THE (IN)EFFECTIVENESS OF SANCTIONS: AN ATTEMPT AT EVALUATING THE EFFECTIVENESS OF THE SANCTION POLICY AGAINST RUSSIA

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Citation

Abstract
Although Russia’s economy appears immune to any actions taken by countries supporting Ukraine in its struggle to preserve its sovereignty, the sanctions project directed against Russia continues to evolve. The sanctions policy pursued by the European Union, the United States, and their allies is isolating the Russian economy, gradually leading to its ‘Sovietisation’. The primary purpose of this paper is to assess the impact of the sanctions on the economic situation of the Russian Federation. The paper is based on available statistical information provided by the Federal State Statistics Service (Rosstat) and Russian news media.

Key words
war in Ukraine, sanctions, economy, Russia, European Union.

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1. Introduction

The outbreak of the war in Ukraine, which is an escalation of the conflict that has been going on since 2014, poses a threat not only to the sovereignty of Ukraine, but also to member states of the European Union, especially the Baltic states and Poland. In response to the Russian aggression against Ukraine, the European Union, the United States, and their closest allies have imposed a package of sanctions on Russia designed to limit Russia’s ability to fund the so-called ‘special military operation’. Generally, researchers agree that the effectiveness of sanctions is rather questionable, especially in the case of authoritarian regimes (Drezner, 2015; Guter-Sandu, Kuznetsova, 2020; Silva, Selden, 2020; Tsouloufas, Rochat, 2023). However, at the outbreak of the war in Ukraine, the European Union recognised that sanctions were the most practical, quick, and only appropriate response to Russia’s military activity (Cardwell, Moret, 2023). As E. Hellquist (2016, p. 998) suggests, the European Union, which does not have its own armed forces, uses sanctions as a kind of substitute for the use of force against a state that poses a threat to EU members and the associated states. In addition, the European Community, the USA, and their allies believe that through decisive and concerted action they can destabilise the Russian economy and hasten the end of the war taking place on European soil.
Although the literature on the sanctions war between the European Union, the United States, and Russia is extremely extensive (e.g., Kuczyńska-Zonik, 2016; Pospieszna, 2018; Doornich, Raspotnik, 2020; Gould-Davies, 2020; Andermo, Kragh, 2021; Sedrakyan, 2022; Cardwell, Moret, 2023; Tsouloufas, Rochat, 2023), the issue has not yet been adequately analysed. As B. Stępień et al. (2016) note, the evaluation of the effectiveness of sanctions is extremely complex. While it is possible to assess the economic impact of sanctions, finding tools to capture and measure the impact of sanctions on political elites and their response to this impact remains a big challenge (Stępień et al., 2016, p.165).

In the context of an assessment of the impact of economic sanctions on the Russian economy, the lack of access to reliable statistical information is a major impediment (see Kluge 2022; Meissner, Graziani 2023; Studzińska, Dunaj, 2023, among others). By decision of the Russian government, after February 24, 2022, some economic data on Russia has been classified, including information on gold and foreign exchange reserves. The Russian Federal Customs Service has stopped publishing import and export statistics. In addition, the State Duma passed a law allowing the government to withhold official statistics (Interfax, 2023). There is no doubt that this not only makes it difficult for experts to assess the effectiveness of the sanctions policy against Russia, but most importantly, it makes it easier for the Russian government to instrumentalise sanctions and use them for its own political purposes (cf. Guter-Sandu, Kuznetsova, 2020).

The intention of the authors of this paper is to assess the impact of the sanctions on the economic situation of the Russian Federation. To this end, the authors have attempted to answer three key questions: (1) How has Russia’s economic situation changed after the escalation of the conflict in Ukraine? (2) Is the sanctions policy against Russia pursued by the European Union, the United States, and their allies effective? (3) Is it possible to assess the effectiveness of the sanctions based on an analysis of official statistics made available by the Russian Federation and other Russian information sources? The paper is based on available statistical information provided by the Federal State Statistics Service (Rosstat) and Russian news media.

2. Theoretical background

The context of the impact of sanctions on a target country’s economy and their effectiveness in influencing existing policies is widely described in the literature on the subject (e.g., Neuenkirch, Neumeier, 2015; Oja, 2015; Doornich, Raspotnik, 2020; Silva, Selden, 2020; Harrington, 2022; Sedrakyan, 2022; Gaur et al., 2023; Meissner, Graziani, 2023). This issue has been receiving researchers’ particular attention since the European Union imposed sanctions on Russia for its actions to destabilise the political situation in the eastern part and then in the whole of Ukraine (Jones, Whitworth, 2014; Romanova, 2016; Kazantsev, 2017; Doornich, Raspotnik, 2020; Gould-Davies, 2020; Tsououfas, Rochat, 2023, among others).

Sanctions are defined as instruments of coercion aimed at exerting pressure on the target country. States imposing sanctions seek to change policies or stop military actions conducted by the sanctioned country (Doornich, Raspotnik, 2020). According to G. Tsouloufas and M. Rochat (2023, p. 1), ‘sanctions can be imposed by a single state or a coalition of states’. A general review of the literature shows that it is states with greater economic and military potential that take on the role of the sanctioning countries (Davis, Engerman, 2003).

Given the varying intensity of the impact of sanctions on the target society, the sanctioning states can use comprehensive or smart sanctions. Comprehensive sanctions hit the entire economy. The long-standing US embargo on Cuba’s economy is a good example in this regard. Smart sanctions, on the other hand, target specific individuals, goods, and business entities (Tsouloufas, Rochat, 2023, p. 3; Meissner, Graziani 2023). K. Meissner and C. Graiziani (2023, p. 389) suggest that countries that take humanitarian concerns into account use smart sanction policies. This was the approach used by the European Union, among others, until the escalation of the conflict in Ukraine.

According to A. Guter-Sandu and E. Kuznetsova (2020), the effectiveness of sanctions depends on: (1) the political regime, (2) the cultural ties, (3) the support from external partners, (4) the extent of economic costs, (5) their duration, and (6) the use of sanctions by government authorities for their own political purposes. Researchers agree that the effectiveness of sanctions decreases when they are directed against authoritarian regimes (Gould-Davies, 2020). In addition, sanctions are less effective if the sanctioning and the sanctioned states are linked by cultural proximity or economic partnerships (Guter-Sandu, Kuznetsova, 2020; Gould-Davies, 2020). Another important aspect to be considered in the sanctioning policy is its duration. The longer the sanctions are in place, the greater the effects (Guter-Sandu, Kuznetsova, 2020, p. 604).

Other aspects that influence the effectiveness of sanctions include their nature and the timing of
their imposition (Gould-Davies, 2020). The author reports that sanctions imposed immediately are more effective because they do not allow the sanctioned entity time to build economic resilience. Moreover, as C. Glenn (2023) notes, the meaning of sanctions is different during war and peacetime. This instrument is less effective during an ongoing war, as evidenced by V. Putin’s attitude toward Ukraine after the West imposed a package of restrictive measures. As N. Gould-Davies (2020, p. 9) concludes, the use of sanctions can be effective in inducing slight changes in the policy. In contrast, their role in stopping hostilities or regime change is limited.

Regardless of the objectives of the imposed sanctions, their costs are borne by both the sanctioned nations and the citizens of the state imposing the sanctions (Romanova, 2016). According to P.M. Silva and N. Selden (2020), the losses incurred in connection with sanctions policies depend on the degree of interdependence/partnership between the sanctioning country and the target country. This is particularly relevant to the European Union’s strategic relationship with Russia. Indeed, as Hausmann et al. suggest (2022), European countries are not only more likely – than the United States – to suffer economic losses due to the ongoing sanctions, but also to see fraudulent actions of European companies that will attempt to continue doing business with Russian and Belarusian businesses. In addition, it should be noted that the degree of economic ties between individual EU member states and Russia varies. It should be emphasised that it is the Baltic States and Poland that suffer the biggest losses due to the sanctions policy against Russia (cf. Romanova, 2016; Sun, Zhang, 2022). Nevertheless, as P.M. Silva and N. Selden (2020, p. 232) conclude, these countries – because of concerns about their own security – have been the biggest supporters of the imposition of the sanctions.

Although sanctions had been imposed on Russia since March 2014, as C. Freudlsperger and F. Schimmelfennig (2023, p. 22) note, only the package of restrictive measures imposed after 2022 was a strong and comprehensive response to Russia’s military operations in Ukraine. As K. Meissner and C. Graziani (2023, p. 391) conclude, ‘The draft of the sanctions adopted in 2022 entails significant costs for the Russian economy and thus unintended consequences for the Russian population.’ The comprehensive action is the result of the perception of the Russian-Ukrainian conflict as a direct threat to EU member states (Freudlsperger, Schimmelfennig, 2023).

‘Since the Russian invasion of Ukraine on February 24, 2022, more than 30 countries have imposed new economic sanctions on Russia’ (Tsouloufas, Rochat, 2023, p. 8). Concrete measures to weaken the Russian economy have been taken by the United States, Canada, the United Kingdom, Japan, Australia, New Zealand, South Korea, Singapore, Taiwan, and almost all European countries. The European Union has introduced a package of individual, economic, and diplomatic sanctions. The Community extends the sanctions – in place since 2014 – every six months and declares that they will be lifted after an assessment of the implementation of the Minsk agreements (Consilium Europa, 2023).

According to information provided by the European Commission, targeted sanctions have been imposed on 1,473 individuals and 205 entities (including, among others, banks and financial institutions, defence industries, aviation, shipbuilding, and media responsible for disinformation). The economic sanctions implemented by the EU are expected to weaken Russia’s financial, trade, energy, transportation, technology, and defence sectors. Some of the most severe sanctions for Russia include (1) the exclusion of 10 Russian banks from the SWIFT system; (2) the ban on coal and oil imports (with limited exceptions) from Russia; (3) the introduction of a price ceiling related to the maritime transportation of crude oil and petroleum products; (4) the closing of EU ports to Russian ships; (5) the ban on the entry of Russian and Belarusian road carriers to the EU; (6) the ban on exports of goods and technology in the aviation, maritime, and space sectors to Russia; (7) the ban on imports of iron, steel, wood, cement, asphalt, paper, synthetic rubber, plastic, and gold from Russia; (8) the prohibition of certain consulting and advisory services; and (9) the discontinuation of the granting of loans to Russia by the European Investment Bank and the European Bank for Reconstruction and Development (Consilium Europa, 2023). As K. Meissner and C. Graziani (2023, p. 391) emphasise, ‘The current developments portend an escalation of the situation and the continued and increasing use of even more intensive sanctions.

### 3. Resilience of the Russian economy to the sanctions

Although the sanctions regime aimed against Russia does not yet have the hallmarks of a full embargo, it is constantly evolving and responding to the changing geopolitical situation (Meissner, Graziani, 2023, p. 391). Nevertheless, Russia’s economy appears to be immune to any actions taken by countries supporting Ukraine in its struggle to preserve its...
Oil exports are crucial to repairing the Russian budget (Kluge, 2022). Therefore, the government is looking for solutions to increase revenues from the sale of this product. One idea is to tax oil companies under new rules, under which the Russian Finance Ministry will set the amount of taxes, rather than depend on the market prices. This will force Russian businesses to seek buyers willing to buy Russian oil at a high enough price. Another option will be to sell at a lower price, but this will involve payment at the market price (RBC, 2023b). It can be inferred that the Government of the Russian Federation – at the expense of oil companies – will mend the state budget, allowing significant funds to continue to be spent on the Russian military.

The financial system of the Russian Federation has also undergone a number of transformations due to the imposition of the sanctions. The sanctioning countries have imposed various financial sanctions on Russia, making it difficult to make money transfers in international trade currencies, namely dollars and euros. With assets frozen and the sanctioned Central Bank of the Russian Federation, the exchange rate of the ruble plummeted. At its lowest on March 11, 2023, Russians had to pay about 80 rubles per dollar, when the price of one dollar was 51 rubles. In May 2023, Russians had to pay about 80 rubles per dollar, the same as before the beginning of the invasion of Ukraine in February 2022 (Central Bank of Russia, 2023).

Maintaining the ruble’s relative strength possible by the introduction of unusual measures by the central government, such as: (1) limiting the possibility of buying currency; (2) prohibiting cash withdrawals from foreign currency accounts; (3) maintaining revenues in foreign currencies; (4) restricting transfers of currency abroad; and (5) introducing high interest rates on savings deposits (Wyugin et al., 2022). This strategy of the Central Bank of Russia – although very risky – has stabilised the demand for foreign currencies, prevented the withdrawal of euro and dollar reserves from banks, and averted a crisis in the financial system. Although these solutions are a heavy burden on the citizens of the Russian Federation, they allow the country to preserve a relatively stable financial situation, at least in the short term.

It is worth mentioning, however, that despite the restrictions applied by the Russian government, the Central Bank of Russia recorded a net capital outflow from the private sector of 130 billion USD (i.e., 11% of Russia’s GDP) in the first half of 2022. The main recipient countries were Kazakhstan, Georgia,
In addition, according to the authors, large companies – 77% of businesses – show less resilience to sanctions. Industries that depend on imported parts, as well as those that were mostly run by Western investors, are suffering the greatest losses. A particularly difficult situation of the Russian automotive industry is a good example in this regard (Kluge, 2022). Nevertheless, according to Bild (2023), there was a significant increase in Germany’s car and auto parts exports to Kazakhstan (by up to 507% from 2021) and Armenia (by up to 761%) in 2022. Undoubtedly, this sharp increase in deliveries to Russia’s partner countries allows the automotive sector to improve its financial situation.

While the importation of consumer goods is relatively immune to sanctions, investment imports are a key concern for the government of the Russian Federation. Official statistical information on the volume of investment imports is unavailable. Nevertheless, according to estimates, the volume of investment imports in the first half of 2022 declined by 44%, with imports from EU member states falling 3- to 5-fold (Vedomosti, 2022; Kommersant, 2022).

The sanctions introduced against Russia also affect the condition of the Russian labour market. It is worth noting that Russia is facing a shortage of qualified specialists, especially those of young age. According to J. Kluge (2022), the closure of the Russian economy has forced Russian programmers and programmers to emigrate. According to Rosstat, in 2022 the number of workers under the age of 35 decreased by 1.3 million to 21.5 million (about 30% of the total workforce). This is the lowest value recorded by Rosstat since 2006. Compared to 2021, the number of workers between the ages of 25 and 29 decreased particularly sharply (down by 724,000 – this figure includes soldiers and those drafted to serve in the military, so it should be inferred that the figures may be even higher than the official statistics). In 2022, the size of this group was just over 7 million people. Nevertheless, there were no significant layoffs in 2022. According to official statistics, in 2022 the unemployment rate was at a record low of 3.9% (Rosstat, 2023). Due to the budget surplus, the state was able to support businesses with domestic funds. In addition, to avoid staff reductions, companies introduced part-time work arrangements and other ways to support employees (RBC 2023a, c).

This solution – although effective – will not enable maintaining the relatively good situation in the Russian labour market in the long term.
Since 2023, it has been virtually impossible to analyse Russia’s economic situation, because in February 2022 Vladimir Putin signed a law that allows the government to stop releasing official statistics. For example, the publication of statistical information on the production of oil, natural gas, and petroleum products has been suspended until April 2024 (RBC, 2023b), significantly hindering an assessment of the state of the Russian economy. It is worth mentioning that the Russian central government does not disclose the difference in the value of production in various sectors of the economy and presents only those statistical indicators that have increased recently. Thus, it creates misconceptions among Russia’s citizens about the real state of the economy. Some information about the destabilisation of the Russian Federation’s economy and the actions taken by the Russian government can be inferred from other countries’ official statistics (e.g., on exports). Nevertheless, it is reasonable to assume that the impact of the sanctions on the Russian economy is far greater than the impact shown by the official statistics released by the Russian Federation.

4. Summary

The war is destabilising the Russian economy. Uncertainty caused by the sanctions has a negative impact on Russian businesses and the condition of households. Nevertheless, it should be said that the central authorities of the Russian Federation, as well as the country’s businesses and citizens, have become accustomed to living and functioning in times of crisis and are showing great flexibility. The adaptive strategies implemented by Russian companies enable them to operate in these uncertain times.

The instruments used by the government (including an increase in pensions and family benefits, financial support for businesses, supply of goods through parallel imports, and financial measures introduced by the Central Bank) but also the favourable external factors (most importantly, the high prices of energy resources on the global markets, and the possibility of exporting products) have reduced the effectiveness of the sanctions imposed on Russia. There is no doubt that the policy pursued by the central government, along with the general disinformation, reinforces the belief of the citizens of the Russian Federation that Russia’s so-called ‘special military operation’ has no impact on the country’s economic security. While such a strategy can be effective in the short term, it can be difficult to implement in the long term. As experts note, gradual “Sovietisation” is taking place in the Russian economy, manifested in the isolation of the economy, the increased formal and informal role of the public sector, and the intensification of budget spending on the defence sector (Wyugin et al., 2022).

Even though it is difficult to assess the effectiveness of the sanctions imposed on Russia, G. Tsouloufas and M. Rochat (2023) clearly prove that the sanctions imposed by the European Union and its allies are far from effective, because they did not stop Russia from continuing its military operations in Ukraine. As suggested by Wyugin et al. (2022), the Russian economy has proved highly resilient to the comprehensive sanctions project because of its huge trade surplus, the high global energy commodity prices, and Russia’s government budget surplus. In addition, the authors point out that the Russian economy was not dependent on trade in dollars. It should be concluded that the combination of the financial sanctions with the ban (restriction) on imports – in the absence of measures to restrict exports – do not have a destabilising effect on Russia’s economy in the short term, allowing its government to build resilience to the sanctions policies. Nevertheless, as J. Kluge (2022) suggests, the sanctions policies of the European Union and its allies will contribute to the collapse of the Russian economy and its transformation into a ‘big petrol station’. The analysis conducted for this paper proves that with the decline in revenues from the sale of energy resources, the Russian economy will face the consequences of an economic crisis, which will be reflected in a lack of investment, devaluation, and a budget deficit, among other things. It is reasonable to assume that the crisis will be compounded by a change in the priorities of the economic policies and an increased spending on the defence industry. The question that remains is: How long will the government be able to hide information about the state of the Russian economy and to instrumentalise the sanctions? Although the sanctions introduced by the United States, the European Union, and their allies appear to be insufficient, a sufficiently long duration of the sanctions policy and its continuous modification, with consideration given to a full embargo, are needed to increase their effectiveness.
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