Overview of the Roundtable “Sanctions against Russia: Consequences for the Global Economy”

On 11 April, 2023, a roundtable on “Sanctions against Russia: Consequences for the Global Economy,” organized by the School of World Economy of the National Research University Higher School of Economics, was held as part of the 24th Yasin (April) International Academic Conference on Economic and Social Development. Presentations were made by representatives of leading Russian research centers in the field of world economy. Participants in the event discussed the challenges of global economic development in the context of sanctions pressure on Russia and possible solutions.

* * *

The roundtable was opened by **Igor Makarov**, head of the School of World Economy, who noted the importance of the sanctions issue and the holding of a large number of discussions on it, including those during the April conference. Makarov outlined the focus of the event: the impact of sanctions not on the Russian, but on the global economy, their role in the turbulent processes currently observed—rising interest rates in the world’s leading countries, soaring inflation, rising energy and food prices, the banking crisis in the United States and Western Europe.

The first report, “Sanctions against Russia: Challenges and Opportunities” was presented by **Alexander Knobel**, Director of the Institute of World Economics and Finance of the Russian Foreign Trade Academy. The expert first of all noted that sanctions are not a new innovation, neither in the last decade nor in the 20th century, and have always been an alternative to military action. The question of whether the current sanctions against Russia can hit the global market should be answered positively: yes, they can. Russia plays an important role in the global economy: It has large foreign exchange reserves and is a major player in the oil, gas, nuclear fuel, and food markets. Restrictions on these Russian goods will certainly have an impact on world prices and the macroeconomic situation on a global scale.

During his presentation, the speaker proposed to methodologically consider the current sanctions as part of a larger narrative of growing restrictions and contradictions in international trade over the past decades. These include the rise of protectionism, trade wars, problems of digitalization, intensified climate negotiations, the reconfiguration of global supply chains, and geopolitical crises. The scope of sanctions against Russia is very broad—financial sector, transport, trade, energy sector, personal sanctions. In terms of impact on the global economy, trade sanctions are the most significant. Knobel separately focused on the issue of the crucial nature of sanctioned Russian imports and the difficulties of their full substitution by products from neutral countries. According to the expert and his colleagues, who have made a forecast on the development of Russia’s foreign trade, in the coming years the country will see a slight recovery in imports and a decline in exports. Even by 2030, Russia will not be able to return to the level of 2022 exports in terms of value.

In conclusion, the speaker identified two types of response to the current situation: short-term and long-term. The short-term reaction is a reorientation of foreign economic activity in order to adapt to the current reality. The long-term path is the development of foreign economic integration interaction, which consists in searching for additional sources of trade growth and economic growth through deeper integration with neighboring and neutral distant foreign countries.

Alexey Kuznetsov, Director of the Institute of Scientific Information on Social Sciences of the Russian Academy of Sciences, opened the discussion on the impact of sanctions against Russia on global flows of foreign direct investment (FDI). The speaker stressed that precise statistical estimates can be made no earlier than 2025, while operational data for 2022 and even 2023 may reflect the impact of conjunctural factors not directly related to the conflict in Ukraine and sanctions.

On the one hand, the Russian Federation's share of cumulative outward FDI is small, at around 1% of the global total. On the other hand, it is the result of 30 years of growth from virtually zero, and Russia has often been among the top 10 countries in the world in terms of current FDI exports, indicating its significant role. All researchers agree that the events in Ukraine, as well as the rise in food and energy prices partly related to these events, could not have passed without an impact on FDI. At the same time, the situation in Russia in 2022 is unique. In the past, asset confiscation took place in two cases, neither of which is appropriate for the current situation: (1) the confiscating country experienced domestic political cataclysms (revolution, civil war, etc.), and (2) wealthy countries confiscated assets when it was certain that the enemy country would be destroyed or capitulate in a war.

The reasons for the determination of Western countries to take risky actions to confiscate Russian assets are, first, the fact that the entire global system of investment insurance is structured in such a way that all EU countries are effectively unprejudiced (only economic risks can be insured, not political risks). Second, the Russian oligarchs were expected to react aggressively to the seizure of assets, even attempting a coup d'état. In addition, the West underestimated Russia's economic potential and did not believe in the ability of the Russian political elite to engage in direct conflict.

Kuznetsov stressed that Russian business has really lost a lot. As early as 2014, external borrowing capacity to support the expansion of Russian companies has deteriorated sharply, and as a result, Russia has fallen out of favor among the leaders in FDI exports. Some companies have lost their multinational status. In 2022, there was a 100% loss of assets in Ukraine and confiscation of assets in Western countries. It is still difficult to assess the significance of this confiscation of Russian assets for the global economy–Russia's long-term position on this issue is important. The speaker suggests that after the active phase of the confrontation over Ukraine is over, maximum efforts should be made to change the rules of international assessment and insurance of investment risks: first at the level of the EAEU, then the BRICS countries, and then other Asian and African countries should be consistently involved. Russia's foreign economic relations should be directed towards the global South, especially in the area of FDI. As for Europe, it is not yet thinking about the long-term consequences, but actions against Russian business will damage its investment reputation in the eyes of Arab countries, China and some African countries.

Anastasia Podrugina, Associate Professor at the School of World Economy at the National Research University Higher School of Economics, opened the discussion on the role of sanctions in global inflationary processes. In recent decades, starting from the 1990s and especially after the global economic crisis, the world economy has been living in a period of low inflation. The Phillips curve became flatter, meaning that even a significant increase in the money supply did not lead to an increase in inflation. Among the reasons for this phenomenon, Podrugina mentioned the transition of most central banks of developed countries to inflation targeting, globalization, accelerated technological development, and structural changes in the labor market.

However, after the COVID-19 pandemic, inflation began to rise. The main reasons are both demand-side shocks, caused by extra-loose monetary policy and significant fiscal stimulus in advanced economies, and supply-side shocks—disrupted production chains, logistical difficulties. The Russia-Ukraine conflict and subsequent sanctions are adding to inflationary pressures through higher energy and food prices and disrupted supply chains in Europe. As a result, developed countries are moving into a high inflation regime—a fundamentally new economic equilibrium with higher rates of price growth. Inflation is becoming more volatile, price increases in different sectors of the economy are correlated, and inflation is becoming more inertial. Thus, the world has moved from an economic reality of low interest rates and low inflation to a new economic reality of high inflation and high interest rates.

The speaker noted that with high levels of debt, especially sovereign debt, central banks now face a choice between price stability and financial stability. In a low-inflation period, especially after the global financial crisis, loose monetary policy supported both price and financial stability. In a high-inflation regime, measures to maintain price stability come into conflict with measures to maintain financial stability. In a crisis situation, financial stability comes to the fore, and the IMF recommends that central banks give priority to preserving financial stability and protecting economies from systemic risks.

In his speech, Professor **Leonid Grigoryev**, scientific head of the School of World Economy, tried to imagine what the world economy might look like without sanctions. The speaker stressed that modern sanctions were imposed quickly, designed by nonspecialists and often ignorantly, with completely wrong ideas about the potential of the Russian economy. What is important is not even the reason why sanctions were imposed, but why they did not work, and this needs to be assessed.

According to Grigoryev, in the world, sanctions have benefited (1) some exporters of oil and other commodities by stabilizing prices, (2) countries that have started refining Russian oil, (3) all the world's officials who specialize in restrictions and controls, and (4) intermediaries in world trade by restructuring it and changing commodity flows. As a result, instead of a liberal economy, an economy of restrictions and bureaucracy has emerged.

Grigoryev concluded his presentation by returning to the theme of the previous speech on inflation. While agreeing that it was debatable whether the sanctions had slowed the fall in energy prices, he noted that the period of high prices would have lasted until the autumn against the background of fear. One should not look at monthly inflation trends, but at cumulative inflation. In the autumn of 2022, labor contracts become part of the equation, trade unions become more active and, as a result, the classic mechanism of price growth was triggered. In other words, without sanctions, price and interest rate growth would be lower.

Vyacheslav Kulagin, Head of the Department of World and Russian Energy Sector Studies of the Energy Research Institute of the Russian Academy of Sciences, presented the final report that preceded the roundtable discussion. Commenting on the consequences of sanctions and their impact on the growth of energy prices, the speaker called for sanctions not to be separated from geopolitics. The geopolitical-sanction premium on prices arises in Europe, for example, as a consequence of filling up underground gas storage facilities, which is a risk insurance tool that was not previously required, but now results in higher prices for consumers. Similarly, excess regasification and the construction of new terminals. Other important groups of new costs include the cost of upgrading refineries as a result of changing suppliers, switching to more expensive energy supplies and suboptimal supply routes. At the same time, weather is becoming an increasingly important factor for the global and European economy. The transition to renewable energy sources and possible outages in the event of adverse weather conditions pose many risks in the absence of substitute and stabilizing supplies. All of this is leading to price increases on both the European and global markets. The speaker separately addressed the factor of declining influence of Western energy companies on fuel markets, due to diminishing trust in them and as a result of environmental policies in their home countries. In turn, energy companies of developing countries, primarily China, are trying to move to full control, “from well to consumer.” In addition, alternative centers of technological development have begun to emerge. The experience of Iran, which has mastered the production of turbines, is significant in this respect. Thus, a powerful investment potential is emerging outside the OECD, financial resources and technologies are appearing among other players, and the need for Western oil and gas companies is diminishing. The expert also touched on the issue of high volatility in energy prices, which he expects to increase. At the same time, under the conditions of energy market imbalances, there is a rather significant growth of investments in hydrocarbons.

Finally, the speaker assessed the consequences of the ongoing changes for the world economy, noting that difficult times lie ahead for certain industries, particularly in Europe. A difficult period is also beginning for the poorest countries, which are faced with expensive energy and a lack of financial resources. Overall, energy will become more expensive for consumers. With the massive investments being made today, we can expect an oversupply in the energy markets in two to three years’ time and a consequent price collapse. Another important consequence of the current transformation of energy markets is that, in addition to the geopolitical-sanction price premium, there is also a geopolitical-sanction CO_2 surcharge resulting from suboptimal logistics, which increases transport leverage and fuel consumption.

The roundtable ended with a lively discussion. The moderator of the event, Igor Makarov, led a round of lightning questions to the speakers, and the participants and guests discussed the most important and sensitive details of the consequences of sanctions for the Russian and global economy.

The review is written by **Olga Klochko,**
deputy school head and associate professor
at the School of World Economy, HSE University.