MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SUMY STATE UNIVERSITY
Educational and Research Institute of Business, Economics and Management
Department of International Economic Relations

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QUALIFICATION PAPER

It is submitted for the Master's degree

Specialty 292 "International Economic Relations"
on the topic "INTERNATIONAL ECONOMIC SANCTIONS AS A TOOL OF FOREIGN POLICY OF STATES"

Student group МБ.м-31 ______________ K.O. Polyvyana

It is submitted for the Master's level degree requirements fulfillment.

Master's level degree qualification paper contains the results of own research. The use of the ideas, results and texts of other authors has a link to the corresponding source

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MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
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TASKS FOR MASTER'S LEVEL DEGREE QUALIFICATION PAPER
(Specialty 292 "International Economic Relations")
student 2 course , group МБ.м-31
Karina Oleksiivna Polyvyana

1. The theme of the paper is "International economic sanctions as a tool of foreign policy of states" approved by the order of the university from «24» December 2024 №1255-VI

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3. The purpose of the qualification paper is to research the features of applying international economic sanctions, assess their consequences for the economies of target countries and initiating countries, and develop approaches to improve sanctions policy.

4. The object of the research is international economic sanctions as a tool for regulating international economic relations.

5. The subject of research is evaluation of the effectiveness of applying international economic sanctions.

6. The qualification paper is carried out on materials of scientific research of domestic and foreign scholars, statistical data of international organizations, including the United Nations, World Trade Organization, and European Union.

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Chapter 1. Theoretical foundations of international economic sanctions – November 10, 2024

Chapter 1 deals with the examination of the theoretical aspects of international economic sanctions and their classification, the evolution of the use of economic sanctions in international relations, and the role of international organizations in implementing sanctions policy.

Chapter 2. Effectiveness and consequences of applying international economic sanctions – November 27, 2024

Chapter 2 deals with the analysis of the impact of economic sanctions on the macroeconomic indicators of target countries, the economic feasibility of sanctions for initiating countries, and the adaptation strategies of countries to sanctions.

Chapter 3. International economic sanctions against Russia – December 6, 2024

Chapter 3 deals with the study of sanctions imposed on Russia, an assessment of Russia's adaptation strategies to international sanctions, and the development of approaches to strengthen sanctions pressure on Russia.

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1	T.O. Kurbatova, Associate Professor of International Economic Relations Department	14.10.2024	14.10.2024
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ABSTRACT

of Master’s level degree qualification paper on the theme

“International economic sanctions as a tool of foreign policy of states”

student Karina Oleksiivna Polyvyana

The main content of the master’s level degree qualification paper is presented on 54 pages, including a list of 61 references spread over 5 pages. The work includes 3 tables and 4 figures.

The purpose of the master's level degree qualification paper is to study the features of the application of international economic sanctions, assess their consequences for the economies of target countries and initiating countries, and develop approaches to improve sanction policy.

The following research methods were used during the study: analysis, synthesis, systematization and generalization, factor analysis, comparative analysis, causal analysis, graphical method.

The information base of the research consisted of the results of scientific studies by domestic and foreign scholars, statistical data from international organizations, including the United Nations, the World Trade Organization, and the European Union.

Based on the research results, the following conclusions were formulated:

1. Economic sanctions are a powerful and multifaceted tool of international diplomacy, allowing states and international organizations to establish norms, respond to aggression, and achieve strategic goals without resorting to military actions.

2. For target countries, sanctions can significantly disrupt macroeconomic stability, weaken key industries, and exacerbate social problems. At the same time, initiating countries face economic costs, particularly in trade and energy security. However, strategic advantages, such as strengthening international norms and consolidating alliances, often outweigh these costs in the long term.

3. The analysis of sanction policy against Russia demonstrated the unprecedented scale and impact of sanctions in a closely interconnected global economy. Measures

applied to Russia severely undermined its economic indicators by restricting access to critically important resources and technologies.

4. Strengthening sanction pressure on Russia requires a comprehensive approach. Important steps include expanding sanction lists by targeting individuals and companies supporting the Kremlin regime, intensifying financial restrictions, banning the export of critical technologies to limit the development of the defense and high-tech industries, countering sanction evasion through intermediaries, etc.

The results obtained may be useful for scholars studying international economic sanctions, international organizations, as well as governments of sanction-initiating countries for the purpose of improving sanction policy and developing effective strategies for their implementation.

Keywords: INTERNATIONAL ECONOMIC SANCTIONS, INTERNATIONAL ECONOMIC RELATIONS, ADAPTATION, SANCTION POLICY.

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CONTENT

INTRODUCTION

The issue of the impact of international economic sanctions on states has gained particular relevance in recent decades. The growing interdependence of national economies in a globalized world has transformed economic sanctions into one of the most widespread tools of foreign policy. Their application has become a response to various challenges to international security, ranging from human rights violations to aggression against neighbouring states.

The choice of the topic "International Economic Sanctions as a Tool of State Foreign Policy" is driven by several factors. Firstly, sanctions have become an integral part of modern international relations, influencing the economic, political, and social life of many countries. Secondly, the effectiveness of sanctions as a foreign policy tool is a subject of debate among scholars and politicians. Thirdly, analyzing the experience of applying sanctions allows for the development of recommendations for their more effective use in the future.

The problem of the impact of economic sanctions on states remains a focus of attention for many scholars. Today, a significant number of studies are concentrated on the theoretical aspects of sanctions, their history, and the analysis of specific cases of their application. However, despite the large volume of research, many aspects of this issue remain insufficiently explored. In particular, the question of the effectiveness of sanctions as a tool of foreign policy and the conditions under which they can ensure the achievement of set goals remains relevant.

The aim of the qualifying master's thesis is to study the features of applying international economic sanctions, assess their consequences for the economies of target countries and initiating countries, and develop approaches to improve sanctions policy.

To achieve the stated goal, a number of tasks have been identified, including:

– analyzing the theoretical aspects of international economic sanctions and their classification;
– investigating the evolution of international economic sanctions and the role of international organizations in implementing sanctions policy;

- analyzing the impact of economic sanctions on the macroeconomic indicators of target countries and the economic feasibility of sanctions for initiating countries;
- examining the sanctions imposed on Russia as a result of its invasion of Ukraine;
- developing approaches to intensify sanctions pressure on Russia.

The object of the study is international economic sanctions as a tool for regulating international economic relations.

The subject of the study is the assessment of the effectiveness of applying international economic sanctions.

The following research methods were used during the study: analysis, synthesis, systematization and generalization, factor analysis, comparative analysis, cause-and-effect analysis, and graphical method.

The information base of the research includes the results of scientific studies by domestic and foreign scholars, statistical data from international organizations, particularly the United Nations, the World Trade Organization, and the European Union.

1. THEORETICAL FOUNDATIONS OF INTERNATIONAL ECONOMIC SANCTIONS

1.1 Concepts, Objectives, and Classification of International Economic Sanctions

International economic sanctions have become one of the most prominent tools in contemporary international relations, serving as a mechanism for resolving disputes, ensuring compliance with international norms, and achieving political and security objectives without resorting to military action. Sanctions are essentially coercive measures imposed by one or several countries or international organizations to influence the behavior of a target state, organization, or individual [1]. They are designed to create economic or political pressure, compelling the target party to comply with specific demands or face significant consequences. The concept of sanctions is based on the principle of collective pressure to ensure adherence to international law and prevent future violations [2].

The objectives of sanctions are diverse and often overlap in practice. From a political standpoint, sanctions are used to pressure governments or groups to change their behavior or policies. This was the case with the sanctions imposed on South Africa during the apartheid era, aimed at dismantling racial segregation and promoting social equality [3]. Economically, sanctions target a country's financial and trade capabilities, reducing its ability to fund military activities or repressive regimes. For instance, sanctions against North Korea are intended to limit its resources for developing nuclear weapons. Sanctions are also employed to combat human rights violations, as seen in the measures against Myanmar’s military regime for suppressing the civilian population [4]. In the security realm, sanctions aim to prevent the proliferation of weapons of mass destruction or counter terrorist activities, such as sanctions against Al-Qaeda and the Islamic State. Additionally, sanctions serve as punitive measures to deter future violations, exemplified by the sanctions imposed on Russia following the annexation of Crimea in 2014.

Sanctions can be classified based on their scope, nature, and target sectors. Trade sanctions are among the most common, involving restrictions or prohibitions on the import or export of goods and services. They can be broad, affecting multiple industries, or targeted, such as bans on military equipment or dual-use technologies. Financial sanctions, another prevalent category, aim to restrict access to global financial systems. These include asset freezes, blocking access to banking networks, and prohibiting financial transactions. A notable example is the financial sanctions imposed on Russian banks in response to Russia's invasion of Ukraine [5].

Technological sanctions and dual-use sanctions limit the export of technologies and equipment that can be used for both civilian and military purposes. These measures have gained particular importance in the context of sanctions against China and Russia, targeting advanced semiconductors, software, and equipment [6]. Comprehensive sanctions, as the name suggests, affect the entire country by halting trade, financial flows, and international cooperation. A classic example is the sanctions imposed on Iraq in the 1990s, which severely restricted the country's economic activities and access to resources [7].

Targeted or "smart" sanctions, on the other hand, aim to minimize collateral damage by focusing on specific individuals, companies, or sectors. For example, sanctions imposed on Russian oligarchs and state-owned enterprises following the annexation of Crimea were designed to isolate key players of the regime while minimizing harm to the general population. Secondary sanctions represent a unique category that punishes third parties or organizations that interact with the sanctioned state. The United States has extensively employed secondary sanctions to enhance the effectiveness of its primary sanctions. Sectoral sanctions focus on specific industries such as energy, defense, or technology, and are often used to weaken critical sectors of the target country's economy.

The mechanisms for implementing sanctions vary depending on their scope and the parties imposing them. Multilateral sanctions, coordinated by international organizations like the United Nations or the European Union, ensure collective action and greater legitimacy [8]. However, achieving consensus among member states can be challenging, especially when major powers have conflicting interests. Unilateral sanctions, imposed by individual countries such as the U.S. embargo on Cuba, often reflect specific foreign policy objectives. Regional sanctions, enacted by organizations like the African Union or the Association of Southeast Asian Nations, address local issues such as political instability or human rights violations [9].

Despite their widespread use, sanctions are not without controversy. Comprehensive sanctions often disproportionately affect the civilian population, leading to widespread poverty, shortages of essential goods, and long-term economic instability. This was evident in Iraq in the 1990s, where sanctions resulted in severe humanitarian crises despite their intended political goals. The question of sanctions' effectiveness remains pertinent, as target countries often find ways to adapt through economic diversification, establishing alternative trade alliances, or developing parallel financial systems. Sanctions can also create unintended consequences for the imposing countries, especially when they disrupt trade relations or provoke retaliatory measures [10].

Legal issues further complicate the implementation of sanctions. Increasingly, individuals and organizations challenge sanctions in international courts, arguing that they violate principles of proportionality, due process, or international trade rules. The rise in such disputes underscores the need for careful design and application of sanctions to ensure their compliance with legal and ethical standards.

In summary, economic sanctions are a critically important tool in modern international relations, offering a non-military means to address violations of international norms and support global security. Their diverse objectives and classifications reflect the complexity of their application, while their mechanisms highlight the importance of coordination among states and institutions. However, the humanitarian consequences and legal disputes associated with the imposition of sanctions indicate the need for ongoing analysis of their impact and the refinement of approaches to their application.

1.2 Evolution of International Economic Sanctions in International Relations

The use of sanctions as a tool of diplomacy and conflict resolution has significantly evolved over centuries, reflecting changes in global political dynamics, economic interdependence, and the institutionalization of international relations. From ancient trade blockades to today's sophisticated targeted measures, sanctions have transitioned from rudimentary economic pressure to complex mechanisms designed to achieve specific political and economic objectives. Understanding this evolution provides valuable insights into how sanctions have become a cornerstone of contemporary international relations [11].

The earliest recorded instances of sanctions date back to ancient civilizations, where trade blockades and embargoes were used to economically weaken opponents. For example, in 432 BCE during the Peloponnesian War, Athens imposed a trade embargo on the city-state of Megara, effectively cutting off its economic lifeline. Such measures were relatively simple, focusing on disrupting trade routes and access to resources to force political concessions or weaken military capabilities.

During the Middle Ages and the early modern period, sanctions remained localized and were primarily tied to naval blockades during conflicts. European states frequently employed blockades during the Napoleonic Wars in the early 19th century, attempting to weaken opponents' economies by restricting maritime trade. However, these early sanctions lacked the institutional support and global coordination observed today, limiting their effectiveness beyond the immediate regions in which they were applied [12].

The early 20th century marked a turning point in the development of sanctions, particularly with the establishment of the League of Nations in 1920. For the first time, economic sanctions were institutionalized as a means of supporting collective security and preventing aggression. Article 16 of the League Covenant explicitly allowed member states to impose economic and trade sanctions against any country that resorted to war in violation of international agreements.

One of the most notable instances from this period was the League’s sanctions against Italy in response to its invasion of Ethiopia in 1935 [13]. These sanctions included an embargo on the supply of weapons and restrictions on vital export commodities such as oil and rubber. However, the League's inability to implement comprehensive measures or secure cooperation from major powers like the United States and Germany severely undermined their effectiveness. The Italian case demonstrated both the potential of sanctions as a conflict resolution tool and the limitations posed by unilateral or poorly coordinated actions [14].

After World War II, the establishment of the United Nations in 1945 significantly expanded the institutional framework for sanctions. According to Chapter VII of the UN Charter, the Security Council was granted the authority to impose binding sanctions to eliminate threats to international peace and security [15]. This marked a shift towards multilateral sanctions that relied on collective action by member states.

During the Cold War, sanctions became a regular tool of geopolitical competition between the United States-led Western bloc and the Soviet Union. However, the polarized global order often hindered the effectiveness of multilateral measures, as the veto power in the Security Council allowed major powers to block actions against their allies [16].

One of the most significant post-war examples of sanctions was the UN arms embargo against apartheid South Africa in the 1970s and 1980s. These sanctions, combined with financial and trade restrictions imposed by individual countries, played a crucial role in pressuring the South African government to dismantle its racial segregation system. The success of these sanctions highlighted the importance of coordinated international efforts and demonstrated that sanctions could achieve long-term political changes when combined with other forms of diplomatic pressure [17].

The end of the Cold War ushered in a new era for international sanctions, characterized by a shift from comprehensive measures to more targeted or "smart" sanctions. Comprehensive sanctions, such as those imposed on Iraq in the 1990s, faced criticism for their severe humanitarian impacts, including widespread poverty and shortages of essential goods. This criticism led to a reevaluation of sanctions as a tool of statecraft [18].

Targeted sanctions emerged in response to these concerns, focusing on specific individuals, organizations, or sectors rather than the entire population. Examples include asset freezes on political leaders, travel bans on officials, and restrictions on access to luxury goods. For instance, sanctions imposed on Yugoslav leaders during the Balkan conflicts of the 1990s aimed to isolate the regime while minimizing harm to the civilian population.

During this period, sanctions also evolved as a tool to counter non-state threats such as terrorism and the proliferation of nuclear weapons. UN sanctions against Al-Qaeda and associated individuals introduced the concept of listing specific entities for targeted measures, setting a precedent for counterterrorism efforts. Similarly, sanctions against Iran and North Korea for their nuclear programs demonstrated the use of sanctions as a preventive measure to halt the development of weapons of mass destruction [19].

In the 21st century, sanctions have become increasingly sophisticated and coordinated, reflecting the complexity of the globalized economy. The proliferation of financial technologies and international banking networks has enabled more precise implementation of sanctions, particularly financial restrictions. The United States, with its dominant position in global finance, has played a leading role in developing sanctions against foreign banks, companies, and individuals, often enhancing its control over the dollar-denominated global economy [20].

Recent cases, such as sanctions against Russia following the annexation of Crimea in 2014 and its invasion of Ukraine in 2022, underscore the scale and impact of modern sanction regimes. These measures involve comprehensive restrictions across multiple sectors, including energy, finance, technology, and defense. Moreover, they reflect an unprecedented level of coordination among Western countries and institutions such as the EU and the G7, highlighting the importance of multilateralism in enforcing sanctions. Additionally, sanctions have been extended to address issues like human rights violations, environmental crimes, and cyberattacks. The Magnitsky Act, enacted by the United States and later adopted by other countries, allows for sanctions against individuals involved in human rights abuses, establishing a precedent for accountability in international law [21].

However, the effectiveness of sanctions remains a subject of debate. Targeted states often find ways to adapt, whether through economic diversification, forming alternative alliances, or utilizing new technologies such as cryptocurrencies to circumvent restrictions. Moreover, unintended consequences of sanctions, such as humanitarian crises or the destabilization of regional economies, continue to pose ethical and practical challenges [22].

The evolution of sanctions reflects their dual nature as a tool for state management and as a reflection of global power dynamics. As international relations become increasingly interconnected, sanctions are likely to remain a key instrument for conflict resolution, promoting adherence to international norms, and shaping the behavior of both state and non-state actors. However, their success will depend on meticulous planning, effective enforcement, and ongoing efforts to balance their economic and humanitarian impacts.

1.3 Institutional Role of International Organizations in Implementing Economic Sanctions

International organizations play a crucial role in the development, enforcement, and monitoring of economic sanctions. As global economies become more interconnected, sanctions imposed unilaterally by a single state are often less effective than those coordinated at the international level. Institutions such as the United Nations, the European Union, and the World Trade Organization provide platforms for collective action, enhance the legitimacy of sanctions, and establish frameworks for their implementation. These organizations ensure that sanctions comply with international law and global norms while striving to minimize their unintended consequences [23].

The United Nations has been at the forefront of global sanction regimes since its establishment in 1945. Under Chapter VII of the UN Charter, the Security Council is empowered to impose binding measures to eliminate threats to international peace and security. These measures can include arms embargoes, travel bans, asset freezes, and trade restrictions. The Security Council's ability to impose multilateral sanctions ensures that such measures carry significant international legitimacy and are supported by the collective commitments of member states [22].

UN sanctions have been applied in various contexts, including conflict resolution. For example, in Angola during the 1990s, sanctions were used to weaken the military capabilities of the UNITA rebel group, facilitating peace negotiations [24]. Sanctions have also been employed to curb the nuclear ambitions of North Korea and Iran by targeting key sectors of their industries, financial institutions, and responsible individuals. Additionally, the UN has implemented sanctions against terrorist organizations such as Al-Qaeda and ISIS by freezing their assets and prohibiting the entry of terrorists, thereby complicating the financing and organization of terrorist operations. Sanctions have also been applied against human rights violators, including Myanmar's military junta, accused of suppressing democratic movements [25].

However, the UN sanctions system faces challenges. The requirement for unanimity among the five permanent members of the Security Council (China, France, Russia, the United Kingdom, and the United States) often leads to political deadlocks. For instance, Russia and China have vetoed several resolutions aimed at imposing sanctions on Syria during its civil war, reflecting their geopolitical interests [26].

The European Union is another leading actor in the imposition of sanctions, particularly in response to regional conflicts, human rights violations, and security threats. The EU's Common Foreign and Security Policy provides the legal and institutional framework for implementing sanctions among member states. As a major economic bloc, EU sanctions carry significant weight due to the size of its market and its influence on global trade [27].

The EU has a well-defined sanctions framework that includes autonomous measures, coordination with allies, and dynamic adjustments based on changing circumstances. The EU imposes its own sanctions independently of the UN, often addressing regional issues or aligning with EU values such as the promotion of democracy and human rights. For example, the EU imposed sanctions on Belarus following the disputed 2020 presidential elections and the subsequent suppression of democratic protests [26]. Moreover, the EU frequently collaborates with other allies, including the United States and the United Kingdom, to enhance the effectiveness of sanctions. Sanctions against Russia following the annexation of Crimea were coordinated with NATO and G7 partners, targeting the financial, energy, and defense sectors. Additionally, the EU continually reviews and adjusts its sanctions in response to changing circumstances, such as the easing of sanctions against Iran following the 2015 nuclear deal and their reinstatement after the US withdrawal from the agreement in 2018 [24].

EU sanctions are characterized by a comprehensive approach that includes trade restrictions, financial measures, and diplomatic efforts. However, achieving consensus among all 27 member states can be challenging, as individual countries may have varying economic or political interests [23].

It is also important to note the role of the World Trade Organization (WTO), which, although it does not impose sanctions directly, plays a key role in resolving disputes related to trade restrictions. The WTO provides a platform for resolving conflicts between countries, promoting adherence to international trade norms and rules. Its activities are essential for maintaining the stability of the global economy and addressing contentious issues within the multilateral trading system. Sanctions, particularly unilateral ones, can conflict with WTO principles such as promoting free trade and non-discrimination among member states. Countries that deem sanctions unfair or illegal often bring cases to the WTO’s Dispute Settlement Body [18].

For example, Russia has challenged EU and US sanctions at the WTO, arguing that they violate trade agreements. Similarly, the United States has faced criticism for implementing secondary sanctions aimed at third countries or organizations cooperating with sanctioned states. This practice has been controversial due to its extraterritorial nature and perceived interference with the sovereign rights of other nations regarding their economic and trade interests. The involvement of the WTO highlights the legal complexities of sanctions in a globalized economy and the need to balance trade rules with geopolitical objectives [28].

Regional organizations also play a significant role in sanction regimes, often addressing conflicts or crises within their regions. For instance, the African Union has imposed sanctions on member states for unconstitutional changes of government or human rights violations. Specifically, sanctions against Sudan during its internal conflict aimed to pressure the government to engage in peace processes [19]. The Association of Southeast Asian Nations (ASEAN), while favoring consensus and non-interference, occasionally supports sanctions, such as those imposed on Myanmar following the military coup. The Gulf Cooperation Council has also coordinated sanctions among its members, including measures against Qatar during its diplomatic rift with neighboring states in 2017 [29]. These organizations often tailor sanctions to regional dynamics, leveraging their proximity and understanding of local conditions to enhance their effectiveness.

International and regional organizations face a range of challenges that complicate the implementation of sanctions. Geopolitical rivalries among leading states frequently hinder coordinated collective actions, undermining the effectiveness of institutions like the UN Security Council, where veto power often blocks critical decisions. Additionally, the effectiveness of sanctions enforcement depends on the active cooperation of member states. In regions with underdeveloped institutional mechanisms, weak enforcement systems significantly reduce the efficacy and impact of sanctions [30].

Moreover, sanctions rely on the cooperation of member states to ensure their implementation, and weak enforcement mechanisms in certain regions diminish their impact. For example, humanitarian crises, as seen in Iraq in the 1990s, can result from comprehensive sanctions leading to poverty and suffering. Sanctions also frequently face legal challenges in international courts or trade organizations, complicating their implementation and enforcement [31].

As the global economy evolves, the role of international organizations in sanction regimes continues to develop. Institutions are increasingly focusing on targeted sanctions that minimize collateral damage while maximizing pressure on specific actors. They also utilize technological advancements to enhance enforcement, such as monitoring financial transactions and tracking illegal trade networks [9].

Collaboration between international and regional organizations further strengthens sanction regimes. For instance, the coordinated sanctions against Russia following its invasion of Ukraine in 2022 reflect an unprecedented level of cooperation among the UN, EU, G7, and NATO. Such efforts demonstrate the potential of institutions to address complex global challenges through collective action [15].

In summary, international organizations play a key role in implementing sanctions by ensuring their legitimacy, coordinating actions among countries, and providing enforcement mechanisms. However, their effectiveness largely depends on their ability to overcome geopolitical differences, ensure compliance with sanctions, and minimize unintended humanitarian consequences. To remain effective in a world facing increasingly complex global challenges, these institutions must continuously adapt their strategies and approaches.

Today, international organizations need to modernize their sanction mechanisms, including reforming decision-making procedures, enhancing transparency, and ensuring greater participation of developing countries. Only by adapting to new realities and considering the interests of diverse stakeholders can international institutions remain effective guarantors of stability and order in the global system.

2. EFFECTIVENESS AND CONSEQUENCES OF THE APPLICATION OF ECONOMIC SANCTIONS

2.1 Impact of Economic Sanctions on Macroeconomic Indicators of Target Countries

Economic sanctions are one of the most powerful tools of economic pressure on states that violate international norms or pose a threat to global security. They directly affect the key macroeconomic indicators of target countries, such as Gross Domestic Product (GDP), inflation rates, national currency stability, volumes of foreign trade, and employment. This section examines in detail how sanctions alter the economic landscape of target countries, using Iran, Venezuela, and Russia as examples [23].

A decline in GDP is one of the first and most noticeable consequences of economic sanctions. GDP reflects the overall economic activity of a country, and any reduction in exports, investments, or domestic consumption directly impacts its dynamics. For instance, sanctions against Iran, imposed due to its nuclear program, had a devastating effect on its economy. The main source of Iran's revenue was oil exports, which accounted for over 50% of budget revenues. In 2012, sanctions led to a sharp reduction in oil production and exports, causing GDP to fall by 6.2%. The following years were also marked by economic decline: in 2013, GDP decreased by another 4.5%. Only after the nuclear agreement in 2015 and the partial lifting of sanctions did Iran's economy begin to recover, growing by 2% [32].

Sanctions imposed by the United States on Venezuela's oil sector significantly undermined one of South America's leading economies, which heavily depended on oil exports. Venezuela's reliance on oil exports accounted for over 95% of its export revenues. As a result of declining oil sales, the country’s GDP contracted by more than 40% over five years, leading to the deepest economic crisis in modern history [33].

Russia also experienced a significant economic downturn following the annexation of Crimea in 2014, with sanctions contributing to a 2.8% reduction in GDP and inflation reaching 15.5%. An additional factor in the economic decline was the drop in global oil prices, which exacerbated the crisis [34]. After the onset of the full-scale invasion of Ukraine in 2022, sanctions became even more extensive, covering over 60% of the country's exports. It is estimated that in 2022, Russia's GDP decreased by 4-6%, despite attempts to adapt by reorienting towards Asian markets [18].

Economic sanctions disrupt import flows and access to foreign currencies, triggering inflation and the devaluation of the national currency. This creates dual pressure on the economy: rising prices reduce citizens' purchasing power, and a weak currency increases the cost of imports [16]. During the sanctions period, inflation in Iran reached 39% in 2013, primarily due to rising prices of imported goods and a shortage of consumer products. The Iranian rial lost about 80% of its value on the black market, making the economy even more vulnerable to external factors. In Venezuela, hyperinflation exceeded 1,000,000% in 2018, and the currency practically lost its value. Russia also suffered severe currency shocks following the imposition of sanctions, with the ruble falling by 50% against the US dollar in 2014, and its exchange rate sharply declining again in 2022, although strict currency controls helped partially stabilize the situation [35].

Trade sanctions limit target countries' access to external markets, significantly reducing their export potential. This is particularly noticeable in resource-dependent economies [56]. For example, before the imposition of sanctions in 2012, Iran exported 2.5 million barrels of oil per day. After sanctions, this figure dropped to less than 1 million barrels. This sharply reduced the country's foreign currency earnings and exacerbated the budget deficit. Meanwhile, sanctions against PDVSA, Venezuela’s state oil company, blocked its assets in the US and EU, leading to an over 80% reduction in oil exports. The country's energy sector, which formed the backbone of its economy, entered a state of stagnation. Additionally, after the 2014 sanctions, Russia’s exports to the EU decreased by 70%. However, Russia managed to partially compensate for the losses by increasing supplies to China (+70%) and India (+462%). In 2022, additional sanctions significantly restricted the export of energy resources, forcing the country to sell oil and gas at substantial discounts [36].

Table 2.1 – Changes in Macroeconomic Indicators After the Imposition of Sanctions on Iran, Venezuela, and Russia

Indicator	Iran (2012–2015)	Venezuela (2014–2018)	Russia (2014–2022)
GDP Change (%)	-4.2	-8.0	-1.6
Inflation (%)	32.0	650.0	6.5
Currency Devaluation (%)	-80.0	-99.0	-50.0
Export Reduction (%)	-60.0	-80.0	-50.0

Source: compiled by the author based on[36]

The analysis conducted demonstrates that economic sanctions have a serious impact on the macroeconomic indicators of target countries. They provoke economic downturns, accelerate inflation, cause currency devaluation, and disrupt export flows. The effectiveness of sanctions depends on their scale, the degree of economic isolation, and the country's ability to adapt to new conditions. Successful examples of adaptation, such as Russia's reorientation of exports to Asia, show that target countries are capable of finding alternative ways of functioning, although this requires significant resources and time.

2.2 Economic Feasibility of Sanctions for Initiating Countries

Economic sanctions are a double-edged tool: on one hand, they pressure the target country by limiting its economic capabilities, and on the other hand, they also affect the economies of the initiating countries. This subsection examines how sanctions impact the countries that impose them (using the EU as an example), focusing on economic losses, potential benefits, and long-term strategic consequences [37].

The primary economic challenge for sanctioning countries is the impact of restrictions on their trade relations with sanctioned countries. For example, the EU suffered significant losses after imposing sanctions on Russia in 2014 due to the annexation of Crimea. Russia was one of the EU's largest trading partners, especially in the energy and agricultural sectors. The ban on exports to Russia and the introduction of Russian counter-sanctions led European farmers to lose access to a key market. Poland, Lithuania, and Germany lost billions of euros in export revenues due to the ban on supplying fruits, meat, and dairy products [36].

Thus, economic sanctions have a significant impact not only on the countries against which they are directed but also on the economies of the countries that impose them. The consequences of sanctions manifest in various sectors, such as agriculture, energy, machinery manufacturing, the financial sector, and others. The following sections provide a more detailed analysis of each sector.

1. Agriculture

Economic sanctions imposed by the EU on Russia after the annexation of Crimea in 2014 had a serious impact on the agriculture of EU countries. Russia was one of the largest markets for EU agricultural products, including fruits, vegetables, dairy, and meat products. The introduction of Russian counter-sanctions, which banned the import of EU agricultural products, caused significant economic losses for European farmers, especially in countries like Poland, Lithuania, and Germany, which were closely linked to the Russian market. Poland, one of the largest exporters of apples to Russia, lost billions of euros due to the export ban, and similar issues affected other sectors of agriculture, including vegetable farming, dairy products, and the meat industry [38].

Following the introduction of sanctions in 2014, the first serious consequences for agriculture were felt as early as 2015, when prices for products previously exported to Russia sharply declined due to an oversupply of goods. Many farmers were unable to quickly adjust to new markets, and dependence on the EU's internal market increased. In subsequent years, the EU began seeking alternative markets for its agricultural goods and actively worked to support farmers through various compensation programs. One of the key directions became Asian markets, particularly China, India, and South Korea. North African and Mediterranean countries also became important consumers of European agricultural products [39].

From 2017 to 2020, the EU continued to emphasize market diversification. Specifically, the growth of exports to China and the Indian market became one of the important trends, and by 2020, the volume of agricultural product supplies to these countries had significantly increased. In 2019, the European Commission further strengthened support for farmers by providing financial assistance for the development of processing enterprises, allowing for reduced dependence on export supplies [38].

However, the main changes became noticeable closer to 2022, when adaptation to sanctions was completed, and the EU achieved significant growth in new markets. During this period, advanced technologies in agriculture and increased domestic demand for local products enabled farming households to restore stability and even improve economic indicators in some regions. An important strategy was strengthening the EU's position in the organic product market, which was gaining popularity in both domestic and new international markets [37].

2. Energy Sector

The introduction of economic sanctions against Russia in 2014, following the annexation of Crimea and the start of the conflict in Eastern Ukraine, marked a significant moment for the EU's energy sector. Prior to this, Russia was one of the main suppliers of energy resources to the EU, particularly natural gas, oil, and coal, which constituted a significant portion of Europe's energy needs. However, sanctions imposed by the EU took this sector to a new level, forcing European countries to urgently revise their energy strategies and seek alternatives to Russian supplies.

In 2014, Russia accounted for about 40% of Europe's gas needs, making the EU highly dependent on its energy resources. However, after the introduction of sanctions, which included restrictions on importing energy resources from Russia, the EU faced a serious challenge. Problems became particularly evident after the ban on exporting Russian gas and oil to EU countries, as well as the counter-sanctions Russia introduced in response to these actions, limiting the import of European goods, including agricultural products [35].

The EU's energy sector underwent significant transformations due to the need to reduce dependence on Russian energy resources. The first serious consequence was the reduction of Russian gas imports. Before 2014, Russia was the largest gas supplier to Europe, but with the onset of sanctions, the EU began seeking alternative sources. This led to increased costs for importing liquefied natural gas (LNG) from countries like the USA and Qatar, which, although filling the deficit, caused significant increases in energy prices. Imports of LNG from these countries rose from 5 billion euros in 2015 to 90 billion euros in 2022, indicating a substantial increase in the EU's costs for new gas supply sources [38].

Specifically, amidst this increase in LNG import costs, the EU began actively investing in renewable energy sources, particularly wind and solar energy. Investments in this sector grew from 20 billion euros in 2015 to 150 billion euros in 2022. This allowed the EU to accelerate its transition to "green" energy, reducing dependence on fossil fuels and contributing to environmental goals [38].

Additionally, significant attention was given to the development of energy storage technologies and energy efficiency. The EU supported various programs to stimulate investments in smart energy grids and infrastructure for integrating renewable energy sources into the overall energy market. This also included the development of energy storage systems and innovative solutions to reduce energy consumption in industry and households [39].

3. Machinery Manufacturing and High Technologies

Before the introduction of sanctions, Russia was one of the largest importers of machinery products from the EU. However, after sanctions were imposed, exports of machinery goods to Russia decreased by 60-70%. Products such as automotive parts, industrial equipment, energy installations became targets of sanctions. Germany, one of the largest suppliers of machinery equipment to Russia, suffered significant losses due to the reduction in exports from 6.8 billion euros in 2014 to 2.3 billion euros in 2022. A similar situation was observed in France and Italy, which also lost markets for automotive parts and heavy industry products [40].

In response to losses in the Russian market, EU countries were forced to reorient their machinery exports to new markets, primarily China, India, South America, and Africa. This allowed them to partially compensate for the losses, although overall new markets could not fully replace the Russian one. For example, Germany increased exports to China and India, while Italy and France expanded their supplies to Latin American and African markets. At the same time, competition from Chinese manufacturers significantly increased, posing a serious obstacle for European companies [41].

In the high-tech sector, sanctions led to significant changes in the supply of goods and components previously imported from the EU to Russia. This limited Russian companies' access to European technologies, particularly in industries such as aerospace, information technology, robotics, and biotechnology. However, European technology companies quickly adapted to the new conditions by investing in new technologies and innovative solutions, allowing them to maintain leadership in areas such as robotics, artificial intelligence, and electronics. Additionally, European companies began collaborating with new markets, including Japan, South Korea, the USA, and China, helping to compensate for the reduced demand in the Russian market. As a result, the EU shifted its focus to reducing dependence on Russia by concentrating on domestic investments and the development of new technologies. Moreover, sanctions forced European countries to increase investments in new technologies and restore manufacturing capacities to replace imported components from Russia. This included developing new production lines for components previously supplied from Russia [42].

4. Financial Sector

The EU's financial sector underwent significant changes between 2014 and 2022, primarily due to economic sanctions imposed on Russia following the annexation of Crimea and the escalation of the conflict in Ukraine. Since 2014, when the EU and the USA imposed restrictions on Russian banks, companies, and individuals, Russian financial institutions lost access to international financial markets, immediately impacting European banks with significant investments or operations in Russia. One of the main consequences of sanctions was the restriction of Russian financial institutions' access to Western capital markets, leading to reduced volumes of trade and financing, including for European investors operating in the Russian market [34]. Key banks, such as Sberbank and VTB, faced significant difficulties in raising funds due to restrictions on issuing bonds and other financial instruments, immediately affecting their operations in

Europe. This, in turn, caused capital flight from Russia and a decrease in investment activity in EU countries as banks sought to minimize risks and reduce exposure to the Russian market [43]. At the same time, European banks like Deutsche Bank and UniCredit, which were connected to the Russian market, faced challenges in the form of reduced cross-border operations and increased capital and liquidity requirements amid instability. Additionally, due to sanctions, some Russian companies were forced to seek alternative financing sources, leading to a decrease in demand for European financial services. Meanwhile, European banks, deprived of revenues from cooperation with Russia, began seeking new opportunities in other markets, particularly in Asia and Africa, attempting to compensate for losses [44].

Between 2014 and 2016, there was a surge in reduced lending, especially in European markets, as investors and banks became more cautious, fearing sanctions policies and instability in the Eastern European region. At the same time, this became a stimulus for the European Central Bank to work more actively on increasing the availability of financing within the EU by lowering interest rates to record low levels [44].

After 2016, as sanctions became more prolonged, EU financial institutions adapted to the new conditions, but in practice, this led to increased regulation and stricter control over the banking system in Europe [43]. Between 2017 and 2019, financial institutions began shifting their focus to developing digital banking services, financial technologies (FinTech), and investing in startups, aiming to reduce operational costs and modernize their infrastructure in conditions of reduced profitability. Specifically, the growth of financial technologies and digital payment systems allowed for a significant reduction in costs for traditional banking services and the adaptation of the sector to the demands of new economic realities. Moreover, a process of market diversification began through increased investments in Asia, Africa, and other regions, which in the future helped reduce dependence on the Russian and other unpredictable markets. However, despite these adaptive steps, sanctions still had a significant impact on the profitability of financial institutions, as they reduced opportunities for profitable lending and investment operations in markets that remained important for the European economy [45].

5. Tourism and Transport

Since 2014, when Russia annexed Crimea and the first international sanctions were imposed against Russia, economic and political changes have significantly affected tourism and transport in the EU. The introduction of sanctions, which included restrictions on business, financial operations, and transport services, posed a significant challenge to the tourism and transport infrastructure in EU countries by reducing the flow of Russian tourists and cutting down air transport between Europe and Russia.

Important aspects of this process included changes in tourist behavior, leading to shifts in directions and consumption patterns of services, as well as the adaptation of transport companies to new conditions. Russian tourists, who were previously important for many European countries, particularly Italy, France, Germany, the United Kingdom, and Mediterranean countries, began visiting these countries less frequently due to reduced purchasing power, the fall of the ruble, and restrictions on financial transactions. This caused economic losses in the hotel business, restaurants, entertainment sectors, and retail, which depended on Russian tourists [46]. For example, popular tourist destinations like Paris, Rome, and Barcelona experienced a significant reduction in the number of Russian visitors, which in turn affected the economic indicators of these cities. At the same time, for airlines, the volume of flights between Russia and EU countries decreased as Russian airlines also faced restrictions on flights to Europe. For some European airlines, particularly those on routes connecting the EU with Russian cities, this meant a reduction in flight frequency and the introduction of alternative routes [47].

Additionally, between 2014 and 2015, many European airlines ceased direct flights to Crimea, which also impacted the flow of tourists to this region. However, over time, the situation changed. For European countries, the priority shifted to diversifying tourist flows and seeking new markets, particularly Asian, South American, and Arab countries. Changes in global demand for tourism services led to an increase in tourists from China, India, and Gulf countries, compensating for some of the losses from reduced Russian tourists. Moreover, significant attention was given to developing domestic tourism in the EU, which became especially relevant during the COVID-19 pandemic when international travel was restricted [48].

In the face of sanctions, the EU was forced to seek new ways to develop transport infrastructure, including investing in the development of air transport to other regions such as the Middle East and China, as well as more actively implementing sustainable transport strategies. These included the development of rail and bus connections between EU countries and the expansion of high-speed rail lines between key European cities, which became important aspects for strengthening the European transport landscape. This process was also accompanied by changes in transport flows across EU borders, particularly against the backdrop of new economic realities and changes in the political situation. Thus, sanctions, the pandemic, and new economic challenges contributed to the transformation of the EU’s tourism and transport sectors, subsequently leading to the diversification of tourist flows and the growth of domestic tourism, as well as the expansion of transport capabilities between EU countries and new global markets [48].

Thus, sanctions imposed on Russia by the EU became an important element of the EU's geopolitical strategy aimed at achieving political goals, particularly reducing aggression and ensuring stability in Europe. However, these measures were accompanied by significant economic costs, requiring EU countries to quickly adapt to new economic realities. One of the biggest problems caused by sanctions was the loss of markets and increased resource costs. The EU faced difficulties in ensuring the supply of energy resources and the reduction of trade with Russia, which was an important trading partner. Additionally, blocking certain technologies and financial flows created additional economic challenges for businesses and states. However, EU countries managed to adapt to new conditions by shifting their focus to developing new markets and investing in innovative economic sectors. Specifically, through increased investments in renewable energy, Europe not only ensured energy resilience but also laid the foundation for future energy transition. Thus, although short-term economic losses were significant, they contributed to the development of new technologies and markets, ensuring the EU’s competitiveness on a global level.

Additionally, sanctions not only had economic consequences but also fulfilled important political functions. They strengthened the unity of the EU and NATO, fostering closer coordination among member countries. This process allowed the EU to become more cohesive and capable of effective interaction on security and geopolitical issues. Sanctions also reinforced the political influence of the US, solidifying their position as the leader in the global anti-Russian alliance and strengthening economic and political ties with Europe. As a result, sanctions became an important tool not only for achieving economic goals but also for strengthening political alliances, which was crucial for the unity of the Western world.

2.3 Adaptation of Economies to Sanctions: Strategies to Neutralize Negative Effects

The introduction of international economic sanctions forces target countries to develop and implement adaptive strategies to mitigate the negative impact on their economies. The effectiveness of such measures depends on the level of economic development, access to alternative markets, and the ability to mobilize internal resources. Overall, economic adaptation to sanctions can include the development of domestic production, reorientation of external trade, use of alternative payment mechanisms or barter agreements, and the creation of parallel channels for obtaining prohibited goods [35].

One of the key strategies in response to economic sanctions, especially in countries heavily dependent on imports, is import substitution. This strategy aims to develop domestic production to reduce the need for imported goods and services. Typically, this process requires significant investments in local infrastructure, technology, personnel, and resources, as well as the creation of new production lines. For example, after the imposition of sanctions against Russia in 2014, the country invested substantial resources in developing agriculture. This allowed Russia to reduce imports of foodstuffs from EU countries, which were previously major suppliers of meat, dairy products, and fruits. However, in other sectors, such as high technologies, import substitution could not fully compensate for losses due to the lack of access to advanced technologies and components [49].

Another important strategy is the reorientation of external trade. This strategy involves changing the direction of a country's external trade flows after the introduction of sanctions or loss of access to traditional markets. The goal of this strategy is to find new markets for goods and services, as well as new suppliers for imports. Reorientation is an important step in maintaining economic stability and ensuring the level of exports, which helps mitigate the negative impact of economic sanctions. For example, during the sanctions period of 2012–2015, Iran significantly expanded its oil exports to China, using alternative payment systems to circumvent restrictions on international transactions [50]. Another example is Russia, which after the introduction of sanctions in 2014, reoriented its energy exports to Asian markets. However, reorientation often comes with losses due to the need to offer significant discounts to new partners, as seen with Russian oil being sold at discounts of up to 30% [51].

Another common practice under sanctions is the use of barter agreements. Within this strategy, one party supplies goods or services to another party in exchange for other goods or services it needs. Barter agreements are typically used when countries face restrictions in using international financial systems, especially due to economic sanctions, or when there are difficulties in obtaining currency revenues. Thus, governments of countries deprived of access to international financial systems negotiate the supply of products in exchange for other goods or services. For example, Venezuela used barter to supply oil to China and Russia in exchange for food, medicines, and industrial goods [52]. This approach allows maintaining a minimal level of external trade, but it significantly limits opportunities for economic growth, as the country loses access to currency revenues.

Parallel importation is another strategy through which countries under sanctions or with import restrictions on certain goods can circumvent these restrictions by using third countries to import products that are subject to sanctions. This approach allows meeting market needs for prohibited goods without directly violating sanctions, but it can incur additional costs and complications. For example, Russia actively uses third countries such as Kazakhstan, Armenia, and Turkey to supply technologies, spare parts, and electronics. Although this partially solves the problem of shortages, such goods often become significantly more expensive due to additional logistics costs and hidden transactions [47].

Table 2.2 presents the main strategies for economic adaptation to sanctions and their effectiveness.

Table 2.2 – Strategies for economic adaptation to sanctions and their effectiveness

Country	Main Strategy	Strategy Details	Result/Efficiency
Iran	Expansion of Trade with Asia	Increasing oil exports to China; using alternative payment systems.	Partial restoration of exports (+20% by 2015); significant revenue losses due to discounts.
Venezuela	Barter Agreements	Supplying oil in exchange for goods from China and Russia.	Partial preservation of exports; shortage of essential goods.
Russia	Import Substitution	Investing in the development of domestic production.	Increased share of domestic products; reduced dependence on imports.
	Reorientation to Asia	Expanding trade with China, India, and Turkey.	Significant growth in exports to Asia (+462% to India by 2022).
	Development of Parallel Imports	Supplying the market with imported goods.	Partial reduction of import equipment deficit; high costs.

Source: compiled by the author based on[49], [51], [52]

Adaptation to sanctions is an important element of the survival of national economies under difficult conditions. The success of the chosen strategy depends on many factors: the level of economic dependence on imports, access to alternative markets, investments in domestic production, and the government's ability to mobilize resources [30]. Although none of the strategies can fully compensate for the losses, their combination allows mitigating the effects of sanctions. Russia demonstrates some success in developing import substitution and reorienting trade but faces significant losses in high-tech sectors. Venezuela and Iran have limited success due to greater dependence on external markets and resources. These examples indicate the complexity of adaptation, but also emphasize the importance of an innovative approach to overcoming economic challenges.

3. INTERNATIONAL ECONOMIC SANCTIONS AGAINST RUSSIA

3.1 Sanctions against Russia: key sectors and scope of restrictions

International sanctions imposed against Russia in response to its aggression have significantly affected key sectors of its economy, including energy, finance, technology, and transport. The sanctions aimed to restrict the government's financial resources, halt the development of strategic industries, and create pressure on the economy. To understand the dynamics of changes, it is necessary to analyze key indicators of these sectors for the period from 2014 to 2022, namely: the energy, financial, transport sector, and the high-tech sector.

Russia's energy sector is one of the main drivers of its economy, as it provides a significant portion of foreign currency earnings. Oil and gas are the main export goods, contributing to the stability of the budget and finances. However, sanctions imposed after 2014 have significantly impacted this sector. One of the main sanctions was the ban on supplying technologies for the extraction and transportation of oil and gas, as well as restrictions on financing large projects in the oil and gas industry [53].

By 2022, the decline in oil and gas prices in global markets also worsened the situation, but the restriction of energy resource imports to Europe, which was one of the largest consumers of Russian energy resources, became more significant. The impact of sanctions resulted in a reduction in export volumes and a drop in revenues from the sale of energy resources. After the introduction of a price cap on oil at $60 per barrel, the Russian budget suffered serious losses. In 2022, revenues from energy resource exports fell to $220 billion, which is 37% less than in 2014. The worsening economic situation in the sector forced Russia to seek new markets, particularly in Asia, but this could not fully compensate for the reduction in exports to Europe [54]. The dynamics of changes in Russia's energy resource export revenues in billion dollars for the period 2014-2022 are presented in Figure 3.1.

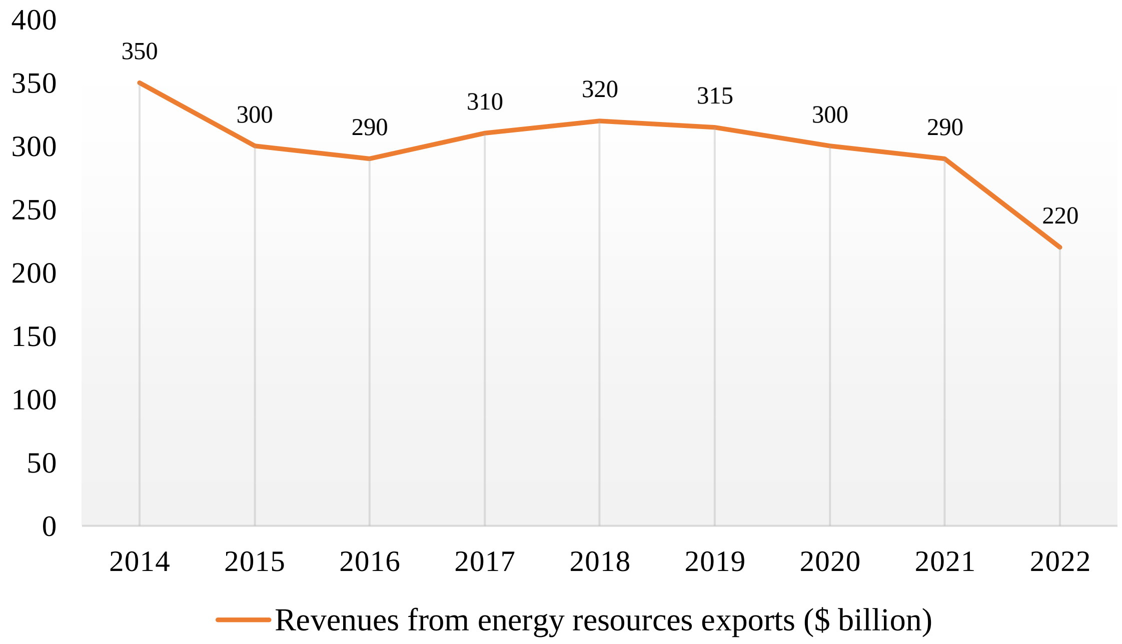

Fig. 3.1 – Revenues from energy resources exports by Russia in 2014–2022, billion US dollars [55]

Additionally, the reduction in access to modern technologies, such as deepwater extraction, as well as to capital markets for large investment projects, has limited Russia's ability to develop new fields and maintain high levels of production. This has also affected the country's ability to remain competitive in global energy markets.

Russia's financial sector has also suffered significant losses due to sanctions aimed at restricting access to international financial markets and freezing gold and foreign currency reserves. The disconnection of Russian banks from the international payment system SWIFT in 2022 further isolated Russia from global financial flows, complicating the execution of international financial operations. At the same time, sanctions freezing over $300 billion of the Central Bank of Russia's gold and foreign currency reserves in 2022 significantly reduced its ability to stabilize the economy under external pressure [56].

The lack of access to international finance and the increased risks due to economic isolation have led to a significant decrease in Russia's investment attractiveness. Many international banks and financial institutions have suspended their activities in Russia or withdrew their assets, negatively impacting the country's economic situation. Russia's reserves, which reached $500 billion by 2015, decreased to $350 billion, and only a partial recovery in 2021 could not prevent further decline, when they decreased again to $330 billion due to sanctions [55]. Below in Figure 3.2 is the dynamics of changes in the Central Bank's financial reserves.

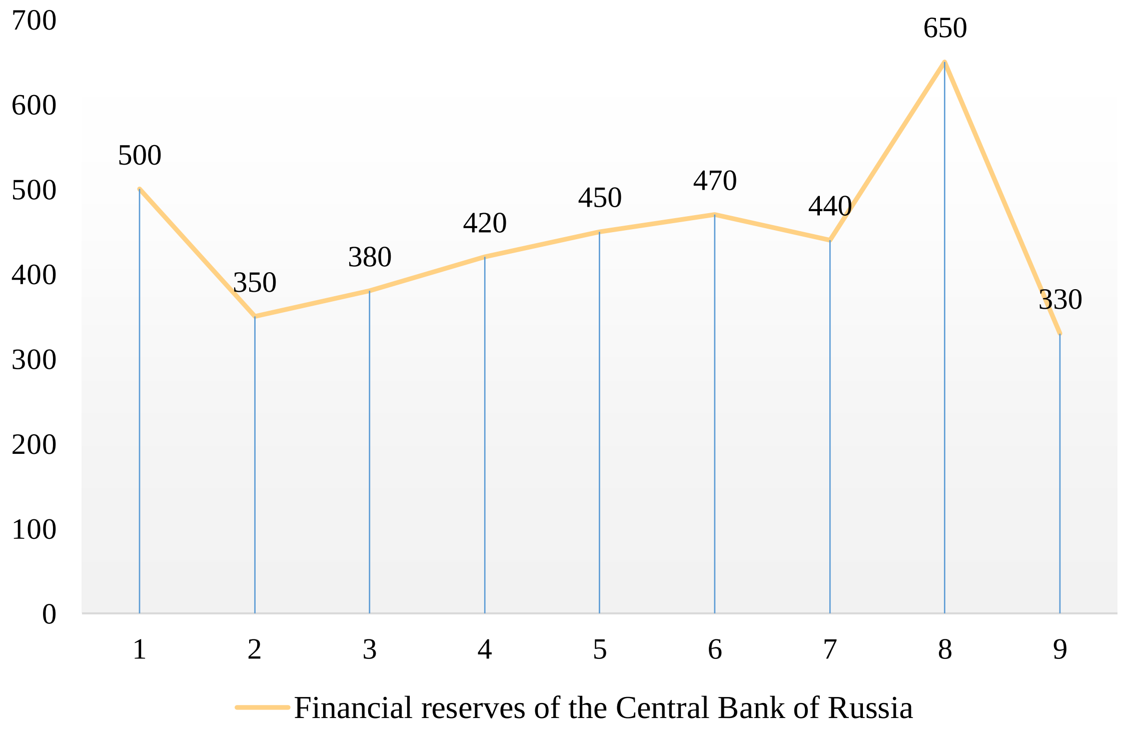

Fig. 3.2 – Changes in the dynamics of financial reserves of the Central Bank of Russia in 2014–2022, billion US dollars [55]

Additionally, isolation from global financial markets forced Russia to develop alternative mechanisms to support its economy, such as working with national currencies and seeking new trade routes. However, this only partially offset the losses, and the long-term stability of the financial system was called into question.

Russia's high-tech sector has experienced significant stagnation due to sanctions that restricted the export of microchips, software, and equipment for manufacturing processes related to technological innovations. Russia, which had been actively developing the information technology and defense industries, was unable to cope with the lack of access to critical technologies and tools for fostering innovation [57].

Production in the IT sector decreased to 70% of the 2014 level, particularly affecting industries such as defense, automotive, and telecommunications. The lack of access to modern microchips and software made the development of new weapon models and technologies impossible, which, in turn, called into question Russia's defense capabilities in the context of military conflicts [54].

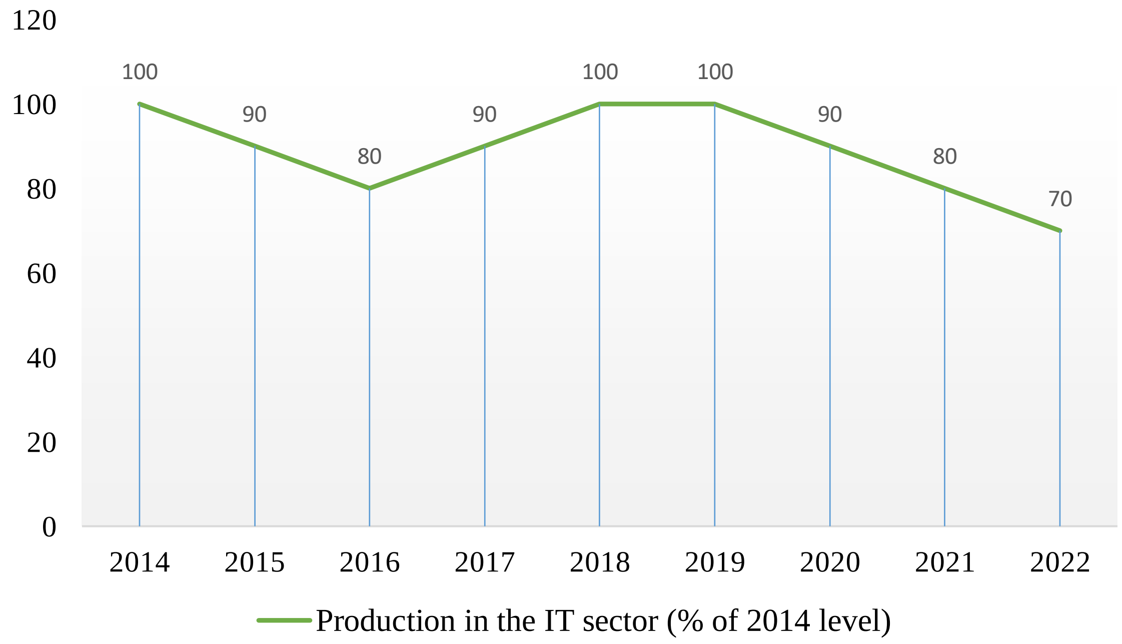

Fig. 3.3 – Dynamics of changes in production in the IT sector of Russia, 2014–2022, % of the level in 2024 [55]

Additionally, losses in high-tech industries have significantly worsened the investment climate in the country. Problems with importing technologies have become a barrier to the development of modern manufacturing processes and research, limiting Russia's ability for technological progress and competition in the global market.

In contrast, the transport sector has suffered major losses due to sanctions resulting from the ban on flights of Russian airlines to EU countries, the USA, and other states. This has led to a significant reduction in passenger flow. Specifically, in 2022, passenger flow decreased to 40 million people compared to 100 million people in 2014, which was a serious blow to airlines and the tourism business [54].

At the same time, restrictions on the supply of aircraft spare parts and technologies for aircraft repair have significantly complicated the work of airlines. This has necessitated finding alternative ways to supply spare parts, which has increased costs and reduced the efficiency of carriers [55].

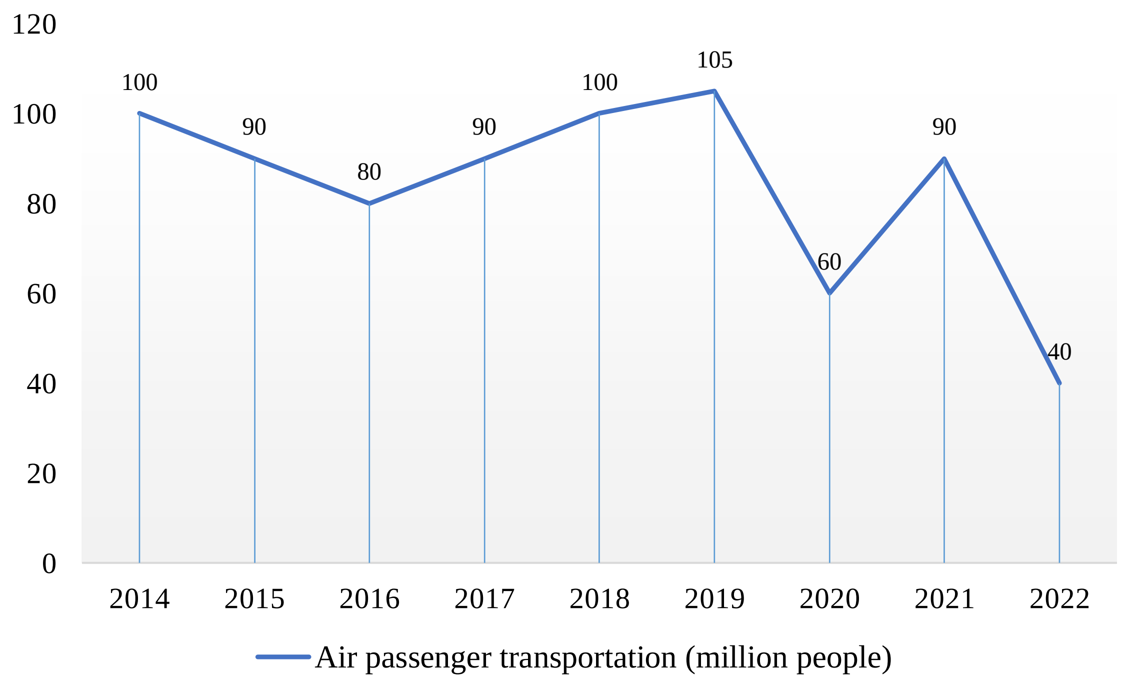

Fig. 3.4 – Dynamics of changes in air passenger traffic in Russia in 2014–2022, million people [55]

Additionally, sanctions also affected rail and automotive transport. The reduction of international contacts and restrictions on the import of transport and spare parts led to a deficit in vehicles and a decrease in the quality of transport services.

Thus, sanctions against Russia, imposed in response to its aggression, had a significant impact on key sectors of the economy. The energy sector, which traditionally was the backbone of the economy, experienced the largest losses due to decreased revenues from oil and gas exports and restrictions in access to new technologies. At the same time, the financial sector was isolated from international markets due to sanctions that restricted access to financing and the freezing of reserves, which negatively affected economic stability. The high-tech sector and IT industry experienced significant stagnation due to the ban on exporting critical technologies, which jeopardized not only the development of innovation but also Russia's defense potential [58]. The transport sector also suffered significant losses due to the ban on flights and restrictions on the supply of spare parts for aviation, leading to a decrease in passenger flow and complicating logistics processes [59].

Sanctions not only restricted financial flows and access to technologies but also created significant economic difficulties, limiting Russia's ability to recover and stabilize the economy. As a result, Russia's economic isolation became not only a serious obstacle to its development but also severely weakened its strategic positions on the international stage. The long-term consequences of sanctions for the technological and financial sectors are likely to intensify in the future, creating additional difficulties.

3.2 Assessment of Russia’s Adaptation Strategy to International Sanctions

International economic sanctions imposed against Russia have posed significant challenges to its economy. However, the government and businesses have developed a range of adaptation strategies aimed at minimizing the negative effects of sanctions and maintaining economic stability. These strategies cover key sectors of the economy such as energy, finance, agriculture, technology, transport, and the import of goods. These strategies include import substitution, expanding cooperation with countries that do not support sanctions, developing the financial system, supporting exports, investing in science and technology, and creating reserves. The effectiveness of these strategies is ambiguous and depends on many factors, including the duration and severity of sanctions, the overall state of the global economy, and Russia's ability to implement necessary reforms [60] – see Table 3.1 for more details.

Table 3.1 – Russia’s adaptation strategies to international sanctions and their effectiveness

Economic Sector	Adaptation Strategy	Result	Efficiency Evaluation
Energy	Increasing exports to China and India	Increase in supply volumes by 25%	Moderate
Finance	Expanding use of national currency	Reduction of dollar transactions by 30%; increase in ruble transactions	Average
Agriculture	Import substitution and domestic development	Increase in wheat exports to 40 million tons	High
Technology	Production of alternative equipment and import from China	Partial fulfillment of technological needs	Low
Transport	Reorientation of logistics through Asia	Increase in trade turnover with Kazakhstan and Turkey	Moderate
Import of Goods	Grey import through third countries	Achieving 80% of import levels before sanctions	High

Source: compiled by the author based on [31], [60]

In the energy sector, Russia has taken measures to redirect the export of energy resources from the European market to Asian countries such as China and India due to changing geopolitical conditions. In the gas sector, a key direction has been the supply through the “Power of Siberia” pipeline, which reached a volume of 15 billion cubic meters in 2021. As part of expanding export capabilities, the construction of “Power of Siberia-2” was planned, which could double supplies to China. Additionally, exports of liquefied natural gas through the ports of Yamalo and Vladivostok, targeting the Asian market, have increased. In the oil and gas sector, Russian oil exports to India grew to over 20% of Russia’s total oil exports in 2021, achieved through railway routes and tanker shipments. Major energy companies such as Gazprom and Novatek actively developed liquefaction capacities. The extraction of energy resources in Western Siberia and the Arctic remained the main source, with the Yamalo-Nenets Autonomous Okrug producing over 80% of Russian gas. The shift to Asian markets was driven by the loss of European routes like Nord Stream 2; however, dependence on China as the main buyer created risks of weakening Russia's negotiating position [61]. In 2022, gas supply volumes through "Power of Siberia" increased to 20 billion cubic meters, and the construction of “Power of Siberia-2” entered the active design phase. Oil exports to India rose to 25% of total exports, made possible by new logistics routes.

In the financial sector, the transition to ruble-based transactions became a key mechanism to reduce Russia’s dependence on the dollar amid international sanctions and geopolitical tensions. Ruble-based transactions are a form of international trade where payments for export-import operations are conducted in the national currency – the Russian ruble. This approach allowed avoiding conversion through the dollar or euro and provided greater financial autonomy [57]. In 2021, over 30% of transactions with China and India were conducted in rubles or yuan, reducing currency risks associated with dollar fluctuations [58]. In 2022, the share of ruble-based transactions with China and India reached 40%, and the share of gold and yuan in reserves increased by 15% compared to 2021. This helped minimize currency risks amid tightening sanctions.

The Central Bank of Russia supported this strategy by shifting the focus in the formation of international reserves. Priority was given to accumulating gold and yuan, while the share of dollar assets gradually decreased. This enhanced the country’s financial stability, reduced dependence on Western financial systems, and strengthened the ruble’s position as a tool for international settlements [55].

Sanctions in the technology sector were the most painful for Russia due to its high dependence on Western equipment and software. The main measures to overcome this issue included importing alternative equipment, particularly from China, including telecommunications, industrial production, and data processing equipment. Additionally, domestic production was actively developed, especially within the frameworks of projects like “RUSNANO” and “Rostec”, which included the production of microelectronics. However, the lack of advanced technologies and dependence on imported components significantly limited the effectiveness of these measures. To improve the situation, Russia attracted investments and technologies from East Asian and Middle Eastern countries, which allowed partially compensating for losses from Western sanctions [43]. In 2022, domestic microelectronics production increased by 10%, and the share of Chinese equipment in telecommunications exceeded 50% of imports. At the same time, problems with access to advanced semiconductors remained a significant challenge.

In the transport sector, Russia redirected its logistics flows, focusing on Asian and Middle Eastern countries. The main form of transportation became railway routes through Kazakhstan and China, enabling efficient delivery of energy carriers, metals, and agricultural products. Additionally, sea transportation through the ports of Novorossiysk and the Far East became an important direction for ensuring trade. Supply volumes to Turkey, Iran, and India increased, strengthening trade relations with these countries [19]. In 2022, transportation volumes through railway routes to China increased by 25%, and sea transportation to Middle Eastern countries rose by 15%. This was made possible by new agreements and improvements in port infrastructure.

Agriculture became one of the sectors where Russia achieved significant success, especially after the imposition of sanctions on European products. The implementation of import substitution contributed to the development of the agricultural sector, particularly through support programs for farmers, subsidies for fertilizers, equipment, and infrastructure development. This allowed a significant increase in the production of grain crops. Russia became one of the leading global exporters of wheat, reaching export volumes of over 40 million tons in 2021, with main buyers being countries in the Middle East, Africa, and Asia, such as Egypt, Turkey, and Saudi Arabia [16]. In 2022, wheat exports increased to 45 million tons, and the share of finished food products in exports grew by 12%. This was achieved through the expansion of state support programs and new trade agreements with African and Asian countries. However, problems with access to foreign fertilizers and equipment remained a significant limiting factor.

The development of the food industry helped not only to meet domestic demand but also to expand the export of finished food products, such as confectionery, meat, and dairy products. This was made possible by state investments in processing enterprises and certification programs for entering international markets. The agricultural sector proved to be one of the most resilient to external challenges, thanks to fertile lands and favorable climatic conditions. Food self-sufficiency exceeded 90%, reducing dependence on imports [54].

However, there are also problems: limited access to foreign fertilizers and agricultural equipment slowed the modernization of the agrarian sector, and sanction pressure complicated exports, forcing the search for new transport routes, particularly through Kazakhstan and Black Sea ports.

Next, a more detailed assessment of adaptation measures by sector will be conducted:

1. Energy. The reorientation of Russia's energy resource exports to Asian markets is assessed as partially effective. The increase in gas supplies through "Power of Siberia" and the rise in oil exports to India (over 20% of total) indicate short-term achievements. The economic effect lay in partially compensating for losses in European markets, although profitability was limited by lower prices and significant investments in new infrastructure. The sustainability of measures remains questionable due to dependence on China as a main buyer, creating risks for long-term stability. Innovation was moderate due to the development of liquefaction capacities, but limited implementation of the latest extraction and transportation technologies reduces its level. At the same time, Russia demonstrated high adaptability by quickly responding to changing external conditions. Overall, the measures had a positive short-term effect but require addressing sustainability and innovation issues for long-term success.

2. Finance. The transition to ruble-based transactions was an effective measure to reduce Russia's dependence on the dollar and decrease currency risks. This approach maintained stability in foreign trade, as over 30% of transactions with China and India were already conducted in rubles or yuan. This helped reduce currency conversion costs and increase profitability. However, despite the positive economic effect, the long-term sustainability of these measures may be questioned due to dependence on a few partners, creating certain risks for stability. The use of ruble-based transactions is an innovative step that allows Russia to reduce the impact of Western financial systems and strengthen its currency autonomy. This approach also demonstrated high adaptability, as Russia was able to promptly respond to changes in external conditions, particularly sanctions. Overall, the transition to ruble-based transactions was beneficial for short-term stability,

but diversification of trade relations and reducing dependence on individual partners are important for ensuring long-term sustainability.

3. Agriculture. The development of Russia's agriculture in recent years has shown high effectiveness, particularly through the implementation of import substitution and state support programs for farmers. The growth in grain production, especially wheat, enabled Russia to become one of the leading exporters in the global market, positively impacting economic indicators, including profitability and export volumes. Food self-sufficiency exceeded 90%, reducing dependence on imports and increasing the resilience of the agricultural sector to external challenges. Investments in the food industry allowed the expansion of finished product exports, although innovation in the use of new technologies remained limited due to sanctions and problems with access to foreign equipment. The agricultural sector demonstrated high adaptability by promptly adjusting export routes and seeking new transport paths, but dependence on traditional farming methods and problems with access to key resources may hinder further development. Overall, the sector showed a high level of efficiency and resilience, but its innovation and ability to quickly adapt remain limited.

4. Technology. Russia's measures to overcome sanctions in the technology sector had mixed results based on key criteria. They showed some effectiveness, particularly through importing equipment from China and developing domestic production but could not fully compensate for losses from Western technologies due to limited access to advanced solutions and dependence on imported components. The economic effect was moderate: while imports and domestic production allowed maintaining industry operations, they did not ensure significant profitability growth. The sustainability of measures was limited due to technological dependence, weakening long-term stability. The level of innovation remained low due to difficulties in accessing the latest technologies, although projects like "RUSNANO" and "Rostec" created certain opportunities for development. The adaptability of measures was high, as Russia quickly shifted to supplies from East Asian countries, but technological limitations reduced the ability to rapidly adapt to new conditions. Overall, the measures were insufficiently effective in ensuring long-term technological independence and economic stability.

5. Transport. The reorientation of Russia’s transport flows to Asian and Middle Eastern countries proved effective, ensuring stable supplies of energy carriers, metals, and agricultural products to new markets, particularly Turkey, Iran, and India. The economic effect included an increase in export volumes, but profitability was limited by high costs of infrastructure modernization and fluctuations in energy prices. The sustainability of these measures is limited due to dependence on certain countries, such as China and India, which can create risks for long-term stability. Innovation is evident in the development of new transport routes through Kazakhstan and China, as well as the enhancement of sea transportation through Far East ports, but infrastructure modernization technologies still require improvement. Russia demonstrated high adaptability by quickly changing transport directions in response to geopolitical changes, but the ability to rapidly adapt may be constrained by the need for large investments. Overall, the measures to reorient transport flows were effective and had an economic impact, but further development is needed to ensure long-term stability.

The overall conclusion regarding Russia’s adaptation measures indicates their partial effectiveness in the short term, but they require improvement to ensure long-term stability. In energy and transport, Russia achieved some success by redirecting to new markets, particularly in Asia, but high investments and dependence on individual partners may limit the sustainability of these measures in the future. In the financial sector, the transition to ruble-based transactions helped reduce currency risks, but diversification of trade partners is important for sustainability. In agriculture, significant results were achieved through import substitution, but innovation in using new technologies remained limited. In the technology sector, Russia was able to partially compensate for losses from Western suppliers but could not ensure technological independence. All these measures demonstrated high adaptability, but achieving long-term success requires further enhancement of innovative approaches and diversification strategies.

3.3 Ways to Strengthen Sanction Pressure on Russia

In the context of increasing international political tensions and the escalation of external aggression by Russia, many countries consider the imposition of sanctions as one of the main tools to ensure economic pressure and influence the change of its political course. As a result of the sanctions imposed, Russia has already experienced significant economic losses, but opportunities to further tighten these restrictions remain. An important component of the effectiveness of sanctions is not only their imposition but also the continuation of monitoring their implementation and preventing potential ways to circumvent them. Countries aiming to strengthen sanctions against Russia can employ several strategies aimed at complicating its economic situation and limiting the country's ability to bypass international restrictions:

– expanding the list of individuals and companies subject to sanctions;
– banning financial transactions and access to international markets;
– prohibiting the export of critical technologies;
– countering abuses through third countries;
– supporting international coordination.

One of the most straightforward and effective ways to strengthen sanctions is to expand the list of individuals and companies subject to sanctions. Targeted sanctions are the primary tool that allows influencing specific individuals and organizations without harming the broader economic environment. Including political figures, oligarchs, and companies closely linked to government structures and supporting Kremlin policies in the sanctions lists can complicate Russia's economic management.

Targeting key companies operating in strategic sectors such as energy, defense, and information technology is particularly important. Sanctions can restrict access to international markets and resources, forcing Russian companies to reduce their activities or even halt some projects. This can also create internal economic pressure on the Russian leadership.

Another important direction for strengthening sanction pressure is limiting Russia's access to international financial markets. Sanctions that restrict or completely block the country's ability to secure international loans and conduct financial transactions with other states and companies can severely impact Russia's economy. An important measure in this direction is imposing restrictions on transactions with Russia's central banks and financial institutions, as well as on transactions involving its government debt obligations. Strengthening sanctions against Russian banks can significantly complicate the country's external financial transactions. Such restrictions make it impossible to attract new investments and loans on international financial markets, threatening Russia's ability to support economic growth.

Another crucial step is banning the export of technologies that are critically important for the development of Russia's strategic industries, such as the defense industry, aviation, aerospace, and information technology. Restricting the supply of high technologies, such as semiconductors, equipment for oil and gas extraction, and software for developing military technology, significantly limits Russia's potential in these areas. Countering the export of such technologies creates problems for upgrading technical equipment in the defense sector, which can slow the development of new weapons and limit Russia's ability to support military programs. Restricting access to high technologies also slows the development of other industries, such as telecommunications and computer sciences, endangering not only defense capabilities but also technological progress as a whole.

Another important aspect of strengthening sanctions is countering abuses through intermediary mechanisms. Third countries can serve as channels for exchanging goods, services, or finances, allowing Russia to bypass sanctions. This necessitates imposing sanctions not only against Russia but also against countries that assist in such schemes. Countering such evasion may include imposing sanctions on enterprises that help Russia bypass sanctions, as well as on countries actively cooperating with Russia despite existing international restrictions. This creates additional difficulties for Russia in conducting business with other states and limits its ability to circumvent sanctions.

Finally, to achieve maximum effect, it is important that sanctions against Russia are coordinated internationally. Countries aiming to increase pressure should work within international organizations such as the UN, EU, or G7 [30] to ensure unity in the application of sanctions. It is important that these restrictions not only have the same direction but also mutually support each other to make it harder to circumvent the limitations.

Overall, to achieve the maximum effect from sanctions, it is important to apply a broad set of measures targeting various aspects of Russia’s economic and political life. Only through a coordinated and harmonized approach by the international community can significant influence be exerted on Russia’s political situation and limit its ability to conduct aggressive policies on the international stage.

CONCLUSION

Economic sanctions have become a powerful and multifaceted tool of international diplomacy, allowing states and international organizations to establish norms, respond to aggression, and achieve strategic goals without resorting to military actions. This master's thesis explored the theoretical foundations, practical application, and consequences of sanctions within the framework of international economic relations.

The study emphasizes the comprehensive nature of sanctions as an economic and political tool. The theoretical analysis in the first chapter revealed the variety of sanctions, ranging from comprehensive trade restrictions to targeted "smart" measures, and highlighted the role of international organizations in legitimizing and implementing these actions.

The assessment of the effectiveness and consequences of sanctions in the second chapter highlighted their dual impact. For target countries, sanctions can significantly disrupt macroeconomic stability, weaken key industries, and exacerbate social problems. At the same time, initiating countries face economic costs, particularly in trade and energy security. However, strategic advantages such as strengthening international norms and consolidating alliances often outweigh these costs in the long term.

A thematic analysis of sanction policies against Russia demonstrated the unprecedented scale and impact of sanctions in an interconnected global economy. Measures applied to Russia have severely undermined its economic indicators by restricting access to critically important resources and technologies. For countries that imposed sanctions, these actions accelerated changes in energy policies, prompted increased investments in renewable energy, and strengthened geopolitical alliances.

To strengthen sanction pressure on Russia, a comprehensive approach is necessary. An important step is expanding sanctions lists to include individuals and companies supporting the Kremlin regime. This will effectively impact key structures while minimizing harm to the broader economy. Additionally, financial restrictions should be intensified, particularly by limiting access to international markets and the SWIFT system, complicating Russia’s foreign economic activities. Equally important is the ban on exporting critical technologies, which will limit the development of the defense and high-tech industries. It is also essential to counter sanction evasion through intermediaries by imposing sanctions on third countries that help Russia bypass restrictions. For maximum effect, sanctions must be coordinated internationally. A unified position by international organizations such as the UN, EU, or G7 will enhance pressure on Russia and achieve strategic goals.

Economic sanctions have proven to be an effective tool for influencing the behavior of target countries. However, their success depends on the coherence and coordination of international efforts, the ability to adapt to changing circumstances, and the resilience of the target country's economy. Continued vigilance and adaptation of sanction strategies are essential to maintain their effectiveness and achieve desired geopolitical outcomes.

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