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IMPACTS OF THE ECONOMIC SANCTIONS ON GLOBAL ECONOMY

Economic sanctions are an effective instrument of foreign economic policy. Economic sanctions are applied by countries that pursue an active foreign policy to resolve international conflicts without the use of military and other means, which reduces costs and human casualties [1]. Economic sanctions are applied in response to actions by certain states, individuals, and organizations that pose a threat to international and national security. Such actions include military operations, armed invasions, terrorism, cybercrime, drug trafficking, human rights abuses, arms trafficking, etc.

Russia's invasion of Ukraine has triggered a global economic response that is unprecedented in speed, scope, and scale. In a matter of days, the U.S., U.K., EU, and other countries essentially cut off the world's 11th largest economy from the global economic system. Never before have such deep, harsh and far-reaching sanctions been imposed on such a large country.

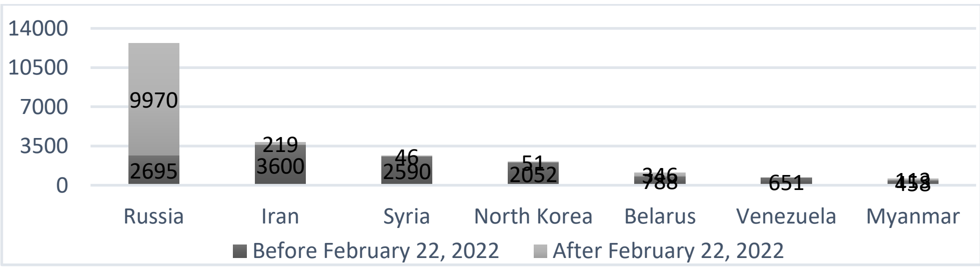

Fig. 1. Number of international sanctions imposed worldwide [2]

Western governments took the first step when they targeted Russia's banking system by preventing the Russian Central Bank from selling its foreign exchange reserves. Perhaps the heaviest blow was the seizure of the Russian Central Bank's assets.

The sanctions caused the value of the ruble to fall to historic lows against the dollar. Prices for Russia's key exports, such as natural gas, nickel and wheat, soared to record highs. The U.S., EU, U.K. and Canada excluded some Russian banks from SWIFT, the financial messaging network used by banks around the world. Other sanctions included the blacklisting of major Russian banks from the global financial system and the passage of a law to freeze the assets of Russian oligarchs abroad.

This economic war may have begun with government sanctions, but as the conflict continued, private companies and investors began to voluntarily sever their ties with Russia. Many Western companies, without being forced to do so, simply packed up and left Russia. Although Russian oil and gas is theoretically exempt from sanctions, many market participants simply do not want to do business with Russian oil and gas. Some Western companies have decided to suspend their operations in Russia, while others have decided to abandon them altogether.

The United States is targeting the main artery of the Russian economy. The Biden administration has banned Russian oil imports, even though the United States imports only about 8% of its oil from Russia. (Russia produces 11% of the world's oil and has 25% of the world's natural gas reserves, so it is unlikely that these resources will be cut off from the global economy overnight. This is especially true for the largest consumer of natural gas, Europe, which gets about 40% of its natural gas from Russia [3].

For Russia, the loss of 2/3 of the European market means the loss of one of the largest sources of foreign currency. According to European Commission estimates, the EU sanctions also blocked annual exports worth 90 billion euros, resulting in a 30% drop in Russian steel production and a 90% drop in timber production [4].

The world responded to the Ukraine war like never before: by using economic sanctions and defensive trade tools to express political opposition to Russian aggression. Sanctions against Russia are subject to rules and mechanisms established by international institutions to limit protectionist measures. The imposition of sanctions has made the Russian economy more dependent on continued revenue from exports of oil, gas and related products.

At the same time, it is affecting the global economy — Russia is facing tough international sanctions for its invasion, and in retaliation it is suspending exports of key commodities. Deficits and rising prices in key industries may be felt around the world, but the disruption could also lead to a long-term reshaping of political and economic relations as countries seek to replace lost Russian and Ukrainian imports with goods from other countries.

Therefore, there is no doubt that the economic and financial sanctions imposed on Russia after the illegal invasion of Ukraine will fundamentally change the international economic system and have a long-term impact on the functioning of the world economy.

References

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