REASONS FOR THE INTRODUCTION, EFFECTS AND ROLE OF MULTILATERAL ECONOMIC SANCTIONS IN A MULTIPOLAR WORLD

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Abstract: The aim of the paper is to analyze international sanctions in the third decade of the 21st century. International sanctions are non-violent actions that individual states undertake against other states to force them to change certain foreign and domestic policy aspects that are considered unacceptable. Sanctions, introduced by one country, or an international organization are divided into unilateral and multilateral. Sanctions are usually divided into three forms: diplomatic (restriction or complete termination of diplomatic relations), economic (usually related to the prohibition of trade, usually related to weapons), and military sanctions. The aim of the paper is to analyze the current economic multilateral sanctions against the Russian Federation. The purpose of the introduction of sweeping sanctions is to try to overthrow the current government, which made it impossible to implement the policy that led to the introduction of the sanctions. Descriptive and comparative methods and scientific articles were used in the paper together with announcements by regulators, websites of relevant institutions, books, etc. Data on monthly oil and gas production, exports, inflows, and outflows of capital, mandatory financial reports of large companies, data on the monetary base of the central bank, data on direct foreign investments, and data on lending are observed. The paper shows that the general public is actually deprived of a large number of essential statistical data that was updated on a monthly basis until February 2022. Namely, one of the key reasons why there is doubt about the effectiveness of sanctions is that not enough relevant economic indicators are coming from Russia. Instead, optimistic Russian economic analyses, forecasts, and projections are transmitted. The work indicates that there are certain misconceptions among experts and the general public regarding sanctions. The conclusion is that certain sanctions, such as bans related to agricultural products and artificial fertilizers, have been relaxed. However, all sanctions are introduced to hurt the country and lead to regime change. The paper raises numerous questions arising from the fact that there is great uncertainty that has led to a slowdown in economic activity at the global level.

Keywords: international sanctions, economic sanctions, multilateral sanctions, international relations.

INTRODUCTION

In the 20th century, and especially after the Second World War, international sanctions gained great popularity as one of the instruments of international politics. Their biggest advantage is that - along with diplomacy - they represent the most...
effective possible alternative to war as a means of resolving international disputes. Mulder notes that, after the Second World War, the reasons for sanctions multiplied. Since then, the following have come into consideration: human rights violations, pressure on dictators to democratize their countries, suspension of nuclear programs, punishment or at least extradition of those accused of war crimes, release of political prisoners, etc (Mulder, 2022). The same author points out that sanctions, as a rule, do not cost those who introduce them anything, since they do not affect their electorate.

International sanctions are political and economic decisions that are part of diplomatic efforts by countries, multilateral or regional organizations against states or organizations either to protect national security interests, or to protect international law, and defend against threats to international peace and security (Hufbauer, Schott, Elliott & Oegg, 2007). These decisions principally include the temporary imposition on a target of economic, trade, diplomatic, cultural or other restrictions (sanctions measures) that are lifted when the motivating security concerns no longer apply, or when no new threats have arisen (Cortright, et. al. 2000). Proponents of international sanctions argue that they have become even more effective thanks to economic, political and cultural trends at the end of the 20th century. Thus, thanks to globalization, the economy of each country is far more sensitive to interruptions in the flow of goods, people and capital. Thanks to the increase in the number of democratic countries in the world, rulers are far more sensitive to sanctions. Exposure to global media, on the other hand, makes residents of countries under sanctions far more aware of national humiliation, for which one example is the ban on FRY participating in international sports competitions in the early 1990s. On the other hand, international sanctions as a concept have come under attack from critics who consider them an excuse for not taking specific actions against problematic states in cases where there are no immediate interests. An argument against sanctions is the fact that in many autocratic and nationalist states, sanctions serve as an excuse for increasing political repression, i.e. chauvinism, xenophobia and conspiracy theories. A frequent argument is a fact that sanctions lead to their violation, which serves as a basis for the development of organized crime and corruption.

According to Chapter VII of the United Nations Charter, only the UN Security Council has a mandate by the international community to apply sanctions (Article 41) that must be complied with by all UN member states (Article 2,2). They serve as the international community's most powerful peaceful means to prevent threats to international peace and security or to settle them. Sanctions do not include the use of military force. However, if sanctions do not lead to the diplomatic settlement of a conflict, the use of force can be authorized by the Security Council separately under Article 42.

**LITERATURE REVIEW**

Two years after the start of the pandemic, when it was expected that business would continue with the “new normal”, on February 24, the crisis began in Ukraine. A few days after the crisis started, the world's stock markets showed what a tectonic disturbance it was from the aspect of the world economy. The prices of energy products, basic raw materials for the production of food, but also of money, started to experience serious jumps already in January, which is not a surprise considering
that Russia is one of the leading economies in the world. According to total production, in 2021 that country was the 11th largest economy in the world. It is estimated that the country exports between 60 percent and 70 percent of oil and gas in its total production, is the world’s largest exporter of wheat, and is among the leading exporters of coal, and metals such as iron, steel, aluminum, nickel, and palladium. These resources are widely used in production - from food to cosmetics to the automotive industry.

For decades, Europe, home to 12 of the world’s 25 largest economies, has been discussing dependence on Russian energy sources. An economy is an effective tool in politics, it is the best substitute for military activity. Hence the continuous fear of European politicians that dependence on Russian energy sources, primarily gas and oil, could cause economic, and eventually political, weakening of Europe. In 2020, Russia was the number 11 economy in the world in terms of GDP (current US$), the number 13 in total exports, the number 21 in total imports, the number 70 economy in terms of GDP per capita (current US$) and the number 43 most complex economy according to the Economic Complexity Index (ECI) (OEC World, 2022). The top exports of Russia are Crude Petroleum ($74.4B), Refined Petroleum ($48B), Petroleum Gas ($19.7B), Gold ($18.7B), and Coal Briquettes ($14.5B), exporting mostly to China ($49.3B), United Kingdom ($25.3B), Netherlands ($22.5B), Belarus ($15.8B), and Germany ($14.2B). Among main export items are wheat (first in the world) ($8.4 B), semi-processed production of iron (cca $7 B), nickel ($4.03 B), nitrogen fertilizers ($3.054 B), cobalt (second in the world), vanadium (second in the world), nickel, platinum, gold, diamonds, aluminum wood, magnesium, zinc, tungsten, copper, titanium etc. (OEC World, 2022). The strength of the Russian economy is best illustrated by the fact that, according to the GDP PPP parameter, this country is among the five largest economies in the world, although it is behind Italy in terms of nominal GDP. In addition, the Russian economy is characterized by extremely low public debt and an excellent trade balance (Table 1).

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (ppp)</th>
<th>GDP nom.</th>
<th>Public debt/GDP</th>
<th>Trade balance (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>27.31</td>
<td>17.73</td>
<td>73.3</td>
<td>2.60%</td>
</tr>
<tr>
<td>USA</td>
<td>23.00</td>
<td>23</td>
<td>132.6</td>
<td>-3.10%</td>
</tr>
<tr>
<td>India</td>
<td>10.22</td>
<td>3.17</td>
<td>86.8</td>
<td>-2%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.40</td>
<td>4.94</td>
<td>263.1</td>
<td>2.90%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.82</td>
<td>4.22</td>
<td>70.2</td>
<td>5.50%</td>
</tr>
<tr>
<td>Russia</td>
<td>4.79</td>
<td>1.78</td>
<td>17</td>
<td>9.60%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>3.34</td>
<td>3.19</td>
<td>95.3</td>
<td>-1.60%</td>
</tr>
<tr>
<td>Italy</td>
<td>2.71</td>
<td>2.1</td>
<td>150.9</td>
<td>2.40%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>0.59</td>
<td>0.22</td>
<td>49</td>
<td>-1.10%</td>
</tr>
</tbody>
</table>

Source: (World Bank, 2022; IMF, 2022)

After February 24, it became more than clear that in addition to the military-political crisis in Eastern Europe, the world is also entering a resource-energy crisis. The prices of gas, oil, metals, wheat and other goods on the world market are
increasing daily, with a simultaneous increase in the value of the money used to buy these goods, which ultimately makes the prices of resources even higher. Along with attempts to resolve the military-political crisis, realizing the seriousness of the resource-energy crisis, EU leaders quickly made a strategic decision according to which the Union will actively work to reduce dependence on Russian gas, oil, and coal in the next five years. Parallel to that process, multilateral economic and diplomatic sanctions against the Russian Federation are being introduced.

As the Russian war on Ukraine persists, the popular pressure on European politicians to ban Russian energy imports is likely to intensify. A recent study using a state-of-the-art macro-sectoral model concludes that the economic cost in Germany of a halt to energy imports from Russia would be “substantial but manageable,” reducing GDP by between 0.5%-3%. This compares with the 4.5% plunge in the pandemic (Bachmann et al. 2022).

THE EFFECTS OF SANCTIONS ON THE RUSSIAN FEDERATION

Following Russia's invasion of Ukraine in February 2022, the United States, the European Union, and other countries introduced or significantly expanded sanctions to include Vladimir Putin and other government members, and cut off “selected Russian banks” from the SWIFT network triggering the 2022 Russian financial crisis and a massive international boycott of Russia and Belarus, which supports the invasion. While the general public has the impression that sanctions against Russia have no effect, Foreign Policy magazine claims the opposite. In an extensive analysis of the current state of the economy of the Russian Federation, which is under severe Western sanctions, the magazine singles out several reasons why those who believe that the sanctions have not produced results are actually mistaken. Ostroukh and Winning believe that sanctions are “far from being ineffective or disappointing (Ostroukh & Winning, 2022). International sanctions and voluntary business withdrawal have had a devastating effect on the Russian economy.” (Sonnenfeld & Tian, Actually, the Russian Economy Is Imploding, 2022).

One of the key reasons why there is a dilemma about the effectiveness of the sanction is that not enough relevant economic indicators are coming from Russia. Instead, refer to overly optimistic Russian economic analyses, forecasts, and projections. The Russian government has progressively withheld a growing number of key statistics that were updated on a monthly basis before the war, including all foreign trade data. Among them are statistics related to exports and imports, especially in Europe. Furthermore, data on monthly oil and gas production, export quantities of goods, inflows, and outflows of capital, mandatory financial reports of large companies, data on the monetary base of the central bank, data on foreign direct investments, then data on crediting and issuing loans were denied; and other data related to credit availability. Even Rosaviatsia, the federal air transport agency, suddenly stopped publishing data on the number of passengers in airlines and airports (Anisimova & Korenâko, 2022; Sonnenfeld & Tian, Actually, the Russian Economy Is Imploding, 2022). Besides that, the government has suspended the fiscal rule in response to the sanctions imposed after the invasion of Ukraine. The projection assumes an increase in discretionary spending by the amount of what would otherwise have been saved according to the fiscal rule, some borrowing, and a decline in revenues because of the projected recession.
Based on doubts about the accuracy of the Kremlin’s statistics, a team of experts from Yale University, using private Russian-language data sources and direct data sources, including high-frequency consumer data, cross-channel checks, communications from Russia’s international trading partners, and complex data mining of transportation data, published one of the first comprehensive economic analyzes measuring Russia’s current economic activity five months after the invasion. From their analysis, it follows that the withdrawal of business from the Russian Federation sanctions collapse the Russian economy in the short and long term. (Sonnenfeld, Business Retreats and Sanctions Are Crippling the Russian Economy. Measures of Current Economic Activity and Economic Outlook Point to Devastating Impact on Russia, 2022)

Less than 10 percent of Russia’s gas capacity is liquefied natural gas, so Russian gas exports remain dependent on fixed pipeline systems for gas transmission. The vast majority of Russian gas pipelines flow towards Europe. Those pipelines, which originate in western Russia, cannot be connected to a separate new pipeline network connecting eastern Siberia to Asia, which contains only 10 percent of the capacity of Europe’s pipeline network. Russia exported 16.5 billion m$^3$ to China in 2021, which represents less than 10 percent of the 170 billion m$^3$ of natural gas that Russia sent to Europe. Asian pipeline projects, currently under construction, are still years away from becoming operational. Additionally, financing these expensive pipeline projects also puts Russia at a significant disadvantage. In summary, Russia needs world markets much more than the world needs Russian supplies. For starters, Europe met 46 percent of its gas needs by buying gas from Russia, and Gazprom recorded a drop in gas production in July by 35 percent on an annual basis. So, Russia suffers damage. Russia did turn to China and India, but at an unprecedented discount. Ural sells oil at a discount of $35, although it has never given a discount of more than five dollars, even during the invasion of Crimea in 2014 (Bloomberg, 2022). Therefore, Russian oil tankers take an average of 35 days to reach East Asia, versus two to seven days to reach Europe, which is why only 39 percent of Russian oil went to Asia versus 53 percent destined for Europe (Themoscowtimes, 2019). This is a big impact on the margin and profitability of the business, where Russia used to be among the most successful. In addition, Russia’s oil production industry has long relied on Western technology, which, combined with the loss of Russia’s former primary market and its diminished economic strength, has caused even Russia’s energy ministry to revise its long-term oil production projections downward.

Russian imports decreased by 50 percent compared to January. Imports play an important role in the Russian domestic economy. It makes up about 20 percent of Russia’s GDP. In addition, it is important to Russia because of key inputs – parts and technology. K China did not enter the Russian market to the extent that many predicted. According to data from the Chinese General Administration of Customs, Chinese exports to Russia fell by more than 50 percent from the beginning of the year to April. It plummeted from 8.1 to 3.8 billion dollars (General administration of customs Ppeople’s republic of China, 2022). Considering that China exports seven times more to the United States than to Russia, even Chinese companies appear to be more concerned about running afoul of US sanctions than losing positions in the Russian market, reflecting Russia’s weak economic ties with its global trading partners (Sonnenfeld, 2022).
Inflation in sectors that depend on foreign supply chains in Russia has jumped to 40-60 percent. Sales volumes have become extremely small. Thus, the sale of foreign cars in Russia fell by about 95 percent, and with a large number of companies, it can be said that it has completely stopped. Due to supply problems, price jumps, and weakening consumer sentiment, it is logical that the index that measures the mood of Russian procurement managers indicates that the Russian economy is in decline. On average, about 20 percent. Such a signal is confirmed by e-commerce trends within Yandex and data on physical retail sales in Moscow. All this says the opposite of what the Kremlin announces. Rising inflation and climbing interest rates have supplanted more than a decade of muted inflation and low-interest rates in many countries. Recession concerns are surfacing and geopolitical tensions have increased further as Russia’s invasion of Ukraine persists (October 2022 World Economic Outlook).

Foreign companies employ about 12 percent of the workforce in Russia. That’s about five million workers. The result of their withdrawal is not only a decrease in the number of jobs, but also a decrease in the economic activity of more than 1,000 companies that make up about 40 percent of Russia’s GDP. Those companies canceled three decades of building economic relations on the Russian market. We are talking about a mass exodus, which entailed the outflow of 500,000 highly educated experts.

Even the mayor of Moscow has admitted that he expects significant job losses as businesses go through a process of complete shutdown (Radio Free Europe, 2022).

The Minister of Finance of Russia announced that he expects the Russian budget to be in the deficit of only two percent of GDP this year, and not in surplus. Putin decided to harness all the mechanisms of the state in order to reduce the decline. He embarked on financially unsustainable fiscal and monetary interventions. This includes drastically increasing military spending and printing money. Thus, since the beginning of the attack on Ukraine, he has doubled the supply of money in Russia. Putin’s reckless spending is clearly putting the Kremlin’s finances under pressure. All this is not happening because of high energy prices, because high energy prices were also in periods when the Russian budget used to fall into deficit. Here, the reasons for that decline are different.

Russia has a lot of capital in its accounts. Putin’s rainy day funds weigh around $600 billion in foreign exchange reserves, accumulated from oil and gas revenues. But half of that amount – 300 billion dollars is frozen and unavailable in allied countries: USA, EU and Japan, and Putin does not have access to that money. There have even been calls to seize that $300 billion to finance the reconstruction of Ukraine. Of the remaining 300 billion, Putin has spent as much as 75 billion dollars since the beginning of the attack on Ukraine, meaning in less than half a year.

Critics point out, as stated by Foreign Policy, that Russia has an alternative. That is to accumulate additional foreign exchange reserves through Gazprombanka because the central bank is under sanctions. Although this is technically correct and feasible, the magazine writes that there is no evidence to suggest that Gazprombank is accumulating any reserves. Especially because it has its own credit obligations.

Furthermore, although the Ministry of Finance planned to activate a long-standing Russian budget rule, that excess revenue from the sale of oil and gas is channeled into the state fund, Putin rejected it. Moreover, Finance Minister Anton Siluanov
proposed to withdraw a third of his assets from the National Wealth Fund this year. So, if Russia is running a budget deficit that requires the withdrawal of as much as a third of its sovereign wealth fund, while oil and gas revenues are still relatively strong, all signs indicate that the Kremlin could run out of money much faster than many estimate.

The appreciation of the ruble is not a good sign, on the contrary, it is a reflection of draconian capital control, where Russia overnight became one of the most restrictive countries in the world. Restrictions are felt not only by companies, but also by citizens. For example, citizens cannot buy dollars or withdraw their deposits in dollars.

The official ruble exchange rate is therefore misleading. It is traded in dramatically reduced volumes compared to pre-war levels, as liquidity has fallen. According to many reports, much of that former trading has migrated to unofficial ruble black markets. Even the Bank of Russia admitted that the exchange rate is more a reflection of government policy and an open expression of the country’s trade balance, rather than liquid foreign exchange markets that are freely traded.

The Russian economy is seriously damaged, but it is just coming to the moment when it needs to admit it to itself. It is not true that the process of withdrawing business from Russia has ended and it is not true that Putin is still not making money from oil and gas exports. The fact that these processes continue, albeit on a reduced scale, enables Putin to maintain extravagant domestic consumption and conceal structural economic weaknesses. That’s why, writes Foreign Policy, now is not the time to hit the brakes.

EFFECTS OF SANCTIONS AND WAR - ECONOMIC SETBACK

Twice a year, in April and October, the IMF provides a forecast of the main economic indicators by country. The last forecast was given in April this year, about two months after the outbreak of the war in Ukraine. Most superficial observers of the effects of sanctions and war on economic processes believe that sanctions and war do not harm the Russian economy too much. That conclusion is quite wrongly derived from the movement of the exchange rate of the ruble against the US dollar. Those who consider this exchange rate as an indicator of the strength of the Russian economy (and they are by far the most numerous) believe that if the ruble strengthens (appreciates) compared to the dollar, then the sanctions do not affect the Russian economy, or their effect is extremely low. Such a way of thinking is completely wrong. Russia first felt the force of the G7 and EU sanctions in 2014 after the start of the civil war in Ukraine. The effects of the sanctions are also noticeable in the years that followed, and this is best seen in the negative (2015) and low growth rates of real GDP until 2019. During 1999, Serbia was exposed to aggression throughout the territory, and the aggressor destroyed both civil and commercial facilities, which, along with the imposed sanctions and a halt in economic activity, caused a decrease in GDP by 10%.

With the exception of the narrow border areas of southwestern Russia, the current war is not taking place on the territory of Russia at all. No major economic facilities were destroyed on the territory of Russia, although the shells also hit targets in the border regions of Russia. Nevertheless, although there is no destruction of Russian economic assets according to the IMF, the estimated annual decline of the
Russian economy will be enormous. In 2022, it will decrease by 8.5% compared to 2021, and a drop of that size was last registered in 1993. Therefore, sanctions are introduced with the intention of hurting.

The magnitude of this decline compared to past economic movements in Russia, the wartime Serbian economy and economic growth in the countries of the G7 group in 2022, breaks the illusion and false assumption about mild or non-existent effects of sanctions and war on the Russian economy. Economically, Russia will fare the same or worse than Serbia through 2022, even though the 1999 war was fought on Serbian soil, and this year’s war is not territorially Russian. The economic tragedy, even before the 2014 war of economically destroyed Ukraine, continued at a galloping pace. For example, in 2015, the Ukrainian economy shrank by 10%, and in 2022, its real GDP is expected to decrease by about a third compared to last year’s level (-35%). Russia and Ukraine are going through an economic downturn last seen in the years after the fall of the Berlin Wall. For the sake of comparison, in 1994, Ukrainian GDP decreased by 23%, Russian by 13%. Neither Ukrainians nor Russians have learned anything from recent economic history. Another interesting parallel with Yugoslavia is sports sanctions. Sports sanctions are used as a way of psychological warfare, intended to crush the morale of the general population of the target country. Sports sanctions were imposed as part of the international sanctions against the Federal Republic of Yugoslavia, 1992–1995, enacted by the UN Security Council by resolution 757. During the 2022 Russian invasion of Ukraine, many sporting bodies imposed sports sanctions against Russia and Belarus. The target countries are usually not allowed to host any sporting events and are not allowed to have their flag and state symbols displayed.

If they continue on the path that began on February 24, both sides will surely lose the war, even if one of them declares and achieves victory.

CONCLUSION

Western countries and others began imposing limited sanctions on Russia when it recognized the independence of self-declared Donbas republics. With the commencement of attacks on 24 February, a large number of other countries began applying sanctions with the aim of crippling the Russian economy. The sanctions were wide-ranging, targeting individuals, banks, businesses, monetary exchanges, bank transfers, exports, and imports. The sanctions on Russia in response to its invasion of Ukraine are the most powerful and costly punishments imposed on a major economy at least since the Cold War. The economic sanctions imposed on Russia, serve as a tool of nonrecognition policy, by underscoring that the countries which impose these sanctions do not recognize the Russian annexation of Crimea. Having these sanctions in place prevents the situation from being treated as a fait accompli. As a reaction to the 2022 Russian invasion of Ukraine, Western nations introduced unprecedented sanctions on Russian individuals, energy commodities, and high-tech industries with the aim to change Russia’s “political behavior”. According to a study by the Swedish Defence Research Agency, economic sanctions have so far failed to force Russia to change its policy towards Ukraine. The economic sanctions are generally believed to have helped weaken the Russian economy slightly and to intensify the challenges that Russia was facing.
The measures were far from normal sanctions and were “better seen as a form of economic war”. The intent of the sanctions was to push Russia into a deep recession with the likelihood of bank runs and hyperinflation. The costs of sanctions against Russia are no longer negligible even for those who introduced them, but they are significantly lower than the costs of open war. One of the main reasons why there is a dilemma about the effectiveness of the sanctions is that not enough relevant economic indicators are coming from Russia. A growing number of key statistics that were updated on a monthly basis before the war, including all foreign trade data are not published now. Among them are statistics related to exports and imports, especially in Europe. Furthermore, data on monthly oil and gas production, export quantities of goods, inflows, and outflows of capital, mandatory financial reports of large companies, data on the monetary base of the central bank, data on foreign direct investments, then data on crediting and issuing loans were not published.

Over 1,000 companies have publicly announced they are voluntarily curtailing operations in Russia to some degree beyond the bare minimum legally required by international sanctions — but some companies have continued to operate in Russia undeterred. In 2022, several local companies and businesses emerged or were proposed in Russia to replace departed foreign businesses, their products, websites banned by the Russian government, and events where Russia is prohibited from entry.

There are a lot of negative influences on the EU and on the Western Balkans. For example, trade and investment channels are disrupted, and inflation has been imported. The political and institutional instability of the EU may further reduce the dynamics of the accession of the Western Balkans to the European Union. A reduction in export capacity from Ukraine and Russia, and rising energy and fertilizer prices are pushing international food prices, thereby threatening global food security. Findings presented in this paper suggest that the total loss of Ukraine’s capacity to export and a 50% reduction in Russian wheat export could lead to a 34% increase in international wheat prices in the marketing year 2022/23. Measures that aim to increase the supply of or reduce the demand for agricultural products, oil, and gas should also be considered, but these are more effective in the medium term. Policies implemented in response to the market implications of Russia’s large-scale aggression against Ukraine focus on different areas, with trade policies dominating in the short term. Most of these aim to insulate domestic markets from significant increases in the international prices of agricultural commodities and inputs.

BIBLIOGRAPHY


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