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Unravelling the Impact: Analyzing the Effects of Sanctions against Russia

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Abstract: ***In the first few months after the start of the military operation in Ukraine, Russia faced unprecedented sanctions pressure. By autumn 2023, there were about 15,000 sanctions and prohibitions against Russia. At the same time, the geography of Russia's allies sharply narrowed and now mainly includes African and Asian states. However, the wave of sanctions did not force Russia to abandon its advancement in Ukraine. At the same time, the sanctions have brought no significant damage to the Russian economy. In this article, the author attempts to assess the effectiveness of anti-Russian sanctions through analyzing primarily economic and trade indicators. The author concludes that the sanctions will not have the expected effect on Russia due to the specific nature of the conflict in Ukraine.***

Keywords: sanctions, policy, economy, international relations

1. Introduction

After the launch of the military operation in Ukraine, Russia was hit by an unprecedented wave of sanctions. In the first few months of the offensive, Russia found itself subjected to sanctions that surpassed those imposed on Iran during the 40 years of the Ayatollah regime. The sanctions affected banks and financial institutions, companies in the defence and military sectors, companies in the aviation, shipbuilding and engineering industries, state institutions and government agencies, media, as well as individuals. By the fall of 2023, more than 15,000 sanctions and restrictions against Russia have been in force, affecting the activities of more than 3,700 companies and 11,200 individuals [1].

At the same time, the question remains unanswered: How effective have the imposed restrictions been? Since it is challenging to access effectiveness of sanctions objectively, it would be logical to formulate the question differently: to what extent were the sanctions effective, and where did they obviously fail? How effective were the restrictions in terms of the objectives pursued by the initiating countries? How did the damage caused by the sanctions affect the target country? These questions constitute a research problem that is considered within this study.

Almost two years after the outbreak of hostilities, it is clear that the sanctions have not achieved the immediate objective for which the restrictions were so hastily introduced in February 2022: it has failed to make Russia abandon its military operation in Ukraine. Russia continued to pursue its goals, finally gained control over the eastern part of Ukraine and, right after that, launched the process of integrating the controlled regions. By the fall of 2022, Russia had been joined by four “new territories”: the regions of Luhansk, Donetsk, Kherson and Zaporozhye[2]. As of the end of autumn 2023, the Russian military continues to operate in Ukraine [3].

The immediate end of hostilities is the main goal of the prohibitive measures being introduced, which sanctions have so far failed to achieve. Along with this, it is assumed that any sanctions policy must achieve certain objectives, the implementation of which contributes to the achievement of the main goal. For example, initiating countries may seek to weaken the target country's economy so that the costs of waging a war are too high to continue. Another often implied purpose of sanctions stems from the inference that a drop in the standard of living of the population of the target country will provoke popular discontent, which, given due effort, can lead to a regime change, and, accordingly, the abandonment of an objectionable political course because of which the bans were actually introduced. The following paragraphs examine how effective the imposed sanctions are in achieving objectives set by their authors.

Looking from February 2022, the "tsunami" of restrictions foreshadowed significant challenges for Russia: The World Bank forecasts a 3.3% decline in Russia's GDP in 2023 [4]. The International Monetary Fund has placed Russia at the bottom of the list of emerging economies and forecasts growth in the Russian economy of just 1.1% in 2024 with an average indicator for this group of countries of 4.4% [5]. Considering that one week after the first sanctions were imposed, the ruble exchange rate plummeted to a record low of 136 rubles per US dollar, it seemed as if the Russian economy's days were numbered. However, after the central bank introduced currency and capital controls, the ruble recovered and rose to 51.5 rubles per dollar [6].

“The utter devastation of the Russian economy”, as some of sanctions authors had expected, did not happened [7]. The resilience of the Russian economy can be attributed to a number of factors: the earlier introduction of a system of national accounts, the skillful policy of the Central Bank of Russia as well as the rise in energy prices in 2022 [8]. Nevertheless, even Russian politicians, who normally tend to downplay the impact of anti-Russian measures, are increasingly recognizing the weight of the burden that sanctions have placed on the Russian economy [9].

The following section provides an overview and timeline of sanctions measures taken against Russia by the United States, the European Union and other countries.

2. Tsunami of sanctions: overview and timeline

2.1 2012-2021: storm in a teacup

It is possible to distinguish two stages in sanctioning Russia: the first, which can be conditionally designated as "pre-Ukrainian", lasted from 2012 until the entry of Russian troops into Ukraine; the second stage unfolded in response to the launch of the military operation by Russia. At the same time, the first stage, although it was longer in time, did not bring any tangible results other than information noise.

Russia's sanctions saga began 10 years before the start of the special military operation, with introduction of "Magnitsky Act" in 2012 (formally known as Russia and Moldova Jackson-Vanik Repeal and Sergei Magnitsky Rule of Law Accountability Act of 2012). The legal act introduced sanctions against individuals responsible for violations of human rights, corruption and the encroachment on the rule of law in Russia[10]. The first version of the act envisaged the introduction of sanctions against 18 individuals, in the form of visa restrictions on entry into the United States and the blocking of financial assets in US banks. By 2019, the list was expanded and 56 persons were subject to restrictive measures, while similar regulations were introduced in Estonia, Great Britain, Canada, Lithuania and Latvia[11]. At the time, the sanctions were introduced rather symbolically and did not cause any tangible harm to Russia. The measures did not contribute to the promotion of freedom and human rights at least in their Western understanding.

The question of the anti-Russian sanctions' effectiveness came to the table in 2014, when Russia confronted with a broader package of sanctions initiated by Western countries and international organizations. The new package of sanctions looked more menacing with asset freezes and travel bans on Russian officials and entities involved in the conflict in Eastern Ukraine. The United States, the European Union and other nations imposed economic sanctions targeting key sectors of the Russian economy, including the financial, energy and defense industries. As a result, the imposed restrictions prohibit long-term lending to major Russian banks, energy and defense companies. Strict export restrictions have been imposed on a number of dual-use products. Restrictions limited the financing and provision of technology for Russian projects in the Arctic.

These measures were aimed at limiting Russia's access to international markets, technology and investment in order to inflict economic pain and deter further aggression. Have the sanctions achieved their goal? Eight years later, it is clear that the sanctions of this stage were not enough to deter Russia. While the restrictive measures have indeed contributed to a decline in Russian economic growth and investment inflows, they have also had a negative impact on some Western companies and economies. In addition, Russia has imposed counter-sanctions on Western imports, which has led to trade disruptions and economic problems for specific sectors.

The sanctions introduced in response to the alleged poisoning of Sergei and YuliaSkripal in 2018 and Alexei Navalny in 2020 caused heated discussion. The sharpest reaction came from the United States, which this time introduced some restrictions on the purchase of Russian debt instruments. Nevertheless, the sanctions in this package were again rather symbolic and did not cause any substantial damage to the Kremlin. The Russian authorities have not admitted any involvement in the poisoning cases, despite intense pressure from Western countries and the international community.

The pre-conflict period of sanctions against Russia can be described as rather "vegetarian" [8]. The countries that initiated the sanctions did not manage to exert enough pressure on Russia to change the political situation to meet the West's expectations. According to some estimates, the sanctions have only slowed the development of the Russian economy by 0.2% per year [12]. The information noise produced by sanctions forced the Kremlin to incur reputational costs, however, it has never changed modus operandi of the Russian elite.

In the meantime, the sanctions have caused real damage to business, not only Russian one, but also this originating from the author states. European countries, which are heavily dependent on Russian energy exports, have been faced with higher energy prices due to disrupted supply chains. The agricultural sector suffered as Russia's retaliatory measures were directed against food imports from these countries. As a result, farmers sustained financial losses, while consumers faced rising food prices.

It is now obvious that the anti-Russian sanctions have not only failed to achieve their ultimate goal of pacifying and democratizing Russia, but have led to a completely different outcome: Instead of promoting dialogue and cooperation, they have deepened division and further fueled tensions. The discourse of confrontation with the West turned out to be convenient for the Kremlin hawks, who now play the sanctions card to illustrate the West's hostility towards Russia. In the same way, the sanctions did not prevent Russia from implementing the "Ukrainian scenario", so it was necessary to urgently introduce a large number of more decisive measures this time.

2.2 Sanctions avalanche 2022: controlled damage instead of demolition

The scope of the sanctions imposed in last days of February 2022 significantly exceeded those introduced since 2012, both quantitatively and qualitatively. In a relatively short period, Russia has become the most sanctioned country in the world, overtaking Iran and North Korea. In the first few days after the outbreak of the military conflict, sanctions were imposed on Russia by the UK, the USA, the EU, Australia and Canada. In the following weeks, the circle of sanctioning countries expanded considerably, with Japan, Taiwan, South Korea, Singapore and other countries enacting their prohibitive policies.

It is difficult to provide a detailed analysis of the sanctions against Russia within the framework of a research article: the scope of the measures introduced is unprecedented. Summarizing the policies of the various countries, the following main areas of sanctions pressures can be identified: economic sanctions, energy sector sanctions, arms embargo, financial restrictions, travel bans and asset freezes. Table 1 shows more detailed information on each area.

A large number of sanctions imposed in various directions portended a collapse of the Russian economy. In the pre-conflict years, the Russian economy did not demonstrate active growth and, at first glance, there was no reason to expect any positive changes at a time when the country was faced with a profound crisis.

By 2022, Russia was closely involved in global markets and was a key supplier of fuel and energy goods, metals and grain to world markets. At the end of 2021, the EU's share in the structure of Russia's foreign trade turnover reached 35.9% [13] . For this reason, a sharp break in ties with partners around the world, and mainly European countries, really instilled significant concerns in the economic sector.

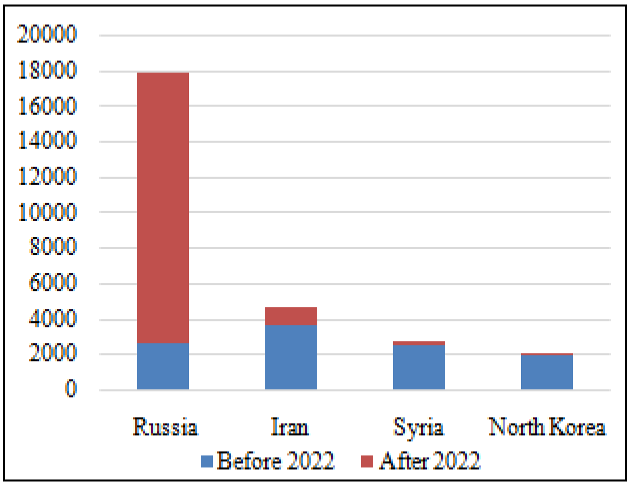

Figure 1: Dynamics of sanctionning Russia before and after February, 24, 2022 (Source:Castellum.AI)

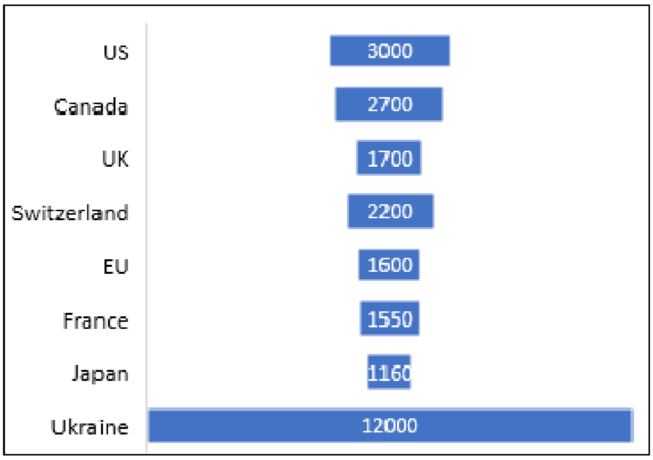

Figure 2: Sanctions against Russia by source since 2014 (Source: Atlantic council, Gazeta.ru)

Table 1: Sanctions against Russia by targeted area (summarized) (Source:Atlantic council, Castellum.AI)

Targeted area	Description	Example
1. *Economic sanctions*	Typically involve targeted sanctions, including import bans and export limitations as well as bans/limits on investment	Prohibition of import and purchase of wood rough or treated
2. *Energy sector sanctions*	Include limitations on technology transfers, cooperation. and financing of oil and gas exploration and production projects, particularly those in Crimea and Black Sea	Russian crude oil price cap sanctions
3. *Arms embargo*	Several countries, including the EU and the US, have imposed arms embargoes on Russia, prohibiting the export of military equipment and technology. These measures aim to hinder Russia's military capabilities and prevent further escalation	Prohibition to export, supply and deliver, make available and transfer of munition and dual-use technology
4. *Financial restrictions*	Financial restrictions have been imposed on Russian banks and individuals involved in the conflict, including asset freezes and limitations on accessing international financial markets. These measures aim to disrupt the financial resources available to entities supporting Russia's actions in Ukraine	The SWIFT ban against Russian banks
5. *Travel bans and asset freezes*	Visa bans and asset freezes have been imposed on individuals, entities, and officials linked to the conflict, including Russian military personnel. These sanctions restrict access to assists in foreign jurisdictions	Arrest and confiscation of Russian oligarchs' assets
6. *Sector-specific targeting*	Sanctions have been imposed on specific sectors such as defense, intelligence, and technology, aiming to limit cooperation and trade in sensitive areas, including limiting Russia's access to dual-use technologies.	Restrictions on Russian access to high-tech components, both hardware and software, made with any parts or intellectual property from the US

In the first days of the military operation, it became clear that the West had chosen the path of putting Russia under pressure through massive sanctions. In an attempt to soften the blow, the Russian central bank has raised the interest rate from 9.5% to 20%, a record figure in the last 20 years. Against the backdrop of a record slump in Russian indices, the Moscow Stock Exchange was forced to suspend trading on all markets.

The withdrawal of many foreign companies from the market threatened tens of thousands of Russians with the loss of jobs and Russian business with the loss of partners. The implementation of import and export bans required Russia to quickly reorient itself to new markets, in particular African and Asian ones. The ban on the supply of software to Russia required the speedy development of its own technologies, in which Russia lagged behind at that time for decades.

At the same time, the Kremlin cannot be accused of political short-sightedness: The country prepared for a harsh response to its offensive in advance. Therefore, the decline of the Russian economy proved to be controlled and uncritical. Moreover, the sanctions introduced were insufficient to create the costs of waging military operation high enough to force Russia to consider curtailing the operation in Ukraine. Russia has managed to quickly find new partners in Africa and Asia, as well as to establish new economic institutions that make it possible to circumvent the sanctions.

However, it would be too optimistic to conclude that the sanctions have gone unnoticed by the Russian economy. The measures taken by foreign states have clearly created additional costs for conducting a military operation. Given the protracted nature of the conflict, the overall cost of a "special military operation" probably turns out to be much higher than it was initially expected by Russian strategists.
In the next section, the author analyzes Russia's economic indicators for 2022 in order to assess the effect of sanctions on the Russian economy and trade.

2.3 A year of sanctions against Russia: effectiveness relative to goals

The fact that sanctions failed to stop Russia’s military campaign either in the spring of 2022 or almost two years later makes it easy to infer that prohibitive measures have gone futile. However, any policy, in addition to its main goal, is built upon a number of objectives, the achievement of which contributes to the fulfillment of that primary goal. How effective are the sanctions in achieving the objectives? In order to answer this question, it is important to understand what tasks are pursued by the decision-makers imposing sanctions against Russia.

Thus, the US imposes sanctions on Russian individuals and organizations “in order to degrade Russia’s current and future military capabilities, reduce Russia’s revenue by targeting its future energy projects, and curb sanctions evasion by targeting those who help Russia procure sensitive material, and curtail Russia’s use of the international financial system to further its war”," according to the official US Department of State statement [14]. While the EU Council of Ministers, in its turn, has designed the sanctions to “weaken Russia’s economic base, deprive it of key technologies and markets and significantly limit its ability to wage war” [15]. Therefore, the effectiveness of the sanctions should be assessed in light of these stated objectives. However, given the scale of the measures introduced, the analysis cannot be much straightforward.

2.4 The Russian economy in the context of sanctions: controlled decline

Noticeable fluctuations in the Russian currency in the first few weeks after the introduction of sanctions were perceived as a harbinger of the imminent collapse of the Russian economy. The sanctions dealt a blow to Russia's foreign exchange reserves and forced Russian banks out of the international credit system. However, the Russian national currency recovered quite quickly, thanks to the timely measures taken by the Central Bank, so that by May the US dollar exchange rate had fallen to 58.8 rubles [16]. This fact has often been used as evidence of the ineffectiveness of sanctions. However, researchers point out that the relationship between the ineffectiveness of sanctions and currency appreciation is nonlinear in the same way that there is no linear relationship between the exchange rate and welfare [17].

So instead of the predicted catastrophic decline, the Russian economy recorded a moderate and controlled slowdown in 2022. According to the Federal State Statistics Service of Russia, GDP fell by 2.1% in 2022. The sharpest decline affected the production of motor vehicles (-47.4%), medicines and materials for medical purposes - (-30.7%), wholesale and retail trade (-12.7%), manufacturing (-2.5%), transportation and storage (-1.8%) (Federal State Statistics Service, 2023). At the same time, a number of sectors recorded steady growth as of the end of 2022 (compared to December 2021): Extraction of other minerals, including stone, crushed stone, sand, etc. (+11.2%), manufacture of wearing apparel (+10.4%), coal mining (+5.8%), manufacture of coke and petroleum products (+1.1%) [18].
The greatest economic downturn affected the North-Western Federal District of Russia, which, bordering Finland, Norway and the Baltic states, was a kind of "window to Europe". When this window closed, the region lost a significant share of its income: the index of production of goods and services by basic sectors of the economy fell by 11.2% in December 2022 compared to December 2021. The indicators of some regions show a sharper decline in production at the end of 2022 compared to the end of 2021: the index of production of goods and services of the Arkhangelsk region, where the largest seaport connecting Russia with Europe is located, decreased by 32.8%; the Kaluga and Kursk regions, on the territory of which industrial production is located, were able to produce only 79% and 80.9%, respectively compared to figures of 2021 [19]. Nevertheless, official statistics show that most of Russia's regions recorded slight but stable production growth in 2022.

The weakening of the Russian national currency and high inflation expectations led to an increase in the inflation rate - 11.94% in 2022 (in comparison: 8.39% in 2021). The GDP deflator index amounted to 115.8% [20].

Against the backdrop of a moderate but nevertheless economic downturn, the indicators for the population's income growth, recorded by the mid-2023, are somewhat surprising. The monetary income of the population in 2022 amounted to 79.1 trillion rubles - an increase of 12.2% compared to 2021[21]. However, this apparent increase can be attributed to various factors. For instance, by the increasing number of state cash benefits, by the income of those entering contract service that is significantly higher than the average income; by the high level of debt among Russians etc.

It is also worth noting that despite the withdrawal of foreign companies over the last two years, Russia has a record low unemployment rate, which stood at 3.0% in July 2023 [22].

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The sanctions have therefore not significantly destabilized the Russian economy. The measures taken by the government's economic sector are sufficient to minimize the damage of the severed relations. The fact that the sanctions have not caused any significant damage is further confirmed by public opinion polls: the majority of Russians (56%) has not felt any impact of Western sanctions so far [23].

2.5 The impact of sanctions on Russia's involvement in international trade

Russia no longer provides international trade data, but information published by partners is enough to draw conclusions about transformation in this domain.

In 2022, the sanctions imposed on Russia by co-called “unfriendly states”, along with retaliatory measures from Moscow and the voluntary suspension or contraction of commerce between Western corporations and Russia, resulted in a significant reorganization of the country's international trade. About 55% of Russia's imports and exports of goods and services were connected to the Western countries at the beginning of 2022. It is hard to quantify the current share, although it might drop to about 45% in trade turnover [24].

However, the Russian trade has defied the sanctions: foreign trade turnover exceeded the indicators of previous years, with a surplus of 332.4 billion dollars. Instead of the predicted decline of 30%, exports recorded an increase of 14% in monetary terms, which is due to the reorientation towards new partners, above all, China, whose share of exports has risen to 22.8%. Cumulative export growth amounted to 20% in 2022, with particular growth recorded in exports of mineral fuels, crude oil and its products (+37%), fertilisers (+61%) and grain (+19%). At the same time, there was a noticeable decline in exports of ferrous metals (-18%), precious metals and stones (-48%) as well as wood and wood products (-24%) [24].

Due to the bans, Russian imports fell by 23%, however, it did not change its commodity structure. The base of Russian imports still comprises: “nuclear reactors, boilers, equipment and mechanical devices; their parts”, “electrical machinery and equipment, their parts”; "means of land transport" (Shkolyar, 2023). China's share of imports to Russia reached 41.7% [25].

The idea of blocking energy trade with Russia has dominated Western sanctions discourse since the start of the military operation in Ukraine. Energy is the backbone of the Russian economy, accounting for 20% of GDP, 40% of federal budget revenues and 60% of exports [26]. For this reason, it was expected that sanctions against this particular industry would be the most destructive for the Russian economy.

Nevertheless, measures against the Russian energy sector have so far had no noticeable effect. This can be partly explained by the fact that the "energy package" of sanctions has been under discussion for far too long and was only adopted in December 2022. The EU alone has purchased more than 100 billion euros worth of energy resources from Russia since the launch of the military operation [27]. As a result, Russia had the opportunity to find alternative markets that made it possible to minimise the damage of the prohibitive measures. At the same time, the rising price of energy resources also played into Russia's hands, so that despite the fact that Russian gas exports fell by 18% compared to the first quarter of 2022, export revenues remained stable[28].

Either way, sanctions on Russian trade have had no significant effect till now. Moreover, the Kremlin turned the tables, introducing retaliatory sanctions in an attempt to punish its ideological enemy. Additionally, sanctions usually cause some costs for the initiator-countries as well[29].

3. Conclusion

More than a year after the introduction of the "third package" of sanctions against Russia, it is clear that Western policy has failed to achieve its most important and immediate goal - to force Russia to end its military operation in Ukraine. Almost two years after the start of the military operation, Russia has incorporated a significant part of the eastern Ukrainian territories and continues to carry out the military operation.

As far as the economic impact of the sanctions is concerned, it can be seen as rather moderate. As expected, the sanctions have created additional costs for the military operation, but have not caused any significant damage to the Russian economy, at least until the end of 2023. The co-called "sanctions from hell" have only caused a moderate downturn in the Russian economy, which has been minimized through correct management decisions and timely preparation of the economy for forthcoming isolation. By the end of 2023, GDP of Russia is about to grow by 3% [30].

It seems quite difficult to assess the effectiveness of the sanctions against the military sector, as official information on this area is not publicly available. However, it can be assumed that the sanctions have forced Russia to postpone its military operation plan. The course of military action in Ukraine would likely to have been shorter and more straightforward if sanctions had not been imposed, as Russia would have built up more robust military capabilities. For instance, if it were not for the sanctions, Russia would have four high-class aircraft carriers of French production in its arsenal, and it can be assumed that their presence would greatly simplify the task of obtaining Ukrainian Odessa for Russia. However, in 2014, France was forced to cancel the contract for the sale of four universal landing ships of the Mistral type to Russia [31].

At the same time, the sanctions had the side effect of deepening the confrontation where a constructive dialogue would be more necessary. The idea of confrontation with the West seems to be very convenient for the Kremlin, with the sanctions perfectly illustrating the manifestation of hostility towards the Russians. In this way, the sanctions have amplified the "rally-around-the-flag" effect observed in the context of growing geopolitical tensions: support for the incumbent Russian president is at a record-breaking 80% according to official statistics [32]; In the same way, the

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Russian opposition doesn't hide its disappointment with the "political West" due to the sometimes populist nature of the measures taken, harmful for Russian civil society and exacerbating human rights problems.

The sanctions have failed to achieve their major goal and have only partially succeeded in causing economic damage. The main reason for this lies in the nature of the existing conflict: Russia sees this conflict as a civilisational and value-based one. For this reason, the country is ready to withstand any punch as well as to accept any loss in the name of a higher goal, as the Kremlin sees it.

There is room for further research on this topic, since there is a perceived need for further monitoring of the impact of sanctions on Russian politics and the economy, as it can be assumed that some sanctions will have effect in long-term rather than instantaneously.

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Author Profile

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