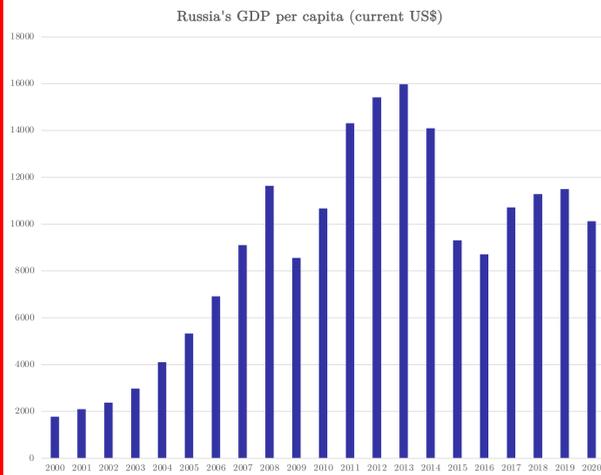


Restrictive Measures and Their Impacts on Russia's Economic Growth

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Research Question

What is the magnitude of the impacts on Russia's economic growth generated by economic sanctions due to the invasion?



With this research question, we look for:

- Measure the impact done by the economic sanctions imposed on Russia since 2014 for the illegal annexation of Crimea and contrast them, with the new sanctions for the unjustified military aggression against Ukraine in 2022.
- Compare the impacts and the expectative of growth in Russia between the sanctions imposed in 2014 for the annexation of Crimea and the current sanctions for invading Ukraine.
- Analyze the efficiency of sanctions as an instrument of politics to achieve the objectives established by the sanctioning country.
- Identify the size of the economic impact produced by the sanctions of the EU based on the theory of economic gravity model.

Discussion

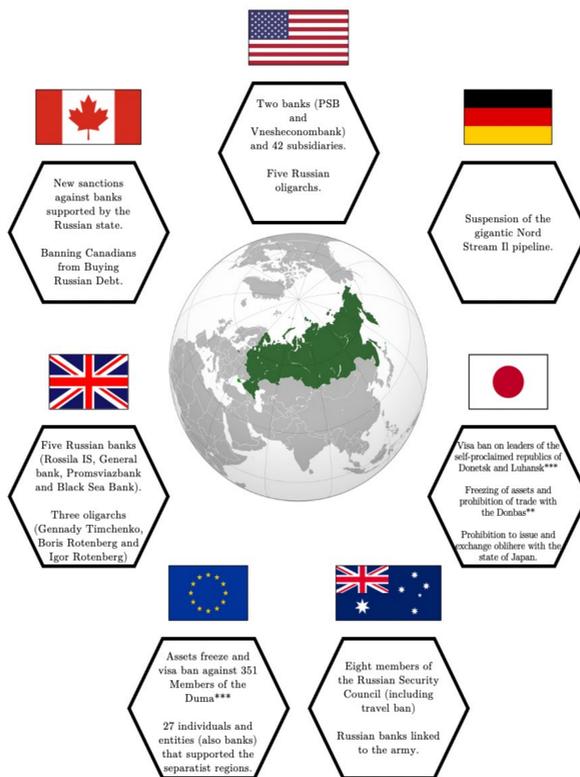
Historical sanctions on Russia and their effectiveness

Sanctioning State	Begin	End	Objective	Success
Australia	2014	2019	policy_change	ongoing
Canada	2014	2019	policy_change	ongoing
EU	2014	2019	policy_change	ongoing
EU, Montenegro, Iceland, Albania, Liechtenstein, Norway, Ukraine	2014	2019	policy_change	ongoing
Georgia	2008	2011	end_war	success_total
Japan	2014	2019	policy_change	ongoing
New Zealand	2014	2019	policy_change	ongoing
Switzerland	2014	2019	policy_change	ongoing
Switzerland	2014	2019	policy_change	ongoing
Ukraine	1993	1996	policy_change	nego_settlement
United States	2014	2019	change_preve	ongoing

Data extracted from Global Sanctions Data Base

Sanctions Against Russia

First wave of Western sanctions* against Russia



*Until 23 February
 **Ukrainian regions controlled by pro-Russian separatists, whose independence was recognized by Vladimir Putin
 ***Lower house of the Russian Parliament

Hypothesis

It is expected that the inflationary rates of the country will increase, due to the massive arrival of new and reinforced sanctions against Russia, with restrictions on imports and exports, accompanied by the massive departure of many multinationals leaving the country.

Research Problem

Over years sanctions have become one of the most popular tools for governments to address foreign policy challenges and punish sanctioned countries to try to alter the strategic decisions of state and non-state actors that threaten their interests or violate international norms of behavior, such as terrorism, national security, breach of Human Rights or military conflicts.

The current conflict between Russia and Ukraine recreates the impacts and relevance of economic sanctions, where Russia has been dealing with a: locking of social networks, laws against freedom of expression, a weakening economy, the massive departure of companies from the West, and basic goods shortages are all part of the picture of the country.

Theoretical Framework

Neuenkirch (2015) with an empirically assesses how economic sanctions imposed by the UN and the US affect the target states' GDP growth, concludes that sanctions imposed by the UN have a significant influence on economic growth. On average, the imposition of UN sanctions decreases the target state's real per capita GDP growth rate by 2.3-3.5 pp.

Otherwise, González (2019) regarding the impacts on the GDP taking as an example Iran, concludes that the restrictions have caused considerably severe effects on the Iranian economy, the main objective of favoring a change in Iran's behavior is not achieved, it can be evidenced that the sanctions are not only ineffective but also counterproductive.

Methodology and Expected Results

The model that we estimated to answer the research question and develop the argumentative component, is given by:

$$Growth = \beta_0 + \beta_1 sanction\ type + \beta_2 sanction\ severity + u$$

In the model, the dependent variable "growth" is composed of the GDP per capita (current US\$) of Russia, this data is extracted from The World Bank; we will characterize the type of sanction in order to define under which aspects the sanction has the greatest impact, and the severity of the sanction will be used to check whether stricter sanctions have a greater impact.

Guiding us from the paper The Impact of UN and US Economic Sanctions on GDP Growth we took the 2 hypotheses proposed to see their results, in Russia directly. These hypotheses are:

- H1:** UN and US economic sanctions have a negative effect on the target country's real GDP per capita growth.
H2: The negative effect is stronger for UN sanctions than for US sanctions.

	(1)	(2)	(3)
log(real GDP/capita) _{t-1}	-0.19 ***	-0.07 ***	-0.08 ***
openness _{t-1}	0.03 **	0.02 ***	0.02 ***
log(population) _{t-1}	0.05	-0.06 ***	-0.06 ***
political terror _t	-2.20 ***	-0.72 ***	-0.68 ***
polity score _t	-0.23 *	-0.11 **	-0.11 ***
interstate conflict:			
minor	-13.98 *	-2.03 *	-2.22 **
war	-10.34 ***	-7.18 ***	-7.70 ***
internal conflict w/o intervention:			
minor	1.12	-0.56	-0.48
war	-3.85 *	-4.00 ***	-3.90 ***
internal conflict w/ intervention:			
minor	-2.18	0.79	-1.32
war	-5.05 **	-4.99 ***	-5.93 ***
UN sanctions (yes/no)	-2.77 **	---	-2.30 ***
US sanctions (yes/no)	---	-1.07 **	-0.85 *
R ²	0.29	0.17	0.18
observations	616	2079	2160
countries	23	64	68

Notes: Dependent variable is the annual growth rate of GDP per capita in 2005 US dollars. Model includes country-fixed effects and time-fixed effects. ***/**/* indicates significance at the 1%/5%/10% level.

In confirmation of H1, both UN and US economic sanctions reveal a negative and significant influence on the target country's real GDP growth. The adverse effect is -2.77 pp when only UN sanctions are considered and -1.07 pp when only US sanctions are considered. Statistical testing rejects the null hypothesis that the adverse effect of UN sanctions (-2.30 pp) and the US sanctions (-0.85 pp) are equal at the 10% level (F(1,2043) = 2.73*). Therefore, we can affirm H2 as well since the adverse effect of economic sanctions on real GDP growth is stronger for UN sanctions than for US sanctions.

Final Recommendations

Put on the table the failed sanctions than can create a new baseline for engagement with the target of:

Another good possibility is to make a strong multilateral political commitment that makes these sanctions more effective with:

Create new and more efficient sanctions to the present. This is for sanction implementation. It can be good since past mistakes are taken into account to improve and be more effective.

Collective decision-making within a multilateral institutional framework. As such, the dynamics of decision-making, implementation, monitoring, and resolution are influenced by this factor.

Sanctions can be framed in a positive way, as they have in the case of Iran.

Develop a universal mechanism of communication processes that leads countries to discuss their objectives in order to get multilateral benefits according to their economic utility.

Unanticipated sanctions can be achieved by contingency planning, short deliberations, quick implementation, and the use of instruments that have not been used before.

Finally, the content of many international sanctions is carried out by international organizations arriving at negotiation, bargaining, and bilateral deals.

The consequences of the current sanctions due to the military invasion of Ukraine are already seen in the Russian economy, the Ruble was debility by more than 20% against the dollar and the inflation is over the 12% in Russia, where more than 60,000 people have lost their jobs as a direct result of Western sanctions. For this reason, we expect the sanctions will have a drastic impact on the GDP of the Russian economy, with strong implications for the short and medium-term. In this way, it is very likely that the Russian economy will not recover soon, with sanctions from the West which will hinder future negotiations of multilateral agreements or international cooperation.

Bibliography and References

