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Are Economic Sanctions Effective: A Case of Russia-Ukraine Conflict

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In the realm of International Relations, all actions follow the rule of "Cause and effect", and the Russia-Ukraine conflict is no exception. As the Russia-Ukraine war progressed, the Western Front, led by the United States, citing unjustified aggression, imposed sanctions on Russia to weaken the Russian economy and restrict its advance in Ukraine. This paper will discuss in detail the fronts on which sanctions were imposed and analyse how the Russian Economy is faring against these sanctions.

Keywords: Economic Sanctions, Russia-Ukraine, US, EU, India

Introduction

The ongoing Russia-Ukraine conflict (from 2022 onwards) can be construed as the following: Ukraine opting for membership of NATO— in direct conflict with the Russian Federation, as it impeded Russia's security interest in the region and was determined not to have NATO influence near its borders. This, in turn, resulted in the Russian President, Vladimir Putin, calling for special military operations in Ukraine, countering which President Zelensky announced fast-track membership to NATO (Guy Faulconbridge, 2022). Russia, then citing security concerns, declared that Ukraine would be annexed. At the start of the conflict, a collation of countries led by the U.S. declared Russian aggression unjustified and chose to sanction the Russian Federation. The sanctions imposed, in addition to existing ones enacted in 2013 by the Western Front, encompassed organisations, entities, economic institutions, imports, exports, Russian Oligarch gas, and mining operations (Martin, n.d.).

Sanctions and their Effect

The 2022 sanctions focused on economic restrictions on Russia, Belarus, and Iran for their involvement and supply of arms to Russia in the Ukraine war scenario. As a result, €300 billion of assets of the Central Bank of Russia were blocked in EU and G7 countries. According to the European Commission, since February 2022, the EU has banned over €43.9 billion in exported goods to Russia and €91.2 billion in imported goods, indicating that 49% of exports and 58% of imports are currently sanctioned compared to 2021. (EU, n.d.).

Along with the EU, other nations have also imposed sanctions on the Russian Federation. The European Union's decision, however, had a dual effect; being the largest supplier of natural gas to the EU, Russia chose to restrict its EU supplies, and this shortage had to be compensated by the EU's higher imports of Liquefied Natural Gas (LNG). The graph below is a clear indicator of this.

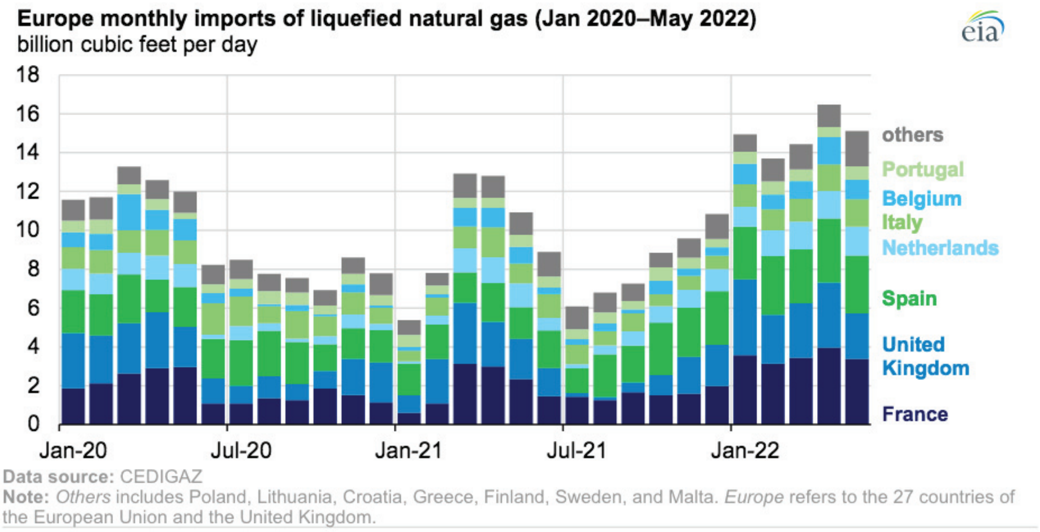

Figure.: 1 Source : (Global LNG Hub, n.d.)

EU had to compensate for its need for Natural Gas (NG) by importing LNG; the sudden demand caused by NG positively affected the Russian economy. The LNG and Natural gas prices went up due to the incurred influx, and Russia could garner a firm surplus as indicated by the Bank of Russia's current account surplus for 2022-24. The balance of payments showed a significant increase, i.e. $120.7 billion in 2021 and $196.0 billion in 2022 alone and is estimated to have a higher influx between 2023 and 2024 (Central Bank Russia, n.d.). Although the Sanction was expected to weaken the Russian economy, it bolstered it.

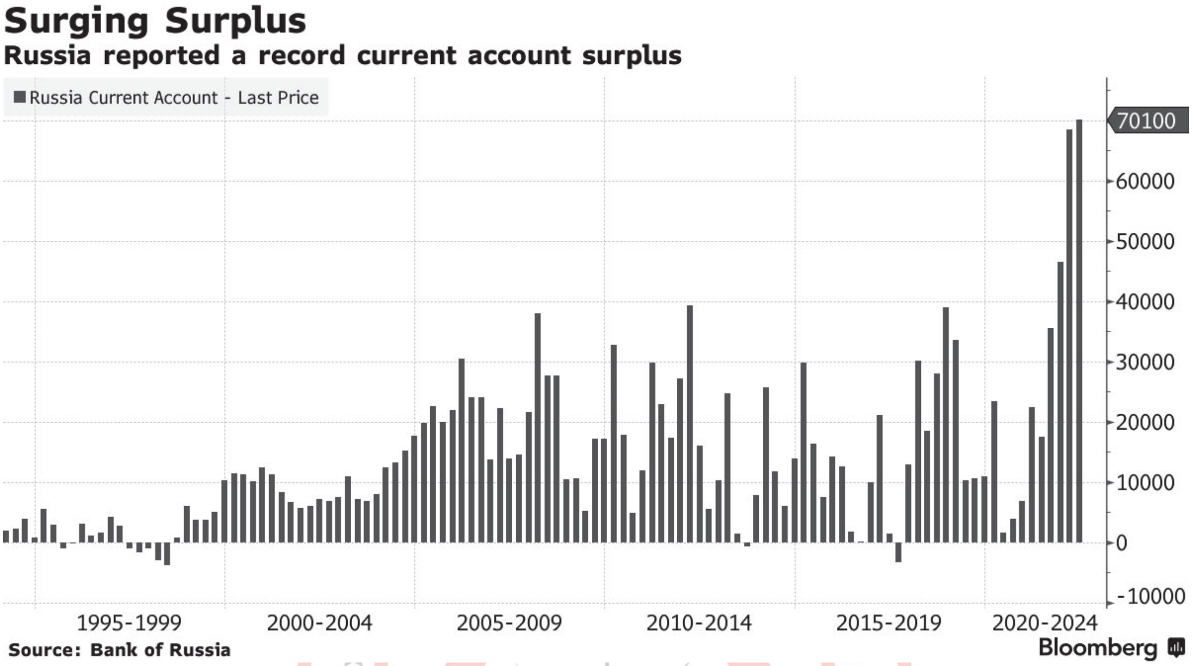

Figure.: 2 Source: (Bloomberg News, 2022)

Even though heavily sanctioned, the Russian economy still stands strong, thanks to the measures described by economists as the "Fortress Russia," i.e. President Vladimir Putin's Policy, which ensured that the Russian economy was independent of foreign influence. The Policy was focused on two aspects,

- On the economic/revenue front, Russia would diversify and move away from volatile sources of income such as Oil and natural gas, in addition to curbing involvement of existing Western institutions that imposed financial transactions;

- Secondly, Russia would try to decrease its external debt. It would implement a monetary policy that would allow for tight fiscal measures and help maintain foreign exchange rates, ensuring the stability of the Ruble (₽) against the dollar, an approach that proved effective in 2022—Russia had $ 630bn worth of international reserves (around 40% of GDP), the most ever, and had diversified away from American dollars" (The Economist, Vladimir Putin's Fortress Russia is crumbling, 2022).

Can "Fortress Russia Policy" Still Work

Even though the 'Fortress Russia' model strengthened the Russian economy, the Western front freezing Russia's assets had an adverse effect; even now, Russia is still dependent on Western technology and resources for its economic transactions, "Because of sanctions, 65% of Russia's reserves may be worth $0. The other 35%, held in gold and yuan, cannot be used to defend the currency in the dollar and euro markets". (The Economist, Vladimir Putin's Fortress Russia is crumbling, 2022) Russia's current balance of payments, as updated on 10 March 2023 by the Bank of Russia, gives a clear outlook on its present condition: "balance of payments

Of the Russian Federation in January - February 2023 amounted to $12.9 billion, having decreased by 65.9% compared to the corresponding period of 2022" (Bank of Russia, 2023). While the present condition of the Russian economy may be strained, Russia was, in effect, able to stabilise its market from sanctions. Even though Western countries have unified against Russia in sanctioning their assets, some chose to abstain or not participate. According to EIU, one-third of the global population lives in neutral countries that chose not to partake in sanctions against Russia (EIU, 2022). A clear marker of this can be seen in Russia's oil exports to Asian countries like India, wherein Russian fuel is being resold to the EU and US, while seaborne exports have also witnessed a spike and are adding to the increased surplus of the Russian economy as shown in Figure

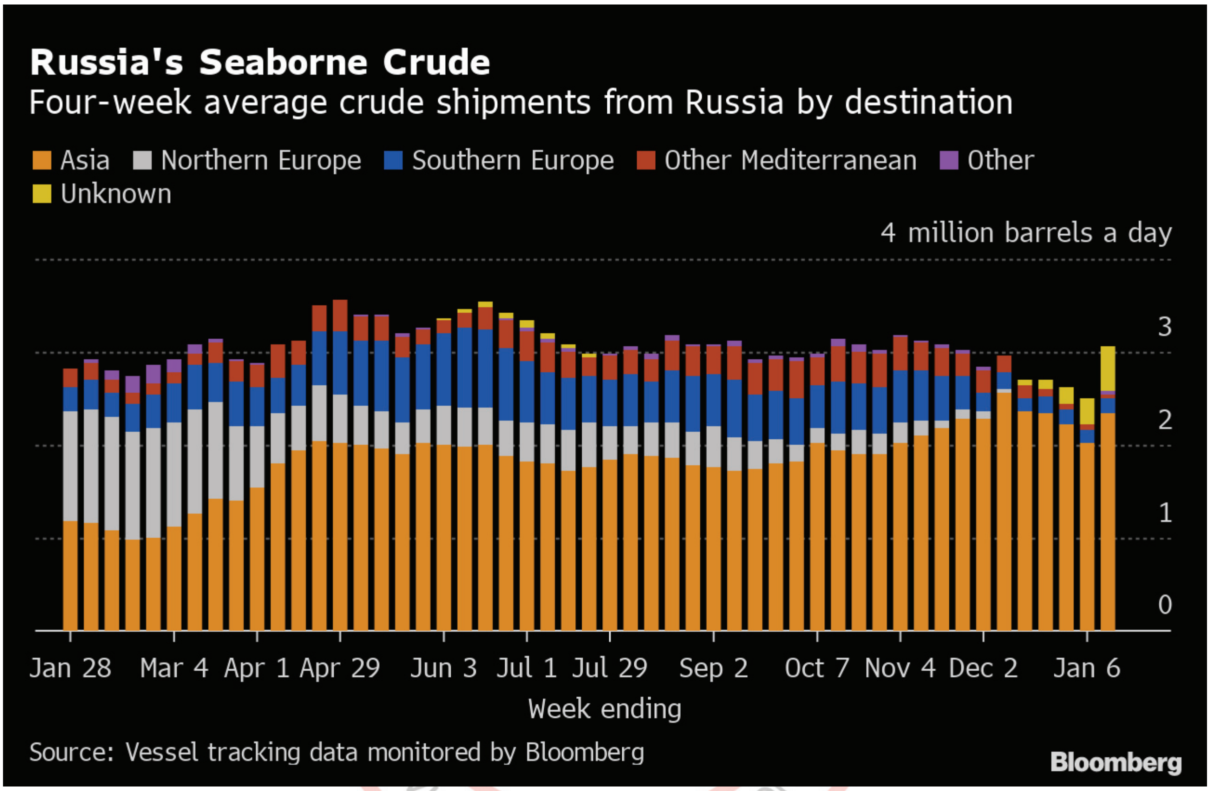

Figure.: 3 Source : (Lee, 2023)

Russia has diversified its income brackets and has circumvented sanctions placed by the Western alliance, wherein countries like the EU and the US end up indirectly buying Russian Oil from other countries that sell processed Russian crude.

How India Benefits

While the Western fronts chose to sanction Russia, it failed to seek a viable alternative for its dependency on Russian Oil and gas. In the broader sense, Asian countries that can use this opportunity seem to be making grandeur Investments. Nations like India are now buying Oil from Russia and exporting it to the Oil strapped US and EU; as awkward as the situation is, India has indeed played a strategic measure where it did not bulk to Western pressure and was able to hold a neutral stance on both ends of the Russia- Ukraine conflict. This incident can be seen as a dynamic shift in India's foreign Policy, where India has sought to preserve its national interest over foreign pressure tactics. This is evidenced by the statement of S Jaishankar, India's Minister of External Affairs :

"Somewhere Europe has to grow out of the mindset that Europe's problems are the world's problems but the world's problems are not Europe's problems. If it is you, it's yours; if it is me, it is ours. I see reflections of that". (Outlook Web Desk, 2023)

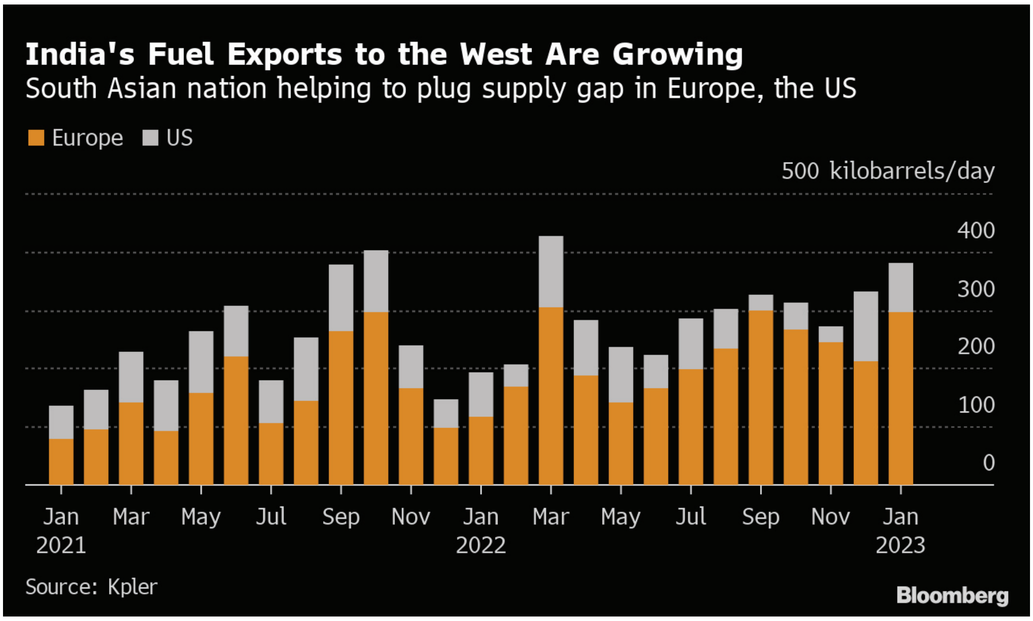

Figure.: 4 Source - (Yongchang Chin, 2023)

Oil Trade in Asian Countries

Taking merely the case of India, where Russia now provides one-third of oil imports, and at present is the largest provider, "Russia soared to a record 1.6 million barrels per day in February that is now higher than combined imports from traditional suppliers, namely Iraq and Saudi Arabia" (Times, 2023). China is also buying Oil from Russia. India accounts for more than 70% of the seaborne supplies of the Russian grade and China for about 20% (The Economic Times, 2023), thanks to the exports to Asian countries and others, Russia is seemingly enjoying the revenue, while Western sanctions are damaging EU and western countries in effect.

Will the Russian Economy Fall Before it Takes Ukraine?

While the Russian economy is stable owing to its trade with countries not belonging to the Western alliance, sanctions enforced by the UK had withheld Russia's oil tanker insurance. Over 90 per cent of global oil tankers are insured by the London-based Association of Insurers P&I Clubs (Demertzis, 2022). Since tankers carrying Russian Oil will no longer be insured, it can be a barrier to Russian exports. However, Russia may circumvent this issue by relying upon seaborne exports by collaborating with allies and non-partisan countries.

Since economic sanctions have not been as effective, Russia may increase its forces in Ukraine to secure its objectives, as evidenced by the SIPRI report: "Russian military spending grew by an estimated 9.2 per cent in 2022, to around $86.4 billion. This was equivalent to 4.1 per cent of Russia's gross domestic product (GDP) in 2022, up from 3.7 per cent of GDP in 2021" (SIPRI, 2023). This is a clear marker of how serious Russia is. The following figure, dated August 28th, clearly depicts the current condition of Russia.

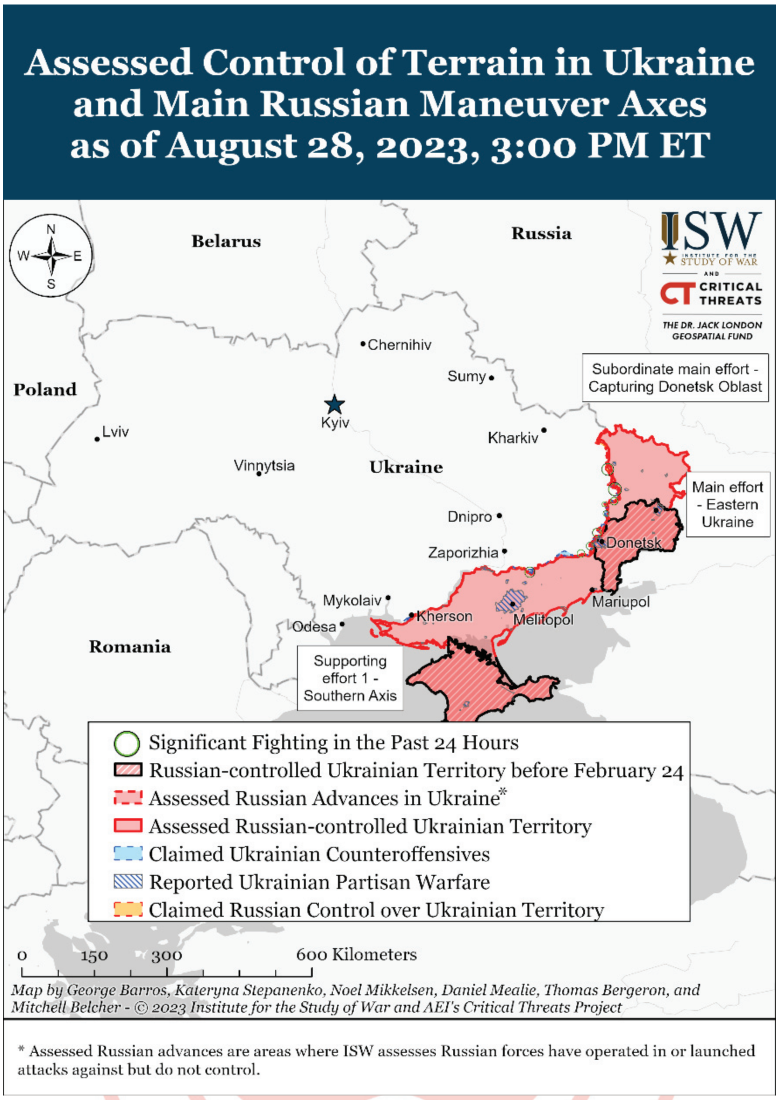

Figure.: 5 Source : (Riley Bailey, 2023)

Conclusion

The sanctions have not impeded the Russian economy as intended. Furthermore, as the war rages on, Russia has consolidated eastern Ukraine, while the probability of success of the Ukraine counter-offensive is debatable. There is a need to study the consequences of economic sanctions in greater detail, but at this moment, they do not appear to bear the intended results as the Western Front had hoped. To an extent, Russia has been able to circumvent the restrictions placed on it to restrict the sale of Oil. The question of which side will triumph in the long run requires further analysis since the present model of the Western front to merely aide Ukraine with no support is unsustainable. On the other hand, Russia has stabilised its economy and has no intention of withdrawing; even more so, Russia is taking concrete steps to wave off sanctions by introducing the Digital Ruble. Russia plans to use digitized cryptocurrencies as a countermeasure against Western Sanctions; the present scenario of economic sanctions against Russia proves that a nation can withstand the brunt of Sanctions with effective countermeasures. Russia has undoubtedly decided to counter the strategy of prolonging the war while slowly regaining its economic stability, while Ukraine although receiving aid to fight Russian troops realises it's not a long-term solution, all while it is yet to attain full NATO membership.

This effect of Sanctions on the Russian Federation should be analysed since it serves as a viable sample of what would transpire if China acted on its threats against Taiwan.

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Govind Nelika is the Web manager/Researcher at the Centre for Land Warfare Studies (CLAWS). He is an alumnus of Pondicherry Central University and is a Political Science graduate complemented by a certification in Data Sciences from IBM. with a multidisciplinary approach. His research area here at CLAWS focuses on emerging challenges and trends in the fields of Cybersecurity, OSINT and the evolving landscape of cybersecurity and Strategic Technology synergized with Generative AI & LLM.