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ECONOMIC CONSEQUENCES OF SANCTIONS ON RUSSIA

DAVIT SHATAKISHVILI

182

EXPERT OPINION

საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობათა კვლევის ფონდი
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Introduction

Russia's military intervention in Ukraine, coupled with Western political support for Ukraine, was followed by a tough economic response through an unprecedented package of sanctions against Russia set forth by the West. Their decision to do so seeks to make Russia pay an economic price for its military aggression, aiming to reduce its economic and martial capabilities, which are currently costing the lives of thousands of innocent people. The sanctions have already had quite severe economic consequences for Russia, but it is interesting to see whether they will achieve the West's political goals and push President Putin to suspend the military aggression. Generally, a medium- to long-term period is required to see the effects of sanctions, and, currently, despite heavy economic losses, Russia is managing to coexist with the restrictions.

Today, Russia is experiencing its biggest economic downturn since the end of the Cold War. The World Bank estimates that gross domestic product in Russia will reduce by 11% in 2022 (World Bank, 2022), while the International Monetary Fund forecasts this figure to be 8.5% (IMF, 2022). According to some estimates, the economic scale of the reduction may even reach 15% (IIF, 2022). Clearly, this largely depends on the potential consequences of the sanctions already imposed and the possibility of enacting new sanctions, including in terms of energy embargoes. As a result of the global economic crisis of 2008, the Russian economy shrank by about 8%, and now this figure is almost twice as high. Consequently, we can get some idea of its scale. The losses caused by sanctions will become more visible and tangible over time, resulting in much more severe social and economic effects in the coming years. According to the International Finance Institute, Russia will have lost the wealth it generated over the last 15 years by the end of 2023 (IIF, 2022). One of the main reasons for this will be reduced domestic demand, and if the trade-related sanction package is expanded, exports will fall further than expected, which in turn will lead to a sharp decline in budget revenues. Clearly, the Russian military aggression has also caused global economic consequences, such as rising prices for basic consumer goods, disruption of supply chains, and delays in international trade. However, since invading Ukraine, Russia's financial losses have been high. It is interesting to take a look at what actual consequences the Russian Federation has faced in terms of sanctions, and how the country will be able to continue coexistence with the restrictions and expand its own aggressive foreign policy.

Brief Overview of Sanctions Imposed on Russia

This year, as a result of the [below] sanctions imposed by the West, Russia has set an anti-record for sanctions, surpassing countries such as Iran, Syria, Venezuela, Cuba and North Korea. This is the largest package of sanctions that the international community has imposed on any country. The restrictions cover almost all-important industries, financial institutions and individuals in Russia. Obviously, we cannot discuss all the restrictions in this section, but we can single out those that have caused the greatest damage to the Russian economy.

Firstly, a large part of the 640 billion US dollars Russian Federal Reserve was frozen, and most of its banking system was cut off from the “Society for Worldwide Interbank Financial Telecommunication” (SWIFT). Russia’s largest banks, such as Sberbank and VTB Bank, were banned from carrying out dollar transactions, and their assets were frozen. “Visa”, “MasterCard” and “American Express” suspended operations in Russia. Russian companies have been banned from participating in public procurement in the European Union. In order to limit production capacity for Russia, Western countries have banned their companies from supplying it with microchips, military technology, martial and dual-use goods, and industrial raw materials. Several countries have embargoed Russian oil, gas and coal. Germany has suspended the “North Stream 2” certification process. Also, most European ports banned Russian tankers. More than 400 international companies have left the country. The automotive and aviation giants, including the largest manufacturers of spare parts, now refuse to sell their products in Russia. The largest aircraft leasing company in the world has decided to stop leasing activities with Russian Airlines. The latest package of sanctions includes a ban on imports of Russian products, such as timber, rubber, cement, fertilizers, high-quality seafood and alcoholic beverages. The European Union is also imposing an embargo on Russian coal and is working on a so-called “clever mechanism” to ban Russian energy resources. The list of sanctions, by country, is quite extensive. Let’s have a look at what economic consequences these restrictions have had for Russia.

Impact of Sanctions on the Russian Economy

Promptly following the imposition of economic sanctions by the West, Russia faced tangible consequences – a devalued national currency, closed

Moscow stock exchange, dramatically falling prices of Russian companies on international stock markets, empty shelves in stores, and more. As Russian military aggression continued in Ukraine, the restrictions began to affect almost every major Russian industry and financial institution.

Energy Carriers

Although the Russian Federation is territorially the largest country in the world, and unites up to 145 million people, its economy is quite modest. Along with military capabilities, the main determinant of its political weight is energy resources, which put it in a leading position in the world. Yet, as much as Russia can take advantage of rising prices on the world's energy market, so Europe can reduce its dependence on Russian energy sources, which are Russia's main source of export revenues, accounting for about 45% of the amount generated in the state budget. For example, Russia receives roughly 700 million US dollars a day from oil and natural gas exports to the EU (IEA, 2022).

The economic impact of Western sanctions would have been far more devastating for Russia if it had not had such a large amount of energy resources and the world's high dependence on it. Currently, sanctions apply to all critical industries in Russia except energy, with the exception of individual countries. So far, the EU has not been able to reconcile on this issue. The fact is that if the West hits Russia's energy products, it will cut off the latter from its main source of export revenues. Several countries have imposed embargoes on Russian oil and gas. Although their dependence on Russian resources is quite low, it is still a very important decision from a political point of view.

The United States and Canada have refused to purchase Russian energy products, while the United Kingdom has announced plans to become fully energy independent from Russia by the end of 2022. Obviously, these decisions mean a significant reduction in funds for the Russian economy. From the United States, this is a loss of around 4.7 billion US dollars annually, alongside Canada's 550 million US dollars and the United Kingdom's 4 billion US dollars.

Although the issue of a Russian energy blockade is still cause for controversy among the EU members, a number of countries are doing it on their own. For instance, Italy, which buys 40% of its natural gas from Russia, has signed an agreement with Algeria to increase gas supplies. Lithuania, Latvia and Estonia have decided to suspend their purchases of Russian gas (Udasin, 2022). However, countries such as Germany, Austria and Hungary are represented as opposing parties to this decision (Hessler, 2022).

The fifth package of sanctions imposed by the West provides a ban on the import of Russian coal by the European Union. This means that new trade contracts will not be signed, and Russia will no longer be able to export coal to the EU from August this year, resulting in an annual loss of 8 billion euros for Russia (European Comission, 2022). About 19% of the coal imported into the EU comes from Russia, which is why it was sanctioned first, as it causes least damage to the EU economy. For comparison, in the case of oil, this figure is 36.5%, and in the case of natural gas, 41.1%. A sixth package of sanctions is being prepared and the EU is working on a "clever mechanism" to ban Russian gas and oil. Europe's economic losses are likely to be discussed, as gas and oil restrictions, along with hurting Russia, will cause significant harm to Europe (Sims, 2022). No further details are known at this time. According to recent news, Russia has cut off gas supplies to Poland and Bulgaria due to their refusal to pay the natural gas tariff in rubles, as demanded by Russia. In the first quarter of this year, Poland bought 53% of its gas supply, and Bulgaria 90%, from Russia.

The sanctions include the "North Stream 2" gas pipeline, the certification process of which was suspended by Germany after the Russian president recognized the so-called "independence" of the Ukrainian regions of Donetsk and Lugansk. This is an 11 billion US dollar project to supply natural gas from Russia to Europe via the Baltic Sea. Its fate is unknown at this stage, and will depend on the future economic restriction decisions taken by the EU, as well as on the course of Russia's aggressive foreign policy.

Banking Industry

Following the annexation of Crimea in 2014, the Russian Federation became a target of Western sanctions. As a result of these restrictions, foreign businesses operating in Crimea, supplying high-tech drilling rigs to Russia, and Russian companies' access to Western capital markets, were banned. These sanctions have had little effect in terms of oil production in Russia, or in investment and economic growth. Without a doubt, Russia knew that any of its aggressive actions in the future would lead to tough economic sanctions from the West. That is why, since 2014, its strategy has been to reduce its reliance on the dollar so that foreign currency has less impact on its economy. For reference, 60% of world reserves and 80% of international trade are denominated in US dollars. The Russian strategy included increasing the Central Bank reserves and simultaneously reducing the share of the dollar in it, strengthening the national currency, and creating its own internal payment system. Since 2014, its national reserves have increased from 370 to 640 billion US dollars, including a doubling of its share of gold. In addition, Russia sought to reduce its share of reserves in European countries, and to distribute them in countries such as China and Japan (Miller, 2022). The above-mentioned approach would be an effective opportunity for them to deal with Western sanctions if the reserves of the Russian Central Bank itself had not been frozen.

Generally, the Central Bank plays a vital role in terms of the country's internal exchange market stability, hence the blow to its reserves turned out to be quite severe for Russia. One of the main purposes of the Central Bank's reserves is to insure the risks of speculative actions and to ensure the stability of the national currency. For example, in the case of currency speculation, it could strengthen the value of the ruble by converting the dollar, the euro, and the pound into national currency, but the possibility to do so in this case is minimized. The 640 billion US dollar reserves were distributed to both European banking institutions and Asia. After the West froze the reserves of the Central Bank of Russia, Russia has been able to use its reserves in China in Chinese yuan, which is about 13% of total assets, alongside gold reserves in its territory, which are around 21%. In total, this amount stands at 220 billion US dollars. However, it should be noted that the London Gold Center banned the purchase of gold from Russia, thus closing it to the largest market for sales. The London Gold Center was joined by the United States, which banned its citizens from any transaction using Russian gold.

After the Russian aggression in Ukraine began, international financial services corporations “Visa”, “MasterCard” and “American Express”, which hold 90% of the world's debit and credit cards, left the country (BBC, 2022). This means that payments with these cards cannot be carried out on Russian territory, and cards issued in Russia cannot be used by its citizens in other countries. Since 2014, Russia has been working on its own payment system “MIR”, which is currently used in only a few countries.

One of the biggest restrictions on the Russian banking system was its expulsion from the “Society for Worldwide Interbank Financial

Telecommunication" (SWIFT). This means that it is difficult to carry out financial operations from abroad in Russia, which has a direct impact on the fruitful functioning of businesses. In addition, separate sanctions were imposed on Russian banks by specific countries, including all major financial institutions, which account for more than 50% of the Russian banking sector. This package includes giants such as Sberbank, VTB Bank and Alfa Bank.

National Currency

The sanctions imposed in response to the Russian military aggression in Ukraine were immediately followed by a sharp devaluation of the ruble. Before the war, the value of one US dollar was 80 rubles, while by March 7, this figure had risen to 142. The Russian Central Bank has resorted to various methods to prevent the complete collapse of their national currency. For example, Russian exporters are required to convert 80% of their revenue in dollars into rubles in order to supply the country's exchange market with dollars. In addition, foreigners are temporarily not allowed to sell their own shares and bonds in Russian companies, or to transfer dividends abroad (Interfax, 2022). The sanctions that most contributed to the devaluation of the ruble were cutting off Russian banks from SWIFT and freezing the Central Bank reserves.

From late March, the ruble began to revalue when the Central Bank complicated the exchange of rubles into foreign currencies. A 30% commission was imposed on the purchase of foreign currency through a brokerage, which in turn affected the demand for currency (Reuters, 2022). Further, the Central Bank raised the monetary policy rate from 9.5% to 20%, and reduced it to 17% on April 11, due to the slowdown in consumer price growth and the strengthening of the ruble (Nelson, 2022). The main purpose of increasing the monetary policy rate was to reduce loans in rubles, which in turn would reduce the demand for foreign currency, as it will be less demandable to convert it into foreign currency for credit and / or trade operations. In addition, an upper limit of 10,000 US dollars on deposit withdrawal is valid until September 9, 2022, as is a restriction prohibiting Russian residents from lending to non-residents in a foreign currency (Ljunggren, 2022). In monetary terms, the Russian government's steps include both factors that facilitate the supply of foreign currency to the market, and measures to restrict its demand, which are key to maintaining the value of their national currency.

With Russia, the determining factor in the stability of the national currency is its energy resources. Despite the imposed sanctions and economic barriers, energy prices have risen since the war. For example, the price of natural gas increased by 60% and reached its highest level since 2008 (Bloomberg, 2022), while crude oil prices rose by 35% (Mascarenhas, 2022). Obviously, this means additional income for the Russian Federation. According to Bloomberg, Russia will receive 320.7 billion US dollars from its energy exports this year, up from 235.6 billion US dollars last year (Bloomberg, 2022). Against the background of the fact that many countries have banned their exports in Russia, and the exit of foreign companies from the country reduces its imports, consequently the outflow of foreign currency is reduced, which is a positive event affecting the exchange rate. Thus, the most effective of the factors adversely affecting the ruble, and the Russian economy in general, will be the reduction of energy revenues, which will lead to a major collapse of the national currency.

Despite the economic sanctions imposed by the West, cash flows to Russia increased in the first quarter of this year due to increased energy bills as a result of the attack on Ukraine. In the first quarter, the Russian Federation showed a record surplus on the current account balance, as rising prices for energy resources led to an increase in export earnings. According to the data published by the Central Bank of Russia, the surplus in the first three months of 2022 reached 58.2 billion US dollars, which is 2.5 times more than in the same period last year, 22.5 billion US dollars. (Phillips, Peck, 2022). When Russia is virtually cut off from much of the world economy, the current account surplus means that the country can still get the money it needs to finance the war, pay public sector employees, and stabilize the currency in foreign exchange markets.

The Russian ruble, which fell by about 75% at the end of February, is now fully recovered, meaning that Russia is looking for ways to adjust to its "economically excluded" status. Clearly, the current account surplus does not mean that the Russian economy or its population is thriving, although the surplus, or exports minus imports, partly reflects the fact that imports into the country have also declined sharply. This is due to the outflow of Western companies from the country and the weakness of the ruble in the first quarter. Foreign investors are also leaving the country. This year, net capital outflows increased by 270% compared to last year, depicted in cash of 64.2 billion US dollars. The net capital outflow for the same period last year was 17.5 billion US dollars. Clearly, while this process will have a negative impact on Russia’s long-term economic well-being, it hardly prevents Putin from pursuing his chosen path in Ukraine (Phillips, Peck, 2022).

Inflation and Consumer Prices

The world economy has not yet recovered from the shocks caused by the pandemic. This year, even before the Russian military aggression, many countries were experiencing an increase in consumer prices, largely driven by an imbalance between demand and supply and the tightening of monetary policy by the central banks. Clearly, in addition to the global economic impact, this issue has hit the Russian population hard. In parallel with its aggressive military operations, the level of inflation in Russia has increased. According to available data, the annual inflation rate in Russia reached 16.7% in March (Smith, 2022); the subsistence minimum in the country has increased by 14%; and the increase in the price of some products in the consumer basket has exceeded 40% (Liang, 2022). Four days after the military intervention, Russia’s Central Bank raised its monetary policy rate from 9.5% to 20%, which automatically led to higher interest rates on loans from commercial banks, which in turn reduced demand for goods and services, and encouraged the rising of prices to slow (Kalish, 2022).

Annual inflation in Western countries ranges from 5% to 8%, while in Russia it is two times higher. Some items with high market value, such as electrical appliances and cars, have become even more expensive in the country. Due to the sharp and rapid depreciation of the ruble, people are trying to buy expensive products, which they think will bring them minimal financial losses. The country’s reduced imports are another important factor in increasing inflation (Ivanova, 2022).

Inflation has slowed since late April, but still remains high. This is largely due to households buying non-perishable products and continuing to purchase durable consumer products, fearing that sanctions will further complicate the country’s domestic supply problems in the future.

Unemployment

Unemployment is probably the number one problem for the average Russian citizen, and there is no doubt that the situation in the country is radically deteriorating in this regard, a process driven by several fundamental factors. First of all, more than 400 international companies have left the country's market since the start of the war. In Russia, for example, McDonald's employed 60,000 people, French automaker Renault 45,000, PepsiCo 20,000, and Ikea 15,000 (Pashaeva, 2022). As such, as a result of the suspension of just the 10 largest companies, 120,000 people lost their jobs. Secondly, the supply chains have been affected, meaning Russian factories are not being supplied with the foreign raw materials they need for their products, so they simply have no choice but to close. As a result, the number of people left without a job is growing dramatically, and that number is expected to continue to increase moving forward. Western sanctions have also affected the service industry. For example, due to the ban on international flights, Moscow Sheremetyevo Airport had to lay off 40% of its employees, around 7,000 people (WAN, 2022).

In January 2022, the unemployment rate in Russia was 4.4%. It is expected that this figure will reach 8% in just a few months, and is expected to stabilize at 6.5% in the coming years. The unemployment rate was also high during the Covid pandemic in Russia. For reference, during the 2008 global financial crisis, the unemployment rate in Russia was 8.5%, and its peak in 1998 was 12% (Intellines, 2022).

According to the employment platform "HeadHunter", the number of job seekers increased by 10 times in the first week of April, compared to the week before February 24, when Russia invaded Ukraine, and the number of vacancies reduced by more than a quarter. In March, the service sector in Russia slumped and employment fell at its sharpest pace since June 2020, when enterprises and service companies closed due to restrictions imposed by the Covid pandemic. Most of the international businesses that left the Russian market also operated in the service sector. Overall, the World Bank estimates that 2.6 million people could fall below Russia's official poverty line this year (Reuters, 2022).

Another major problem for the Russian Federation is the "brain drain" from the country, a loss which has rocketed in recent years. As a result of Western sanctions, many people have lost their jobs or had their incomes reduced, and, according to various sources, following the Russian invasion of Ukraine, thousands of people have left Russia to seek employment opportunities in other countries. These are mainly made up of educated, middle-class citizens living in the city. According to the Russian Electronic Communications Association, more than 70,000 IT specialists have left the country in recent weeks (Volpicelli, 2022). This will obviously have a huge impact on the economic, technological and creative industry development of the country. Experts suggest that "brain drain" may become the biggest problem for Russia in the coming years (LallJee, 2022).

Production and Supply Chains

Enterprises in Russia have faced huge problems as a result of Western sanctions. On the one hand, international companies that produced certain products in Russia have left the country, and on the other hand, there are significant delays for local factories, because in most cases they can no longer get the raw materials or semi-finished materials needed to create their final products. Even if there is a potential supplier, the second issue is the lack of sufficient financial resources. Due to the closure of operations in Russia by manufacturers of various types of heavy equipment and automobiles, the volume of production in the country has experienced a noticeable decline.

In the industrial sector, the Russian Federation now has limited access to Western-made semiconductors, computers, telecommunications, automation and information security equipment. In the medium and long term, this will be the biggest blow to the country's technological development, and will hamper its manufacturing and mining industries. In addition, Europe, the USA, and Asia's technology-leading countries have banned their microelectronics and chips being exported into Russia. These are crucial in almost every industry, from home appliances to high-tech machines. The largest manufacturer of microchips, which accounts for more than 50% of the global market, is located in Taiwan (Khavanekar, 2022). The company has refused to supply Russia, which obviously poses a major threat to its technological development. These microchips are actively used in the manufacture of defense equipment. Further, Europe has banned its companies from supplying production materials to Russian arms companies.

There are several major problems with the supply of production facilities. On the one hand, it is the suspension of bank transfers, and on the other hand, the attitude of producers towards the aggressive policy of Russia, and their being unwilling to conduct trade operations with the country. Clearly, this is accompanied by other factors, such as an unstable currency, an unbalanced economic environment, financial and political risks, and so on.

The Russian manufacturing sector has been experiencing a sharp decline since March this year. One of the reasons for this was reduced demand from foreign and domestic customers, which led to a general decline in production. Moreover, the delivery time of products by suppliers has significantly extended. Consequently, a serious shortage of materials, rising seller prices, air transportation restrictions, and high prices for that transportation have led to a rapid increase in the cost of bringing products into the country (S&P Global, 2022).

Due to the above-mentioned factors, the proper functioning of supply chains in Russia has been delayed, which is the basis for efficient business operations. The global problem of supply chains began even during the Covid pandemic, when the world was at the time left to rely on a fully-fledged China.

International Trade

International trade is extremely important for Russia, both in terms of obtaining production facilities and purchasing consumer products. Although China is a major import partner for Russia among individual countries, most of the products still come from groups of countries that have imposed strict sanctions on the aggressor. Russia's trade balance is surplus, so the country's exports exceed imports, due to its energy resources. At the present stage, goods imported into the country are often difficult to obtain, and their supplies are not being replenished because no one sells in Russia for fear that they will not receive remuneration, or will be paid only in rubles.

The efficient functioning of the manufacturing, mining and consumer industry of Russia is practically impossible without international trade. Even the blocking of goods from countries that have already imposed sanctions or restrictions could lead to the downsizing of a number of sectors in Russia if the country fails to find an alternative supplier. For example, from the 46 countries that have joined the international sanctions, the total price of products exported to Russia stands at 140 billion US dollars (Van Dam, Shin, Fowers, 2022).

According to the "Trade Data Monitor", Russia spends 11.5 billion US dollars a year on its largest import product, cars. Leading suppliers in this regard are Germany, South Korea and Japan, which hold 63% of the

Russian car market. Discontinued exports from these countries to Russia account for only 3% of their total sales, but this step is much more painful for Russia (Van Dam, Shin, Fowers, 2022).

The trade sanctions have affected almost all industries, including aviation. Russian Airlines relies on Boeing for scheduled service and on Airbus for spare aircraft parts. Both giants of the aviation industry have refused to cooperate with Russia. Consequently, the country is in danger of running out of the specialized parts needed to maintain its own aircraft. This is a specific industry in which it is difficult to find an alternative supplier that will be in full compliance with aviation standards. Thus, if Russia is able to resume air travel with certain countries, the safety of its flights will come under question.

The Russian president acknowledges the severe effect of the international sanctions. In one of his speeches he said - “It is difficult for us now. Russian financial companies, large enterprises, small and medium-sized businesses are [all] facing unprecedented pressure.”

Diversifying trade partners will be a difficult task for Russia. Although China already supplies large quantities of hardware and electronics, replacement is not always possible, especially when it comes to high-tech equipment. And there is no guarantee that China will be ready to supply Russia with all kinds of goods or equipment, as there is a great competition between them for regional dominance. Even if China is willing to cooperate more comprehensively and is able to create specific products, it is clear that it will take some time to produce and supply what Russia may simply not have (Van Dam, Shin, Fowers, 2022).

Russia is closely integrated with Western markets in terms of business services, insurance, finance and logistics. International supply chains and imported products are one of the main components of its production. Because of this, Russia is heavily dependent on access to components and tools from the United States, Europe, Japan, South Korea, and Taiwan. In the absence of components in Russia, the automotive, aviation and other mass-produced industries are struggling to survive. Numerous Russian factories across the country have already closed due to a shortage of parts, and all types of complex production are faced with delays (Miller. 2022).

Russia’s trade restrictions will inevitably complicate the financing of its aggressive foreign policy, on the one hand in terms of remuneration of military servicemen, and on the other hand in terms of arms production.

In this regard, too, Russia depends on components supplied by other countries. If we look at the picture from a wider angle, we will see that due to the reduction of production capacities, the country may find it difficult to sell its own military equipment and machinery. India, for example, is one of the largest buyers of Russian-made weapons, with more than 50% of its weapons coming from Russia. This, in turn, leads to a significant reduction in the income of the aggressor country.

In Russia, a crucial area of business is the extraction of its energy resources, for which it uses Western technologies, including drilling. Experts predict that without Western technological investment in the energy industry, Russia's oil production will deteriorate. Russia, like most oil-producing countries, started extracting oil from simple places, but this will become more and more difficult over time. Oil production requires technology that exceeds Russia's production capacity and needs to be sourced from the West. The country will face a difficult situation and reduced oil production without European or American technologies in the coming years.

Foreign Direct Investments

Russia has experienced a noticeable decline in foreign direct investments in recent years. Numerous international publishing outlets wrote a few years ago that Russia is no longer an interesting location for investors. This is largely due to the internal political environment of the country, which is considered to be a major risk factor for international capital investment. In addition, the economy is under state pressure, as are the judiciary and the legal circumstances of the investors. The largest investment in Russia in recent years was made in 2008, with a value of 75 billion US dollars. After that, investment volumes in the country have declined. Before the pandemic, in 2019, 31 billion US dollars were invested in Russia. Sanctions imposed by the West as a result of aggressive military intervention in Ukraine will lead to a complete collapse of the Russian investment environment (World Bank, 2020).

One of the latest decisions in a package of sanctions imposed by the United States envisages a ban on investment by US citizens in Russia, which applies to all Russian industries. The US Office of Foreign Assets Control has broadly defined the term “investment”, which includes any transaction involving the transfer of funds, assets or credit to an enterprise operating in Russia. Since US citizens are also barred from promoting any new investment in Russia in any way, this will obviously have a direct impact on non-US businesses operating in Russia seeking to hire staff from the US, or contacting banks, insurance services, suppliers, information technology, or software companies. This will affect not only companies already existing in Russia, but also potential investors (National Law Review, 2022).

Strict restrictions and controls on the export of expensive products, oil refining equipment, military goods, software and technology have had a significant impact on the supply chains of foreign manufacturers in various sectors. This limitation is also quite broad. For example, many non-US semiconductor companies are no longer allowed to supply their products to Russian manufacturers because it is based on US technology and software. Together with the United States, restrictions imposed by the European Union and the United Kingdom are isolating the Russian economy and have a strong influence on foreign directs investments there (National Law Review, 2022).

Factors such as domestic consumption, national currency, stable economic indicators and opportunities to sell manufactured products are crucial for foreign direct investments. When a country has limited access to the world's leading markets, is unable to conduct financial transactions, has its economic determinants on a downward trend, and the domestic consumer market has no money to shop, then investment is unlikely to be profitable.

Tourism

Tourism accounts for about 3.4% of Russia's gross domestic product. In 2019, the country received more than 24 million visitors, from which the country received a total revenue of up to 18 billion US dollars (WorldData, 2020). Even during the pandemic, in 2020, more than 6 million visitors entered the country, bringing the country up to 5 billion US dollars. According to the World Tourism Organization, Russia has been one of the leading countries in the world in the field of international tourism. After the collapse of the Soviet Union, the tourism industry in Russia grew at a rapid pace. However, after recent events, the further development of tourism is being questioned. This assumption is conditioned by several issues. First of all, people in many countries have protested Russia's actions, launching campaigns that seeing people urging each other not to buy Russian-made products and not to promote its economic benefits. There is a similar attitude towards traveling to Russia, which is perceived as financial assistance to the country. Those who choose to travel there face a number of problems, among them rising prices, lack of food, mostly closed tourist attractions, a heavy economic environment, and more. Thus, the development of tourism in Russia, at least to the extent it was before the war, can be said to be practically impossible.

Global Macroeconomic Effects

Russia is one of the largest countries in the international trade and supply chain, maintaining its dominance in the supply of products crucial to the world. Its global position in terms of production of such products is as follows: third place in oil production, second in natural gas, fifth in steel, nickel and aluminum, first in wheat. 20% of the global wheat trade comes from Russia, and the products obtained from it rank first in the consumer basket of all countries. Ukraine is the largest producer of sunflower oil in the world, with a 40% market share. Further, it supplies 9% of the world's wheat market and 16% of the corn market (Whiting, 2022). Therefore, since the very first day of the Russian military aggression in Ukraine, the prices of oil products, metals and certain types of food have been rising sharply.

Since February 24 this year, when Russia invaded Ukraine, the world's population and manufacturing companies have felt the rising prices first and foremost, seeing accelerated and prolonged inflation in many countries, especially in Europe, which in turn reduces opportunities for economic growth. Even before the Russian aggression, the central banks of some leading countries were tightening their monetary policy in response to the already existing high inflation. Given the current situation, a further tightening is expected, and while this will likely come at a slightly slower pace, the high prices of energy resources and disruption of supply chains will inevitably lead to higher inflation. As such, difficult decisions need to be made by the central banks to balance the economic determinants (Kalish, 2022).

With the rise in prices, the world is witnessing failures in the proper functioning of supply chains. While many had hoped for a better situation in this regard after the global pandemic, the fact is that almost nothing has changed. In fact, it can even be said to have deteriorated further. This process may not have a significant impact on some manufacturers, but delays and time changes are being seen in almost every supply chain. At the global level, this process is mainly reflected in the following: hindered trade routes, reduced availability of raw materials, increased costs of oil and energy, and volatile or increasing cost of transportation (Whiting, 2022).

During the imposition of sanctions, steps were taken by a number of countries that increased the likelihood of adverse impacts on supply chains. However, from a political point of view, these steps were considered right, aimed as they were at causing economic damage to Russia. Such decisions were, for example, the closure of ports to Russian ships by Britain, who was later joined by Italy, Belgium, Romania and Lithuania, and the closure of the sky, as a result of which airplanes flying between Europe and Asia have to travel longer and more expensive routes. The delay in Russian and Ukrainian cargo aircraft is leading to a reduction in global capacity, which results in the need to ship fewer products and carry out more flights. It should also be noted that about 14% of the seafarers on cargo ships are Russian or Ukrainian, which potentially creates a labor problem for the shipping industry if there is a need to replace these workers. Additionally, the cost of cargo insurance has increased dramatically. Prices for industrial metals such as aluminum, as well as food products, have risen for fear of potential shortages or delays. Oil tanker transportation cost has risen amid fears that Russian and Ukrainian pipelines could be disrupted, boosting demand for oil in the Middle East and West Africa (Kalish, 2022).

Russia's annexation of Crimea in 2014 accelerated the long-term decline in Russia's importance as a European trading partner. However, Europe's trade ties with Russia are closely linked in terms of energy. Russia accounts for 40% of EU gas imports, 25% of its oil imports, and 47% of its solid fuel imports. In case of a complete shutdown of Russian gas, delays are likely to occur in many European countries, including Germany, which will be hampered by difficulties in diversifying alternative energy sources. In the United States, the current economic crisis may have an impact on rising prices for oil and some major commodities. If the current processes have a significant negative impact on the European economy, it will inevitably extend to the United States due to its close trade relations with Europe. Moreover, Russia and Ukraine are major producers of components that are important in the production of semiconductors and batteries, and the US is a major importer of these products. If the export of these Russian and / or Ukrainian goods decreases, the global price will increase, which may lead to a deficit. Clearly, this will hurt some US industries, increase inflation, and reduce the number of final products produced by enterprises. Russia's trade relations with Asia are less vulnerable in this context. Russia mainly supplies energy to China and buys its electronic and information technology equipment. This type of trade is unlikely to be severely hindered, but it may be affected by the need for companies to evade sanctions. In addition, as a net importer of energy, Asia is vulnerable to sharp increases in energy and other commodity prices (Kalish, 2022).

Conclusion

The factual circumstances of how the war will be pursued, whether new sanctions will be imposed on the aggressor, what their main target will be, and how Russia will respond to existing or potential constraints, largely determine both Russia's and the world's economic consequences. Uncertainty and certain types of expectations contribute to both the general rise in prices, as well as the fluctuation of the national currency and the delay of strategic market decisions.

The sanctions imposed by the West are resulting in dire economic consequences in Russia, having a major impact on the daily lives of ordinary people. Nevertheless, the sanctions have so far failed to achieve their political goal: the cessation of military aggression by President Putin. Presently, the main targets of the international community are the disconnection of the entire Russian banking system from "SWIFT", and, most importantly, the embargo on Russian energy products. However, this decision will be difficult for both Russia and Europe, and if it is made, Europe will have to work on a mechanism that will have a minimum impact on its economy.

The fact is that living in such conditions will be more and more difficult for the Russian population. Over time, the country's economic situation will worsen. Let's see what steps Europe will take and what Russia will do to maintain its own economic balance.

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