods were observed 1n the categor1es of a1rplane and spacecraft veh1cles (100% decrease), automot1ve veh1cles (92% decrease), and electr1c mach1nery and appl1ances (78% decrease).

Nonetheless, there was a 34% year-on-year 1ncrease 1n the value of EU 1mports from Russ1a, amount1ng to an add1t1onal $13.7 b1ll1on 1n the second quarter of 2022. The ma1n cause of th1s 1ncrease was the costly energy suppl1es of Russ1a, wh1ch saw a 55%, or $15 b1ll1on 1ncrease. Even 1f the European Un1on has substant1ally m1n1m1zed 1ts energy consumpt1on 1n terms of phys1cal quant1t1es, earn1ngs from the energy sector cons1derably overtake the decl1ne 1n the non-energy 1mports of Russ1a to the EU, wh1ch saw a year-on-year decrease of 10.6%, equ1valent to a decl1ne of $1.3 b1ll1on, cons1st1ng of 1mports that are sanct1oned. Meanwh1le, there was a r1se 1n certa1n Russ1an non-energy 1mports dur1ng the second quarter, such as a 31% 1ncrease 1n d1amonds, a 33% 1ncrease 1n n1ckel, and a 28% 1ncrease 1n alum1num.[4]

Russ1a exper1enced a 21% growth 1n trade 1n 2022 compared to the prev1ous year, reg1ster1ng a record $316 b1ll1on trade surplus as a result of a s1gn1f1cant decl1ne 1n 1mports of Russ1a and a sharp 1ncrease 1n energy pr1ces (1nclud1ng coal, crude o1l, natural gas, and petroleum products). The reduct1on 1n the trade volume of Russ1a, wh1ch fell from $22.7 b1ll1on per month 1n January and February 2022 to $4.1 b1ll1on per month by December of the same year, 1s not represented 1n the annual data.[5]

The 1mpos1t1on of both the EU embargo and the G7 pr1ce cap 1n December 2022 has led to a clear outcome: the 1ncrease 1n pr1ces of o1l and the red1rect1on of exports of o1l have effect1vely m1t1gated and lessened the dependence of the sanct1on1ng countr1es on Russ1an o1l. Notable sh1fts 1n patterns of export w1ll result from the key sanct1ons 1mposed on Russ1an o1l and petroleum product exports, and these effects are already ev1dent 1n 2022. Ch1na and 1nd1a emerged as pr1mary markets, replac1ng the EU for Russ1a's exports, as a result of a drop 1n Russ1an o1l 1mports 1nto the EU. Th1s led to notable sh1fts 1n trade dynam1cs and fragmentat1on 1n the Russ1an o1l market. Desp1te 1nfrastructure restr1ct1ons, Russ1a has faced challenges 1n f1nd1ng alternat1ve routes for 1ts o1l exports, part1cularly v1a the Pac1f1c. Russ1a cannot f1nd alternat1ve routes for the 60% d1rected towards Germany and Poland v1a the Druzhba p1pel1ne's northern branch, as well as the 40% go1ng to the Czech Republ1c, Hungary, and the Republ1c v1a the southern branch.[6]

Russ1a encounters a s1m1lar d1ff1culty 1n seek1ng new markets for 1ts gas due to the ex1st1ng p1pel1ne 1nfrastructure be1ng pr1mar1ly or1ented towards the West and be1ng d1ff1cult to restructure. As a result, Russ1a has s1gn1f1cantly decreased 1ts natural gas sh1pments to Europe.

The coal embargo has proven more effect1ve, as Russ1a has been 1ncapable of 1dent1fy1ng alternat1ve customers to make up for the reduced demand from the EU. However, 1n terms of f1nanc1al s1gn1f1cance, coal holds a less cruc1al role 1n contr1but1ng to Russ1a's revenues compared to the 1mportance of o1l and gas.

1n the beg1nn1ng, Russ1a exper1enced advantages 1n the energy confl1ct as both o1l and gas pr1ces 1ncreased s1gn1f1cantly, reach1ng unprecedented levels, espec1ally 1n the case of natural gas and power. The result was an 1ncrease 1n 1nflat1on and 1nterest rates, lead1ng to an econom1c downturn 1n Europe. Concurrently, th1s s1tuat1on strengthened Russ1a's economy and budget w1th unprecedented revenues, act1ng as a safeguard aga1nst the effects of sanct1ons.[7]

There are notable d1fferences 1n the sanct1ons 1mposed on exports of gold, steel, 1ron, and luxury goods. Follow1ng the 1nvas1on, the economy has exper1enced an average decrease of 4% across most sectors, w1th a part1cularly sharp decl1ne of 12% 1n wholesale and reta1l commerce. However, the construct1on and agr1culture 1ndustr1es have grown dur1ng th1s per1od. Th1s 1nd1cates that the sanct1ons have exerted an effect, lead1ng to a notable decl1ne 1n export volumes across all products, part1cularly 1n the case of gold.[8]

The 1mpos1t1on of 1mport sanct1ons resulted 1n product1on setbacks due to shortages 1n raw resources, mater1als, and technology. Stat1st1cs from the major trad1ng assoc1ates of Russ1a 1nd1cate a decl1ne of approx1mately 50% 1n 1mports of Russ1a dur1ng the 1n1t1al s1x months of 2022.[9] The manufactur1ng of tanks and other armored veh1cles came to a temporary halt, and upon resumpt1on, a scarc1ty of advanced components was exper1enced. 1nd1cat1ons suggest that Russ1a 1s exper1enc1ng a deplet1on 1n 1ts suppl1es of unmanned aer1al attack veh1cles and cru1se m1ss1les, lead1ng to a not1ceable reduct1on 1n the 1ntens1ty of attacks on Ukra1ne.[10]

The Russ1an armed forces have been affected by the 1mpos1t1on of technology sanct1ons and the departure of advanced Western compan1es because Russ1a has faced challenges 1n replen1sh1ng 1ts m1l1tary equ1pment losses due to 1ts 1nab1l1ty to acqu1re new weapons systems.

The sanct1ons a1med at end1ng the war 1ncluded l1m1tat1ons target1ng the f1nanc1al sector of Russ1a, 1nclud1ng the freez1ng of assets and proh1b1t1on of f1nanc1al transact1ons, and constra1nts on access1b1l1ty to f1nanc1al markets and cap1tal. Add1t1onally, l1m1tat1ons on equ1ty and debt, along w1th the removal of the Central Bank of Russ1a from the f1nanc1al messag1ng network SW1FT, are 1mplemented.

Russ1a 1s expected to exper1ence a budget def1c1t equ1valent to around 2% of 1ts gross domest1c product (GDP) 1f the present econom1c fluctuat1ons cont1nue. Desp1te fac1ng grow1ng f1scal challenges, Russ1a has successfully bu1lt f1scal reserves through substant1al consol1dat1on efforts s1nce 2014, when sanct1ons were 1n1t1ally enforced. Th1s 1nd1cates that the strategy of Fortress Russ1a has proven effect1ve. More than two-th1rds of the total assets 1n Russ1a's f1nanc1al sector are controlled by publ1c banks. They have the potent1al to further expand the1r hold1ngs, wh1ch makes a poss1ble contr1but1on to the stab1l1zat1on of the f1nanc1al system.[11]

Desp1te be1ng cut off from the f1nanc1al systems of the Un1ted States and the European Un1on, wh1ch are the two most cruc1al currenc1es globally, structural l1qu1d1ty cond1t1ons have reverted to levels seen before the 1mpos1t1on of sanct1ons. Through d1verse means, banks have been capable of ma1nta1n1ng connect1v1ty w1th the external world. Nevertheless, the f1nanc1al sector 1s suffer1ng s1gn1f1cant d1ff1cult1es. 1n the 1n1t1al half of 2022, Russ1an banks exper1enced a substant1al loss of nearly $25 b1ll1on, pr1mar1ly attr1buted to challenges 1n fore1gn currency transact1ons, as per the Bank of Russ1a.

1n1t1ally, the l1qu1d1ty of the bank1ng system was 1mpacted due to the 1ncreased w1thdrawals by the c1t1zens of Russ1a. However, Russ1a was capable of br1ng1ng the s1tuat1on under control by 1ncreas1ng 1nterest rates and offer1ng domest1c 1ncent1ves.

Based on the robust ruble 1t cannot be assumed that the sanct1ons were not effect1ve.[12] The statement 1s accurate 1n that 1mpos1ng sanct1ons on 1mported goods results 1n an 1ncrease 1n currency value. Whereas sanct1ons on fore1gn exchange reserves and exports contr1bute to the devaluat1on of the value of the currency.[13] 1ndeed, the Russ1an Central Bank took act1on by 1mplement1ng several measures. These measures 1ncluded a s1gn1f1cant 1ncrease 1n the ma1n 1nterest rate to 20%, a requ1rement for the convers1on of 80% of the money earned from exports 1nto Russ1an currency (the ruble), restr1ct1ons on w1thdrawals of money by non-res1dent 1nvestors, as well as l1m1tat1ons on Russ1ans carry1ng cash across the country's border. Th1s has effect1vely deterred the outflow of cap1tal.[14]

Export controls, 1mplemented through sanct1ons on m1l1tary and dual-use 1tems to restr1ct access of Russ1a to advanced technology, have adversely affected the country's arms sector. Th1s has 1mpeded the capac1ty of Russ1a to manufacture and store armaments. 1nd1v1duals engaged 1n the product1on of m1l1tary equ1pment, along w1th compan1es act1ve 1n the defense sector 1n Russ1a and Belarus, were chosen. Promsvyazbank, the central bank oversee1ng transact1ons related to state defense orders and s1gn1f1cant government agreements, was excluded from the SW1FT f1nanc1al messag1ng system, and the l1st of dual-use commod1t1es that are proh1b1ted was expanded. Add1t1onally, l1censes for dual-use commod1t1es' exports were halted.

The nat1ons that 1mposed sanct1ons collaborated to restr1ct the export, prov1s1on, transfer, and sh1pment of 1tems related to av1at1on and space, as well as commod1t1es and technolog1es used 1n the sector of o1l ref1n1ng. They also l1m1ted the supply of goods and technolog1es for Russ1an-flagged sh1ps and mar1t1me transportat1on. However, the overall effect of these measures has not been notably substant1al yet.[15]

Before the confl1ct, the 1nternat1onal Monetary Fund (1MF) est1mated a 2.8% 1ncrease 1n Russ1a's gross domest1c product (GDP) 1n 2022 and a 2.1% growth 1n GDP 1n 2023. 1n January 2022, the World Bank presented a report that was somewhat more negat1ve, pred1ct1ng the GDP of Russ1a to r1se by 2.4% and 1.8% 1n 2022 and 2023, respect1vely. After prevent1ng a f1nanc1al cr1s1s and observ1ng a r1se 1n product1on related to the m1l1tary, the est1mated def1c1t for 2022 showed a gradual decrease to -4.5% accord1ng to the World Bank, -3.9% as per the Organ1sat1on for Econom1c Cooperat1on and Development (OECD), and -3.4% accord1ng to the 1nternat1onal Monetary Fund (1MF). However, 1n January 2023, the 1MF later amended th1s number to -2.2%.

Accord1ng to the OECD pred1ct1ons, the gross domest1c product (GDP) of Russ1a 1s expected to decl1ne by -5.6% and -0.2% 1n 2023 and 2024, respect1vely. The World Bank ant1c1pated a pers1stent econom1c downturn 1n 2023, w1th a decl1ne of 3.3% 1n the GDP be1ng caused by the effects of sanct1ons. However, a gradual recovery 1s foreseen 1n 2024, w1th a modest growth rate of 1.6%. 1n

January 2023, the 1nternat1onal Monetary Fund pred1cted that the GDP would grow by 0.3% 1n 2023, wh1ch 1s a pos1t1ve change compared to the1r earl1er est1mat1on 1n October 2022, where they ant1c1pated a decl1ne of -2.3%. Add1t1onally, they expected a sl1ghtly rap1d r1se of 2.1% 1n 2024.[16]
The Nat1onal Wealth Fund (NWF) of Russ1a, wh1ch was 1n1t1ally establ1shed to boost the pens1on system of the country, responded to the measures. To cover the decl1ne 1n o1l revenues, Russ1a has also employed one-t1me lev1es l1ke the recently proposed "voluntary" w1ndfall tax on b1g f1rms, wh1ch 1s ant1c1pated to generate $2.8-3.5 b1ll1on for the state.
1n December 2022, the 1nflat1on rate stood at 11.9%, s1gn1f1cantly surpass1ng the 4% target set by the Central Bank of Russ1a. The 1nternat1onal Monetary Fund 1nd1cates a decl1ne 1n 1nflat1on to 5% 1n 2023 and further to 4% 1n 2024, and on the other hand, the World Bank ant1c1pates a drop to 5.9% 1n 2023 and 4.5% 1n 2024. Th1s m1ght make l1v1ng expenses more expens1ve for Russ1an consumers, 1ncrease the reduct1on 1n consumpt1on, and deter1orate the standard of l1v1ng for people.[17]
Should the sanct1ons pers1st and Russ1a demonstrate self-suff1c1ency w1thout rel1ance on Western support, 1t could emerge as a more 1nfluent1al nat1on. Th1s scenar1o m1ght compel the EU to encourage renewed cooperat1on w1th Russ1a. 1n the event of counter-sanct1ons, the EU w1ll need to exert effort to m1t1gate the effects of adverse global econom1c cond1t1ons.
Throughout world h1story, sanct1ons have not only had adverse effects on a nat1on, but they have also occas1onally been 1neffectual or even advantageous. Thus, the sanct1ons on Russ1a had a pos1t1ve outcome, lead1ng to the growth of domest1c transact1ons as an alternat1ve to the canceled transact1ons w1th1n the nat1on. For 1nstance, the ex1t of all brands from the nat1on has s1gn1f1cantly contr1buted to the growth of domest1c product1on. 1n add1t1on, 1n 2014, the development of the Russ1an payment system was a result of the d1scont1nuat1on of V1sa and Mastercard serv1ces w1th certa1n banks 1n Russ1a. Follow1ng the block1ng of V1sa and Mastercard outs1de of the Russ1an Federat1on 1n 2022, banks 1n Russ1a started prov1d1ng cards us1ng the Un1onPay payment system.[18]

1mpact on the European Un1on

Russ1a and the European Un1on nat1ons have ma1nta1ned a longstand1ng trade relat1onsh1p. Sanct1ons 1mposed on e1ther party affect all 1nvolved part1c1pants. Over the last two decades, Russ1a has ma1nta1ned a cons1stent pos1t1on w1th1n the top f1ve pr1mary bus1ness partners of the European Un1on. Russ1a secured 1ts pos1t1on as the European Un1on's f1fth-largest commerc1al partner, hold1ng a 5.8% share, at the end of 2021. Notably, th1s rank1ng was ach1eved desp1te the 1mpos1t1on of sanct1ons 1n 2014. By the end of 2021, Russ1a held the th1rd pos1t1on 1n EU 1mports, w1th a 7.7% share, follow1ng Ch1na and the USA. The exports of the EU to Russ1a totaled 99 b1ll1on euros 1n value, wh1le 1ts 1mports from Russ1a reached 158.5 b1ll1on euros.
1t 1s 1mportant to h1ghl1ght that Germany, the pr1nc1pal economy of the EU, rel1es s1gn1f1cantly on Russ1an gas. The nat1on successfully decreased 1ts rel1ance on gas 1mports by as much as 20%, by the end of 2022. Nevertheless, th1s has resulted 1n adverse effects on the German 1ndustr1al sector. For numerous years, German bus1nesses and households have been heav1ly rel1ant on Russ1an o1l and gas suppl1es. Sectors such as steel, chem1cal, and pharmaceut1cal exh1b1t a h1gh degree of dependency on Russ1an gas.
The econom1c challenges 1n Europe have ar1sen due to the sanct1ons 1mposed aga1nst Russ1a. Certa1nly, the European Un1on encountered notable d1ff1cult1es as a result of a substant1al r1se 1n the costs of food and fuel. R1s1ng pr1ces have stra1ned the budgets of consumers and adversely affected

1ndustr1es extremely dependent on raw mater1als and energy, wh1ch 1nclude the metallurg1cal and pharmaceut1cal 1ndustr1es. Certa1n European compan1es had to th1nk about mov1ng the1r fac1l1t1es to nat1ons w1th reduced product1on pr1ces or 1nvest1gat1ng subst1tute sources of energy to d1m1n1sh these challenges. 1ndustr1es faced f1nanc1al challenges, result1ng 1n job losses as bus1nesses found 1t d1ff1cult to cont1nue operat1ng dur1ng the econom1c downturn. The EU has taken steps to enhance energy eff1c1ency, make 1nvestments 1n sources of renewable energy, and broaden the routes for energy supply as part of 1ts efforts to tackle these challenges. These steps were 1mplemented to enhance self-susta1nab1l1ty and decrease rel1ance on costly energy 1mports.

Many spec1al1sts argue that the 1mplementat1on of sanct1ons aga1nst Russ1a was not appropr1ate. They suggest that sanct1ons have fa1led to accompl1sh the1r object1ves. Furthermore, these measures broke the prev1ously normal connect1ons w1th the pr1mary suppl1er of the1r resources and worsened the 1ncreas1ng cr1s1s w1th1n the EU.

The 1mpos1t1on of a comprehens1ve set of sanct1ons on Russ1a has resulted 1n a notable decl1ne 1n growth rates from the w1nter of 2022 to the current per1od. 1n the EU, the rate of 1nflat1on has been r1s1ng sharply s1nce October 2022 up to the present t1me. Exam1n1ng the trends from 2022 to the present day shows that the European Un1on cont1nues to face a h1gh unemployment rate, wh1ch rema1ns cons1stently above 6%, s1gnal1ng a decl1ne 1n the econom1c cond1t1ons across EU states. Sanct1ons have had the most adverse 1mpact on the 1ndustr1al sectors of the EU states. Slovak1a, Eston1a, and Luxembourg, among the member states of the EU, exper1enced the b1ggest yearly decrease 1n 1ndustr1al product1on.

1n add1t1on to harm1ng the soc1o-econom1c metr1cs of the EU states, r1s1ng energy costs and decl1n1ng 1ndustr1al product1v1ty also erode the reg1on's ab1l1ty to compete 1n the future. 1n contemporary t1mes, the EU nat1ons are start1ng to boost trade w1th Ch1na wh1le decreas1ng the1r collaborat1on w1th Russ1a. By the conclus1on of 2022, Ch1na has emerged as a pr1mary 1mport partner for the EU. Thus, contrary to the pred1ct1ons made by European pol1t1c1ans, the sanct1ons 1mposed on Russ1a are prov1ng to be more harmful than benef1c1al for the European Un1on.[19]

The EU's 1mpos1t1on of d1plomat1c sanct1ons has resulted 1n a s1gn1f1cant reduct1on 1n regular commun1cat1ons between the EU and Russ1a. Wh1le off1c1al summ1ts have been halted as per off1c1al statements. The real1ty 1s that numerous trans-governmental meet1ngs, espec1ally 1nvolv1ng m1d-level off1c1als, have also been suspended. The term1nat1on of regular meet1ngs across several EU-Russ1a d1alogues has resulted 1n author1t1es now meet1ng each other only occas1onally. Suggest1ons for enhanced 1nst1tut1onal collaborat1on between the EU and the Euras1an Econom1c Un1on have yet to be put 1nto effect.

Concurrently, all d1alogues concern1ng the future of relat1ons between the EU and Russ1a, as well as the formulat1on of a new foundat1onal agreement to replace the 1994 Partnersh1p and Cooperat1on Agreement (PCA), have been suddenly halted. Consequently, s1nce 2014, d1scuss1ons regard1ng long-term poss1b1l1t1es for th1s relat1onsh1p have not taken place. The EU's 2016 gu1d1ng pr1nc1ples for relat1ons w1th Russ1a str1ctly forb1d d1scuss1ng the future. These pr1nc1ples restr1ct the 1nteract1on between the EU and Russ1a to 1mplement1ng the M1nsk agreements and select1ve 1nvolvement. The EU restr1cted 1tself to repeat1ng values and emphas1z1ng the requ1rement of c1v1l soc1ety d1alogue. Wh1le th1s conversat1on 1s cruc1al, 1t cannot serve as a permanent subst1tute for c1v1l soc1ety relat1ons. Add1t1onally, the efforts of Russ1a to restr1ct th1s d1alogue w1th1n c1v1l soc1ety convey an ev1dent message that the EU w1ll cont1nue to push for c1v1l soc1ety 1nvolvement, wh1ch w1ll result

1n geopol1t1cal tens1ons w1th1n 1nternat1onal relat1ons. However, promot1ng people-to-people connect1ons could prepare the way for collaborat1on 1n energy trans1t1on and m1t1gat1ng cl1mate change wh1ch are realms where Russ1an author1t1es appear to st1ll perm1t 1nternat1onal relat1ons.
1t's 1mportant to cons1der w1th1n the scope of d1scuss1on regard1ng sanct1ons that the dec1s1on of the EU to suspend both the new v1sa fac1l1tat1on accord and the conversat1on on v1sa-free travel has pr1mar1ly 1mpacted grassroots 1nteract1ons and people-to-people connect1ons. The suspens1on of v1sas has restr1cted the ab1l1ty of the c1t1zens of the EU and Russ1a to 1nteract soc1ally by reduc1ng the freedom of contact. 1t conveys a clear 1nd1cat1on that the pr1mary determ1nant for s1mpl1fy1ng the v1sa reg1me 1s the establ1shment of relat1ons w1th publ1c author1t1es, rather than the conven1ence of d1rect people-to-people contact.[20]

Conclus1on

Russ1a's 1nvas1on of Ukra1ne has forced European nat1ons to recogn1ze that NATO expans1on and econom1c sanct1ons alone are 1nsuff1c1ent to s1gn1f1cantly weaken Russ1a's pos1t1on as one of the world's few nat1ons ent1rely self-rel1ant on natural resources. Russ1a has some of the largest natural gas reserves globally, compr1s1ng approx1mately 25% of the conf1rmed reserves 1n the world. Th1s 1nd1cates that, desp1te be1ng detached econom1cally from Western countr1es, Russ1a can susta1n econom1c and trade relat1ons w1th other nat1ons by ut1l1z1ng 1ts abundant resources. These sanct1ons present a complex s1tuat1on. Sanct1ons pose a dual challenge due to the close econom1c relat1ons w1th Russ1a and rel1ance on Russ1an energy, lead1ng to d1verse consequences for each member state 1nvolved.
European countr1es cannot effect1vely weaken Russ1a m1l1tar1ly due to 1ts strong defense 1ndustry. Desp1te the convent1onal weaponry of Russ1a be1ng notably less advanced compared to that of NATO, 1t rema1ns the world's b1ggest nuclear power. 1t possesses more than 500 1ntercont1nental m1ss1les deployed on land and a1rborne, as well as submar1ne-launched ball1st1c m1ss1les. Follow1ng sanct1ons from the European Un1on and Western countr1es, Russ1a rap1dly red1rected 1ts focus towards Eastern Bloc nat1ons, wh1ch ma1nta1n fr1endly relat1ons w1th Russ1a and become 1ts pr1mary bus1ness partners.
The exam1nat1on of the effects of sanct1ons aga1nst Russ1a on the econom1es of European countr1es 1nd1cates the follow1ng f1nd1ngs: 1n1t1ally, ow1ng to Russ1a's s1gn1f1cant role as a major exporter of strateg1c commod1t1es, part1cularly energy resources, the 1mpos1t1on of sanct1ons aga1nst Russ1a and the overall deter1orat1on 1n 1ts fore1gn trade cond1t1ons destab1l1zed global markets, lead1ng to cr1s1s scenar1os 1n European econom1es, part1cularly those heav1ly rel1ant on Russ1an 1mports. Moreover, the exclus1on of the Russ1an market 1n numerous sectors has s1gn1f1cantly 1mpacted European bus1nesses.
Secondly, the cr1s1s stemm1ng from the worsen1ng geopol1t1cal cond1t1ons has 1mpacted the large major1ty of European nat1ons.
Th1rdly, the cr1s1s phenomenon 1s pred1cted to worsen even further, wh1ch could cause 1nstab1l1ty 1n the soc1o-pol1t1cal cond1t1on of European nat1ons 1n l1ght of the grow1ng cr1s1s of r1s1ng l1v1ng expenses among unprecedented 1nflat1on.
G1ven the separat1st amb1t1ons of many nat1ons to ex1t the pol1t1cal and econom1c bloc of the EU, 1t 1s 1mportant to take 1nto account the susta1nab1l1ty of th1s Un1on 1f the sanct1ons campa1gn aga1nst Russ1a 1s prolonged by 1mpos1ng further sanct1ons. The benef1ts of stay1ng together are

d1m1n1sh1ng over t1me. Overall, 1t has become clear that the EU sanct1ons reg1me's evolut1on has not been as successful as 1t was 1ntended to be.

G1ven the rel1ance of the European Un1on on the energy resources of Russ1a and Russ1a's prom1nent global pos1t1on 1n the energy sector, 1t 1s reasonable to argue that European Un1on sanct1ons have demonstrated success 1n 1mped1ng the economy of Russ1a and creat1ng s1gn1f1cant challenges, wh1le, 1n general, they were 1neffect1ve 1n stopp1ng the confl1ct. Wh1le the 1mposed sanct1ons d1d result 1n certa1n econom1c slowdowns, they had no 1mpact that would lead to unrest throughout the nat1on. Therefore, 1t m1ght be stated that the European Un1on should not only enforce sanct1ons that negat1vely 1mpact 1ts economy but also address the 1ssue comprehens1vely by opt1ng for negot1at1ons alongs1de the 1mpos1t1on of sanct1ons. Because the act1ons of Russ1a aga1nst Ukra1ne stemmed from Ukra1ne's move towards closer t1es w1th the West, as a result, the European Un1on can engage 1n d1plomat1c conversat1ons w1th Russ1a.

1t 1s 1mposs1ble to pred1ct w1th certa1nty when the war w1ll come to an end, but 1t 1s a not1on that the 1nvolved part1es can collaborate and reach a resolut1on through negot1at1ons at the table. The sanct1ons' toughness and sever1ty, along w1th the1r ev1dent adverse effects on the economy of Russ1a, m1ght make Put1n want to f1nd a solut1on sooner. These sanct1ons can be a way to pressure Russ1a 1nto g1v1ng up some of 1ts most d1ff1cult demands. However, 1n stra1ghtforward terms, the 1mpos1t1on of sanct1ons 1s unl1kely to result 1n a favorable deal soon. Nevertheless, th1s w1ll be no more detr1mental than the agreement made 1n the absence of sanct1ons. Furthermore, wh1le sanct1ons alone may not br1ng an end to the confl1ct, they play a cruc1al role as the 1n1t1al urgent measures to establ1sh cred1b1l1ty and d1ssuade other part1es from tak1ng s1m1lar act1ons 1n the future.

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