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Western Wrath on Russia: Sanctions and its Impact

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It's been more than a month since Russia invaded Ukraine on February 24, 2022. Russia might have expected an easy win, but Moscow encountered massive and unexpected resistance from the Ukrainians. Russian advances were quick in the southern parts of Ukraine, but they could not maintain their pace because of Ukraine's air defences. Defence initiatives were further supplemented with the supply of anti-tank missiles and drones by the United Kingdom, the United States of America and Europe. The urban terrain has also been lucrative for the defenders, as the defence can skilfully utilise the roads, railway lines, and metro systems.¹

The prevailing situation suggests the persistence of a hostile condition, which will indeed adversely affect the economy of Russia and other dependent economies. Russia considers itself to be a 'fortress economy', but the effects of the sanctions from 2014 disregard its claim, as the import expenditure on non-food consumption has merely been reduced by four per cent since 2014.² The other sanctions and indirect measures imposed on Russia because of its invasion of Ukraine may further exacerbate its economic conditions.

Sanctions on Russia

Firstly, the United States, the United Kingdom, and Europe have imposed a ban on the export of all military goods, including 'dual use' goods.³ This will surely aggravate the supply-demand issue in Russia's manufacturing sector. Secondly, Russia has been denied the use of the air space of the US, the UK, Europe, and Canada.⁴ The UK even banned private chartered flights of Russia. Thirdly, Europe and the UK have banned the export of luxury goods to Russia, including levying a 35% tax on luxury imports from Russia. Fourthly, western countries have started to take initiatives to reduce energy dependency on Russia as the US has imposed a complete ban on oil and gas imports from Russia;⁵ Germany has suspended the development of the NORD Stream 2 gas pipeline; and Europe is planning to be self-reliant on its energy needs by 2030.⁶

Further, western countries (particularly the US) are also using indirect measures such as freezing the Russian central bank's assets to stop it from using its \$630 billion in foreign reserves. Seven banks in Russia (VTB Bank, Bank Otkritie, Novikom bank, Promsvyaz bank, Rossiya Bank, Sovcom bank, and VEB) have been cut off from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system,⁷ and America has removed Sberbank and VTB from its financial system. These impositions may compromise the transfer of payment in the energy exchange. The other indirect measures include action taken by companies such as Coca Cola, McDonald's, and Starbucks that have suspended⁸ their operations in Russia. In contrast, Nestle⁹ is merely continuing with the essential food supplies. These measures also include targeting Russian individuals and business leaders, known as 'Russian oligarchs'¹⁰, by freezing their assets. For

instance, assets belonging to Russian President Vladimir Putin and his foreign minister, Sergei Lavrov, have been frozen in the US, the UK, Canada, and EU.

Potential Implications of Sanctions

Russia's half of the federal budget depends on revenue from exporting commodities such as crude oil, natural gas, and other petroleum products. The major part (63 per cent) of the shipment from Russia comprises energy products while metals and chemicals amount to 10 and 7.4 per cent, respectively.¹¹ This also includes 5 per cent of agricultural products, which is critical for ensuring food security in many parts of the Middle East and North Africa.¹² Russia's contribution to the global demands for chemicals and minerals used in agriculture is 13 per cent.¹³ A slight shift in the supply chain of fertilisers may deteriorate the food security concerns of many states in the long term.

Russia will also face enormous difficulties in procuring supplies, from war machinery to microchips, as the freezing of its foreign assets has spiked its inflation rate to 14 per cent.¹⁴ Similarly, the announcement of BP plc (formerly known as British Petroleum Company) to sell its 20 per cent stake in a Russian oil company, Rosneft, was taken as a setback in Russia, compelling it to prohibit foreign companies from selling their Russian assets, considering such decisions to be the result of political pressure. These developments made Biden remark¹⁵ that Russia won't be able to import 50 per cent of the hi-tech equipment it needs.

Further, the weakening of the economy and exclusion from the western market may compel Moscow to find new markets or rekindle existing relationships. Russia has received \$35 billion worth of aid from China between 2000 to 2017¹⁶, while the trade between both the economies has increased 35.9 percent from 2019-20, spiking to \$146.9 bn in 2020-21.¹⁷ The exclusion of Russia from the international payment system is likely to increase its dependency on China's Cross-border Interbank Payment System (CIPS)¹⁸, the Chinese alternative to the SWIFT system, which intends to facilitate international payment transfers in the Yuan.¹⁹

Russia's Response to the Sanctions

Russia has responded to the sanctions by banning the export of goods associated with telecommunications, agriculture, forest equipment, and electrical use. It has also banned the export of goods manufactured in Russia but owned by foreign companies. This was followed by prohibiting foreign ships from using Russian ports. In response to the companies quitting the Russian market, Moscow has brought legislation that nationalises their property. To balance the trade deficit with western countries, Russia is also looking for new trade opportunities.

As far as India is concerned, Russia has been one of the biggest arms suppliers. Presently, it supplies 49% of India's arms demand, and it is ready to trade of the S400 missile defence system that will give India a strategic edge against China and Pakistan. Therefore, India's neutral and independent stand corroborates its larger political and economic interests.²⁰ However, the overall trade with Russia is far less than with the US. In 2021, the India-US trade was worth \$113.6 billion. This comprised of \$73billions in exports to the US and imports of \$40 billion from the US. The imports from Russia were \$6.9 billion, and the exports to Russia from India were \$3.3 billion.

It would be a little early to speculate on the far-reaching outcomes of the sanctions on Russia, but unquestionably, Europe's reassessment of its energy dependency on Russia, followed by sanctions from Western countries, suggests Russia's political and economic isolation. It is yet to be seen how Russia will ensure the success of its political and diplomatic manoeuvres against the isolationist approach of the western countries.

NOTES

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