

Economics: What are the most likely implications of the economic sanctions imposed on Russia?

Following the outbreak of the Russo-Ukrainian War on the 24 February 2022, the EU as well as the USA, to name a few, have imposed a series of economic sanctions as procedures they deemed would go on to discourage Russia's ongoing attack by weakening its ability to finance the war. The most famous sanctions have been the ones imposed on the export of fossil fuels, especially on crude oil and natural gas. Russia is the third largest producer of oil in the world, accounting for over 12% of worldwide crude oil production¹ and so the banning of Russian imports of these raw materials has caused great implications on both Russia's national economy as well as on the international economy too. The implications the economic sanctions have created can be assessed by looking at society from three different perspectives: economically, socially, and politically. Overall, the sanctions had more significant implications economically and, consequently, the effect of this then went on to cause unbalance politically and so also socially.

The economic sanctions inevitably had serious economic implications on both the Russian and international economy. The European Union decided to ban imports of Russian oil by sea from December 2022 and the USA has chosen to ban all Russian oil and gas imports². This was a major contributing move to harm the Russian economy which relies almost entirely on energy exports³ and the clear impact this had on the economy can be measured through the changes in the Russian Gross Domestic Product. According to the European

¹ *Topic: Russian oil industry (2022) Statista*. Statista Research Department. Available at: https://www.statista.com/topics/5399/russian-oil-industry/#topicHeader__wrapper (Accessed: December 26, 2022).

² *What are the sanctions on Russia and are they hurting its economy? (2022) BBC News*. BBC. Available at: <https://www.bbc.com/news/world-europe-60125659> (Accessed: December 26, 2022).

³ *War in Ukraine: West hits Russia with oil bans and Gas Curbs (2022) BBC News*. BBC. Available at: <https://www.bbc.com/news/world-us-canada-60666251> (Accessed: December 26, 2022).

Council, the Russian GDP is expected to drop by over 3.4%⁴ following the forecasted decline in trading activities, clearly depicting that the economic sanctions are causing the shrinking of the Russian economy. Therefore, from a microeconomic perspective on the market for Russian oil, we can see the clear overproduction of goods as the sanctions are not allowing for it to be sold abroad. Consequently, the market failure is causing a welfare loss due to the misallocation of resources which have a negative impact on the oil industry as it results in inefficiency. A similar thing is happening to Russia's natural gas market and one of the best examples of how it was harmed was through the German sanction of halting its plan to open the second Nordstream gas pipeline⁵. This is another striking blow on the Russian economy as Germany relied by up to 55% on Russia for its gas⁶ but now this has been cut to 35%. It also means that less gas will be sold to Europe, resulting in the loss of a market for the Russian gas industry. Again, these sanctions are removing Russia's ability to sell its raw materials abroad and so harming its economy also from a macroeconomic perspective. This is visible with the increasing price of gas. The sanctions have blocked off Russia's access to sell on the international market, therefore stopping one of the world's major suppliers of gas. Consequently, as there is less gas available, there is the creation of excess consumer demand for the good and so causing international shortages. These shortages will have caused international gas prices to rise and, from the perspective of a substitute good such as American gas for instance, it means that they can sell their produce at a higher price, giving American producers of gas a chance to welcome excess demand and so causes an increase in their revenue. However, these higher prices for energy resources have also had a negative impact on the recovery of the international economy, in particular the European one since it is the most exposed to the Russian supply. European production was quickly

⁴ *Impact of sanctions on the Russian economy (2022) European Council*. Available at: <https://www.consilium.europa.eu/en/infographics/impact-sanctions-russian-economy/> (Accessed: December 26, 2022).

⁵ *What are the sanctions on Russia and are they hurting its economy? (2022) BBC News*. BBC. Available at: <https://www.bbc.com/news/world-europe-60125659> (Accessed: December 26, 2022).

⁶ *Nord Stream 1: How Russia is cutting gas supplies to Europe (2022) BBC News*. BBC. Available at: <https://www.bbc.com/news/world-europe-60131520> (Accessed: December 26, 2022).

recovering from the Coronavirus Pandemic, but higher energy prices are now jeopardising this recovery and putting pressure on the Central banks to quickly raise rates to respond to the increasing inflation, adding a new stress to the fragile economy with a risk of recession looming. Furthermore, these higher international gas prices also harm the Russian economy because, due to the sanctions, they are unable to sell out their gas at the current high price and so cannot take advantage of high market prices. Therefore, it can be affirmed that the economic sanctions imposed on Russia are having grave economic implications, consequently resulting in them having a less stable economy to support the military effort of the war.

However, the economic sanctions are not only causing implications from an economic perspective. Russia's invasion of Ukraine triggered an atmosphere of political tension between Western countries such as the US and Russia, especially as one of the major causes of the war was Ukraine wanting to join NATO, with the official application coming in September 2022⁷. This tense political situation has reminded many of a scaled-down version of the Cold War with the USA leading the sanctions against Russia. These sanctions have caused political instability and mistrust between the two sides, clearly noticeable with Putin calling the war a "special military operation" aimed at preventing what he called a Western attempt to use Ukraine as a way to threaten Russia. Furthermore, the Russian defence ministry has stated that the "Biden administration... is directly responsible for... rocket attacks on residential areas and civilian infrastructure"⁸. Biden also held speeches referring to Putin as a "dictator" and saying that "Russia has strangled democracy". In addition, with

⁷ Harding, L. and Koshiw, I. (2022) *Ukraine applies for NATO membership after Russia annexes territory*, *The Guardian*. Guardian News and Media. Available at: <https://www.theguardian.com/world/2022/sep/30/ukraine-applies-for-nato-membership-after-russia-annexes-territory> (Accessed: December 26, 2022).

⁸ Person (2022) *Russia says United States is directly involved in Ukraine War*, *Reuters*. Thomson Reuters. Available at: <https://www.reuters.com/world/europe/russia-says-united-states-is-directly-involved-ukraine-war-2022-08-02/> (Accessed: December 26, 2022).

his speech in Warsaw, he said to Ukrainians around the world: “we stand with you”⁹. The split between the two superpowers caused by the war has triggered the most serious crisis between American and Russian relations since the Cuban Missile Crisis in 1962 and this political instability has been further exacerbated through the economic sanctions countries have been placing on Russia. Furthermore, the sanctions are also causing slight political instability in Russia itself. In the days following the invasion, there have been spikes in anti-war protest movements resulting in over 13,500 activists becoming detained¹⁰ and opposition leaders encouraging the Russian public to not succumb to propaganda and to oppose the war. However, it has been difficult for civilians to find true sources behind the war that have not been censored by the government. Censorship of Russian media has helped Vladimir Putin to indoctrinate his people into his nationalistic views in calling for a return to the USSR’s previously owned territory. Therefore, although the war has been creating anti-war protests, through censorship, Putin has managed to remain unchallenged as Russia’s leader. In addition, according to the European Parliament, Russia is seen as a state which uses “means of terrorism”¹¹ and so it could be argued that the reduced political opposition is because Russians are afraid to go against the leading figure of Putin. The sanctions therefore have not damaged Russian domestic politics much; however, they have caused a severe crisis in international relations, especially between Russia and the USA.

⁹ Biden, J. (2022) *Remarks by president Biden on the United efforts of the Free World to support the people of Ukraine*, *The White House*. The United States Government. Available at: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/03/26/remarks-by-president-biden-on-the-united-efforts-of-the-free-world-to-support-the-people-of-ukraine/> (Accessed: December 26, 2022).

¹⁰ Coalson, R. (2022) *Russia's anti-war movement after six months: What happened to 'the most important people on the planet'?*, *RadioFreeEurope/RadioLiberty*. Radio Free Europe / Radio Liberty. Available at: <https://www.rferl.org/a/russia-lackluster-antiwar-movement-ukraine-invasion/32000288.html> (Accessed: December 26, 2022).

¹¹ *Russia has a terrorist regime* (2022) *EPP Group in the European Parliament*. Available at: <https://www.eppgroup.eu/newsroom/news/russia-has-a-terrorist-regime> (Accessed: December 26, 2022).

Lastly, the economic sanctions have also been having major implications on Russian society. Due to the increased economic hardships created by the sanctions, the Russian government has been focusing its expenditure on the military effort and so this has resulted in the spiralling of living conditions for many Russians. This is because the government has shifted its spending away from education and the health care service in order to gather military momentum. This is said to have been one of the causes for the flee of over 700,000 Russians¹² from their country. This emigration is referred to by many as the Russian “brain drain” as the majority of those leaving tend to be young and well-educated professionals which Russia’s workforce relies upon. As well as this, the sanctions have gone on to cause significant unemployment in Russia, especially caused by the fleeing of multinational companies such as McDonald’s and where it is predicted that Russia will lose up to 2 million jobs this year alone¹³. Furthermore, Russian society is being affected by the hardship of an inflation predicted at 14%¹⁴. This has meant that as many lost their jobs, the price for everyday necessities has continued to rise and so leaving many without the opportunity to buy these necessary goods, proving again the decrease in Russian living standards because of the sanctions. In addition, the sanctions targeting the Russian oligarchs have caused a further state of tension between the state and different influential groups within Russia. The sanctions have also highlighted the corruption behind the organisation of the Russian state, showing the incredible wealth gap between the richest and the poorest. If this is not addressed, it could go on to cause tensions between the Kremlin and the Russian population. Overall, the economic sanctions have therefore had a substantial impact socially on Russian civilians because they have caused the worsening of living conditions for many

¹² Haseldine, L. (2022) *How many Russians have fled Putin?*, *The Spectator*. Available at: <https://www.spectator.co.uk/article/how-many-russians-have-fled/> (Accessed: December 26, 2022).

¹³ Subramanian, S. (2022) *The Ukraine War is creating a jobs crisis in Russia*, *Quartz*. Quartz. Available at: <https://qz.com/2166086/the-ukraine-war-is-creating-a-jobs-crisis-in-russia> (Accessed: December 26, 2022).

¹⁴ *Impact of sanctions on the Russian economy* (2022) *European Council*. Available at: <https://www.consilium.europa.eu/en/infographics/impact-sanctions-russian-economy/> (Accessed: December 26, 2022).

as well as the flee of many well-educated Russians which are essential for the efficient functioning of the Russian economy.

In conclusion, the economic sanctions applied on Russia have caused great instability in economic, social, and political ways in the country. However, overall, the most significant way in which the sanctions harmed Russia was economically. This is because, by stopping Russia from selling gas and oil abroad, it lost a great amount of revenue as its economy relies almost entirely on energy exports. This meant that the Russian government had to shift its expenditure focus away from social areas such as healthcare, which would go on to have implications socially, onto the war effort. Therefore, the economic sanctions' aims to weaken Russia's ability to finance the war had the successful implications of reducing Russia's economy, which would then go on to have secondary effects politically and socially.