Sanctions on Russia and its Implications on Trade, Economy and Finance

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ABSTRACT

The Russia-Ukraine war in February 2022 and the sanctions imposed on Russia have extensive geo-political and geo-economic repercussions on a global scale. In addition to impacting international power politics, it has altered the global economy in terms of the international commodity market, international trade, financial flows, and financial markets. The sanctions have reversed the progress of the global economy, which had just begun to recover from the pandemic recession. The US and EU have previously placed sanctions on Russia because of its war with Ukraine and its annexation of Crimea in 2014.

Keywords: *Russia-Ukraine Conflict, Sanctions, Global Economy, International Trade.*

TYPES OF SANCTIONS

Russia was penalised by financial, economic, and other sanctions by the United States, the European Union (EU), and other nations. The sanctions are intended to limit Russia's capacity to wage the war in Ukraine by isolating it from the global markets. The sanctions are carried out through three main instruments: blocking Russia's access to the international financial markets, restricting its involvement in the global economy; and penalising the influential individuals associated with the Russian government (Mulder, 2022).

The Central Bank of the Russian Federation, the National Wealth Fund, and the Ministry of Finance are restricted from doing business due to the financial sanctions on Russia. Numerous Russian banks have lost access to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging technology and correspondent banking network access. The sanctions have likewise prohibited any new investments in the Russian Federation. The trade sanctions on Russia include export bans, import restrictions, and other measures. The United States has halted all fossil fuel trade, while European nations are phasing off imports from Russia. The other sanction entails freezing the assets of officials, politicians, and businesspeople and restricting their travel. Multinational companies have also taken steps to cut back on their business in Russia, such as pulling out completely, stopping operations, and putting a freeze on new investments (U.S. Department of State, 2022). Consequently, Russia's total trade volume has decreased significantly. More than 750 multinational corporations have reduced or curtailed their operations in Russia. Domestic businesses have been forced to halt production due to a scarcity of basic supplies and services. The ruble has also devalued as a result of the sanctions.

SANCTIONS ON RUSSIA AND THE GLOBAL ECONOMY: ONE-WAY OR TWO-WAY RELATIONSHIP?

As a result of the interconnectedness of the global economy, the sanctions have affected not just Russia but also worldwide trade, economics, and finance. In contrast, Russia was extremely well integrated into the global economy in the post-cold war period, with one of the highest trade to GDP ratios. To determine the effect of sanctions, it is necessary to examine Russia's involvement in the global economy. Being the world’s 11th largest economy, Russia plays a significant role in the global economy by being a major producer and supplier of fuel, food grains, fertilizers, metals, and other commodities. It also serves as a market for many economies as well (Butler, 2022).

Russian oil production accounts for around 14% of global output, with 2.4 million barrels per day going to the EU alone. In 2021, for example, countries like Slovakia's and Hungary’s imported 96 percent and 58 percent of Russian oil, respectively. Russia is the second largest producer and the largest exporter of natural gas. Due to its extensive natural gas production and effective transport routes and pipelines, Russia alone supplies 40% of the EU's natural gas consumption. Due to a drop in domestic output, the EU's reliance on Russian gas has increased in recent years. Thus, the dependence of the EU for its energy needs on Russia increases the vulnerability of the former. The current sanctions exempt the EU’s energy imports from Russia. However, the diversification of its energy imports is associated with a huge cost and is a long-term project. The push for additional sanctions has been resisted by EU countries like Germany (Reuters, 2022). In addition to its energy reliance, the European (especially Eastern), Central Asian, and South Caucasus countries depend on Russia's trade, remittances, and commodities. According to the World Bank, their growth rate will fall from 7.8 percent in 2021 to 2.2 percent in 2022. The sanctions have amplified the economic slowdown due to pandemic (Justin-Damien et. al., 2022)

On the commodities market, the immediate effect of the Russian sanctions is readily evident. The global cost of coal, crude oil, natural gas, wheat, fertilisers, and metals has increased. The ban on trade and transportation due to sanctions on Russia has added a strain on the global supply chains. In terms of the global financial markets, there has been a rise in volatility in equity markets, an increase in sovereign borrowing costs, and bank losses. Low and middle-income economies are likely to face high inflation and high borrowing costs. In the long term, these vulnerable economies are likely to face increased debt, fiscal challenges, and balance of payment crises. Capital outflow and excessive borrowing rates have the potential to damage the financial markets of these countries. As a direct consequence of this, these countries are likely to have adverse political and social consequences. The pandemic has already increased the vulnerabilities of these economies (Butler, 2022). The recent unrest in Sri Lanka is one example of a pandemic-induced global market volatility impact on developing countries.

The sanctions on Russia are weakening global multilateral economic organisations like the World Trade Organization and the International Monetary Fund. The successful operation of the international governance system and the sustenance of rule based order requires diverse representation, particularly of strong nations. This may lead to the formation of several economic blocs and contribute to the de-escalation of the globalisation process (Ibid). The sanctions will also put pressure on the international currency system. Furthermore, the suspension of Russian assets may accelerate other countries efforts to lessen their dependence on dollar-based transactions. In addition to this, the sanctions also have an impact on international development funds. There are a number of global concerns that need greater collaboration and collective effort than ever before. The conflict has already prompted an increase in military expenditure and the transfer of resources to Ukraine's aid. The pandemic has already put a burden on development assistance. The financial volatility in low and middle-income countries will place a strain on global development assistance.

WILL SANCTIONS BE EFFECTIVE IN ACHIEVING THEIR OBJECTIVES?

Countries like North Korea, Iran, and Venezula have been placed under sanctions, but they have a lesser share in the global economic structure. Given Russia's integration and contribution to the global economy, the sanctions would be destabilising for global trade, the economy, and finance. Russia and the world economy are both reliant on each other. One of its examples was the reluctance of Germany to upgrade the EU sanctions on Russian energy imports (Reuters, 2022). Energy diversification to replace Russia is a long-term endeavour. The complete phasing out of Russian energy imports is highly unlikely in the near future. The revenue from oil and gas sales contributed to 45 percent of the nation's federal budget in 2021. So far, due to increased fuel prices, Russia has been able to get additional revenues.

Sanctions on Russia are multilateral and not global. Hence, Russia may pursue closer economic ties with countries not part of the sanctions alliance. Russia may be able to get around the sanctions by using trade diversions and evasions.

CONCLUSION

Sanctions on Russia have both immediate and long-term effects in terms of increasing commodity prices, slowing economic growth, disrupting global supply chains, and weakening the rules-based global economic order. The IMF has anticipated that global economic growth would decelerate from an expected 6.1% in 2021 to 3.6% in 2022 and 2023 (Mulder, 2022). The sanctions have impacted the global economy, which has already been recovering from the pandemic slump. Thus, there is a need to reconsider the usage of economic sanctions as a policy instrument.

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