Economic Impact on Russia After the Russian-Ukrainian Conflict

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Abstract. Based on the premise of the outbreak of war in the Russian-Ukrainian conflict war, the following article examines the impact on the Russian macro and micro economy. Raw oil, fertilizer fuels and gas energy are the main pillars of the Russian economy, while the domestic economy is dominated by the service sector. The methodology of research on the Russian economy is the integration of information and data through academic articles. One of the main sources of damage to the Russian economy was found to be the series of economic sanctions implemented by the United States and the European Union, and the main groups affected by these losses, in terms of data, were the wealthy Russians and senior members of the government leadership. At the macro level, Russian energy exports have suffered a severe setback, with a larger percentage drop compared to previous years. In the meanwhile, however, the losses to the Russian economy and the impact from inflation have been reduced by increasing the share of trade with the Chinese market and improving the domestic economic policies. This study will help to explore the development of a more appropriate economic policy in Russia and the direction of foreign trade, as well as recommendations for the reorganization of the economic structure in the country. However, the drawback of the study is that the material or content of the study may not always have a clear political stance, which may affect the judgment of researcher to the real state of the Russian economy.

Keywords: Sanctions; Russian economy; cooperation.

1. Introduction

The export of domestic resources served as the foundation of the early Russian economic system. Rich mineral resources, oil, and gas were among the exported resources. The government managed the collection and sale of resources on an entrepreneurial scale, where the shareholding structure of the enterprises was free-floating, and all citizens had the right to buy and sell the shares of enterprises. In the course of the evolution of the Russian economic framework away from the communist configuration, a considerable proportion of state-owned assets and resources underwent a gradual and deliberate transition into private proprietorship, becoming conspicuously concentrated within a limited cohort of individuals. These entities, by virtue of their accumulated financial capital, subsequently acquired a distinct echelon of authoritative control, social standing, and influential dominion over governmental affairs. This assemblage of individuals is colloquially identified as the oligarchic class [1]. The amount of oil exported by Russia and the profits it makes as a percentage of total revenues are significant. Russian exports, which make up 60% of all Russian oil exports, provide the majority of Europe's oil energy. Further, the service sector supports the domestic economy of Russia as a whole. The Russian economy has previously faced turbulence. The Russian economy entered an economic depression in early 2009 as a result of the 2008 global financial crisis. By 2014, Russia had started to experience economic sanctions from some Western nations because of Croatia's political issues, which had already had some impact on the Russian economy. Until 2022, when the war conflict with Ukraine broke out, representatives of Western European countries led by the United States and the United Kingdom, and in the name of The North Atlantic Treaty Organization (NATO), continued to send war resources to Ukraine, using resource depletion to strike at the economic lifelines of Russia [2]. In order to further weaken Russia, the United Kingdom (UK) and the United States (US), as the representatives of NATO and other countries on behalf of the further implementation of more stringent economic sanctions against Russia. For instance, limitations on exports to Russia and imports of Russian goods, the freezing of assets on Russian accounts outside

of the country, and travel ban [3]. With the aforementioned context, this essay examines the macro and micro effects of the Russia-Ukraine conflict on the Russian economy. Specifically, how the Russian economy has been affected by the economic sanctions imposed by the West, represented by the UK and the US, and the strategy measured by Russian government to respond the sanctions in order to mitigate the impact on the domestic economy and external trading economy. At the same time, it will be explored whether the poor external economic environment in Russia has had a ripple effect on the domestic economic system, leading to an impact on the standard of living of the population and on domestic welfare policies. The purpose of this study is to determine how much a war and economic sanctions have an impact on the internal and external economies. The significance of the study is to understand how to respond with measures that are appropriate for the similar circumstances or to determine whether better alternatives exist. And the goal of the research is to study the extent to which the internal and external environments affect Russian economy and the factors that determine it. Additionally, the study investigates the economic environment's future course as well as whether changes to Russian internal economic structure and framework have also occurred. It is more important to determine whether the relevant economic policies of Russia government have a significant impact at both the macro and micro levels. The essay is divided into three main sections: an introduction, a study of the internal and external factors affecting the Russian economy, and finally a conclusion and an outlook for the future based on the data.

2. Russian Background

2.1. Policy on Monetary

Earlier periods of sanctions, taken consideration to prevent the West from freezing Russian offshore accounts would have a greater negative effect on the currency. Further, to avoid the panic caused by the upcoming rapid inflation in the country. The Russian government implemented a series of measures against domestic banks to minimize the consequences of the rapid devaluation of the rouble on international markets and to calm the domestic population for the purpose [4]. The policy on monetary included: No sale of foreign currency to the public for the next six months; A ban on the exchange of foreign currency in excess of $10,000 and an increase in the 12 percent tax on foreign currency purchases; Restrictions on the export of foreign currency; Bank deposits in foreign currencies were exchanged for US dollars; The key interest rate policy was raised to 20 percent. The above measures were implemented with the aim of gradually separating the rouble from the world market, moreover, in order to mitigate the impact of the rouble's external devaluation and to stabilise the foreign exchange market [5].

2.2. Market Resource Policy

Russian oil and gas are primarily exported to European nations. The government launched a policy of restricting oil exports while raising the price of oil and gas in reaction to penalties against European nations for reducing purchases of Russian oil and gas [6]. At the same time, Russia government signed cooperation to sell large quantities of oil and gas to India and China as a substitute for European customers.

2.3. Sanction List

The European Union member states have compiled a roster of sanctioned entities, primarily encompassing around 1,800 individuals and organizations deemed to jeopardize the territorial integrity of Ukraine. This list encompasses prominent Russian government officials and leaders within financial institutions. The sanctions encompass the freezing of assets held by these individuals within the EU, financial transaction restrictions, and travel prohibitions. The Western powers had foreseen that the constraints on freezing assets would yield such effects. However, affluent Russians possess a proficiency in obscuring the asset, thereby making it plausible that the situation remains largely unchanged [7]. The imposition of asset freezes also encompasses the external reserve assets

of the Russian Government, encompassing foreign currency holdings and gold reserves. Historically, these reserves have played a pivotal role in ensuring the stability of the currency's exchange rate, while simultaneously serving as a medium of exchange for transactions with other industrialized nations. Notably, these transactions often involved the exchange of reserves for advanced technologies, acting as a compensatory mechanism to mitigate domestic production deficiencies and the intricacies inherent to the economy's composition. However, the freeze on foreign currency reserves is poised to precipitate significant repercussions for the Russian budget, leading to a substantial setback. Moreover, this development will result in the forfeiture of opportunities to engage in trade with developed countries for the acquisition of infrastructure equipment [8]. Consequently, the Russian Government will be compelled to undertake a strategic realignment of its macro-budgetary policies, aimed at accommodating future trade interactions with affable nations situated in the Eastern. At the macroeconomic stratum, the European Union (EU) member states impose constraints on economic actors' ability to engage in the export and import of commodities with Russia. As per limited available data, a comparative assessment against the trade volume in 2021 reveals that subsequent to the onset of the Russian-Ukrainian conflict, the EU curtailed exports to Russia by a total value of 43.9 billion euros, while Russia concurrently experienced a reduction of exports valued at 93 billion euros. Also, with regard to energy export sanctions, EU countries and Australia stopped providing oil transport services to Russia, while setting a price cap. At the same time, Russia is required to comply with the rules of the sale price of exported oil, which is lower than the ceiling price [9]. This measure has caused serious economic losses for Russia, which depends on exporting oil and energy as the mainstay of its economy and has meant the loss of a large consumer market in European countries. According to the data, compared to the profitability of exporting oil and energy before the outbreak of the war, Russia's profitability of exporting oil at the beginning of the year 2023 dropped by 40 percent, and the profitability of the exported oil accounted for only 23 percent of Russia's annual expenditure budget, which is a significant decrease compared to 35 percent before the outbreak of the war [10]. The substance of the economic sanctions is directed at the highest echelons of leadership within Russian state-owned enterprises and governmental institutions. This approach has precipitated a shift in the prominent figures driving the course of the Russian economy, consequently giving rise to a novel cadre of non-affiliated oligarchs, originating from the private sector. These executives from the private sector can be identified as offspring of the preceding generation of top officials from government bodies and state-owned enterprises. This lineage is discernible among a comprehensive roster of 24 newly established oligarchs, who also concurrently occupy positions within the upper echelons of the business elite. This faction of the elite garners support from state-owned assets and enjoys access to external sources of financial backing. Nevertheless, the repercussions of these sanctions will be most acutely felt within the Russia domestic economic landscape, exacerbating the existing disparity in income distribution among the populace [7]. This disproportionate and inequitable income distribution has the potential to engender a weakening of the Russian economy in the future, characterized by protracted periods of stagnation or sluggish growth, along with a diminished emphasis on and substantial cutbacks in infrastructure development.

2.4. Imports and Exports

The trade flow restrictions stipulated within the economic sanctions have resulted in a contraction exceeding 14 percent of Russia's gross domestic product. As indicated by the study, the European Union contributes to 40 percent of Russia's total imports, whereas Russia's imports constitute a mere 2 percent of the European Union's overall imports [8]. Evident in the trade balance for export between the European Union and Russia, the export-based sanctions imposed by the EU on Russia have the potential to induce economic losses for both entities. The embargo placed on certain commodities does not preclude the emergence of trade adaptability. This adaptation allows Russia to identify alternative sources for the supply and demand of goods, capitalizing on extensive consumer markets like India and China. Consequently, this strategic maneuvering helps improve the secondary

repercussions stemming from the mitigating of economic gains. Contrastingly, the export commodities subjected to sanctions in Russia constitute a mere 19 percent of the entirety of exported goods. An even more marginal proportion pertains to the food commodities under sanction, accounting for approximately $4 million in terms of gross product [2]. In light of Russian relative reliance on an economy centered around the export of food goods, the collective influence stemming from the reduction in exported food commodities on the Russian economic landscape remains exceedingly trivial.

Upon the eruption of the conflict, the Biden administration implemented a comprehensive embargo on all imports of Russian energy resources and ores, a directive that was enacted on March 8th and subsequently formalized through the passage and signing of a bill in April [5]. Furthermore, the supplementary economic sanctions enacted by the United States encompassed a prohibition on exporting semiconductors, telecommunications equipment, and aircraft parts to Russia. To evade entanglement with these sanctions, a majority of companies chose to comply and participate in the embargo on supplying high-tech products to Russia. This is particularly relevant for enterprises whose intellectual property rights are under the jurisdiction of the United States. Especially, the Biden administration imposed financial penalties on Huawei for furnishing products that fell within the ambit of Russia's sanctioned items. The principal objective of this facet of the sanctions is to curtail the advancement of Russia's military infrastructure, in addition to augmenting the Russian military expenditures within the context of the Russian-Ukrainian conflict. These measures also seek to hinder the logistical support from Iran to Russia and constrain Russian access to export commodities.

2.5. Cooperation

Confronted with the geopolitical seclusion enacted by Western nations, Russia is actively engaged in the pursuit of viable economic and trade partnerships while concurrently nurturing nascent consumer markets. Concurrently, the nation is deepening and broadening the economic and trade ties with China and other amicable countries, fostering a more comprehensive landscape of economic cooperation. This strategic approach aims to counterbalance the contraction of its consumer market share due to Western sanctions, thereby ameliorating the resultant economic setbacks. In light of the status as a swiftly evolving nation, China exhibits a substantial appetite for energy resources and raw materials. Within this context, Russia, renowned for its energy-centric economic underpinnings, possesses a robust energy production infrastructure. Hence, a symbiotic economic rapport is established between Chinese substantial market consumption and Russian expansive production chain. Commencing from 2021, Russia has ascended to the position of the principal provider of frozen seafood, petroleum energy, fertilizer fuels, and natural gas to China. The prospect of augmenting and further enhancing the scope of economic collaboration between Russia and China, particularly amid challenging conditions, is liable to stem from the Western pressure, predominantly steered by the dominance of the United States [10]. Since the outbreak of the Russian-Ukrainian conflict, China, Russia's largest economic partner, has replaced Saudi Arabia as the country importing the largest share of Russian crude oil energy. At the same time, infrastructure cooperation between the two sides has been strengthened, for example, in order to achieve the delivery of 50 billion of natural gas per year, Russia and China have implemented a pipeline gas transmission programme. The Russian Chinese trade partnership remains confined to the traditional trade model. The reason for this lies in the technological differences and differences in labour patterns between the two countries. In the face of new economic partnerships or areas of cooperation, Russia needs to constantly explore the potential and strength of its domestic energy production chain, establish a solid partnership position, and balance its cooperation with other partners. Otherwise, it will once again face the situation of economic trade with European countries, making concessions in the political and economic spheres for trade purposes.

3. Conclusion

The preceding discourse constitutes a comprehensive examination of Russia's macro and microeconomic landscape subsequent to the Russian-Ukrainian conflict. On the global scale, Russia has become the target of economic sanctions enforced by EU member countries under the leadership of the dominant influence of the United States. The substantive content of these sanctions encompasses actions such as the freezing of personal assets held by Russian individuals, the constriction of Russia's imports and exports, the reduction of the EU's dependence on Russian energy imports, and the prohibition on the provision of sophisticated high-tech products to Russia. The underlying purpose of these sanctions is to exert a wide-ranging impact on Russia's overarching economy. This strategic approach aims to prompt Russia's acknowledgment of both its internal dynamics and external challenges, while concurrently fostering the attainment of concessions anticipated from Russia within the context of the Russia-Ukraine conflict. In a bid to counteract the intentions of Western nations, the Russian government has instituted a fresh economic policy trajectory, and concurrently, capital-intensive enterprises have swiftly adapted to the trade sanctions environment. The implementation of these novel policy measures has effectively mitigated the immediate impact of rapid foreign inflation on the nation, affording a stabilizing influence on the domestic socio-economic milieu, thereby limiting undue susceptibility to external influences. These changes have effectively reduced the impact of rapid inflation abroad on the country for the upcoming circumstances. Adopting a micro-level perspective, there is a heightened emphasis on the restructuring of oligarchic dynamics within Russia, coupled with the adaptive response of capitalism to the imposed economic sanctions. Remarkably, these sanctions have not resulted in an excessively negative impact on Russia's internal landscape. Simultaneously, to promptly offset the decline in consumption within the international trade market, Russia has expanded the economic and trade horizons with China and other amicable nations. This expansion is evidenced through the signing of numerous collaborative projects and the deepening of comprehensive economic exchanges and developmental initiatives. Consequently, it becomes apparent that since the onset of the Russian-Ukrainian conflict, Russian economic trajectory has gradually converged with that of friendly Eastern nations. This alignment has served to stabilize the Russian market economy, capitalizing on the enhancement of supply relations with China within the domain of economy and trade. This progression has steadily elevated the overall economic status. However, to sustain a substantive economic standing, Russia supposed to proactively develop the energy production sector, which serves as the linchpin of its economy. Moreover, for the underdeveloped light industries, infrastructure, and commodities, enhanced focus is required on cultivating diverse employment opportunities to forestall a surge in unemployment precipitated by economic deceleration. Failure to do so could potentially lead to an unwarranted reliance on foreign imports of goods and technologies, hampering the advancement of economic diversity within the nation.

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