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Features of economic deformation due to the adoption of political decisions leading to the formation of economic crises of a synthetic secondary nature on the example of the sanctions policy of the European Union against Russia

Abstract: The economic analysis of political decisions is the most complex and complex due to the fact that in the course of the study it is necessary to take into account the specific features of political logic, which, in many respects, does not coincide with the implementation and transformation of economic laws and trends and puts itself above the economy. This leads to extremely negative consequences for states and regions. Political ideology, political will does not necessarily destroy the economy. Often, putting itself above the economy, it leads to the deformation of economic ties and the reduction of economic stability. Then economic crises of a synthetic secondary nature are formed, i.e., crises that could be smoothed out from the outset, subject to competent consideration of economic laws and international economic relations. The subject of the study is the sanctions economic measures of the European Union. The purpose of the study is to detect economic deformation due to the adoption of political decisions that lead to the formation of crises of a synthetic secondary nature. To achieve the purpose of the study and solve the tasks set, logical, historical, comparative and deductive methods of studying and analysing materials were used. The study used the documents of the European Commission, statistical data and publications of researchers in economic and political crises. The author concludes that the sanctions economic policy of the European Union, which also covers the EU candidate and partner states, for all its general logic, has five main and fundamental errors. These errors are so critical and obvious that they cannot contribute to the expected results. On the contrary, this sanctions policy helped Russia significantly strengthen its political position in the international arena and attract a sufficient proportion of Russian citizens to the side of the authoritarian government in order to start fundamental social transformations in the country aimed at distancing Russian society from the European community so that the principle of “sobornost” becomes again leading in social behaviour of the majority of Russians.

Keywords: economic sanctions, economic crisis, European Union, European Council, Russia, Russian annexation, Ukraine.



Introduction

The economic analysis of political decisions is the most complex and complex due to the fact that in the course of the study it is necessary to take into account the specific features of

political logic, which, in many respects, does not coincide with the implementation and transformation of economic laws and trends and puts itself above the economy. This leads to extremely negative consequences for states and regions. Political ideology, political will does not necessarily destroy the economy. Often, putting itself above the economy, it leads to the deformation of economic ties and the reduction of economic stability. Then economic crises of a synthetic secondary nature are formed, i.e., crises that could be smoothed out from the outset, subject to competent consideration of economic laws and international economic relations.

The subject of the study was the sanctions economic measures of the European Union.

The purpose of this study was to detect economic deformation due to the adoption of political decisions that lead to the formation of crises of a synthetic secondary nature.

Based on the purpose, the following tasks were set by the author:

- give a general description of the sanctions packages of the European Union against the Russian Federation;
- analyse the physical-geographical and political-economic features and traditions of Russia, which had to be taken into account in the first place when making political decisions;
- identify five basic economic mistakes of the European Union in the sanctions policy towards Russia, which led to the lack of their effectiveness.

To achieve the purpose of the study and solve the tasks set, logical, historical, comparative and deductive methods of studying and analysing materials were used.

The study used the documents of the European Commission and European Parliament, statistical data and publications of researchers in the field of economic and political crises.

General characteristics of the sanctions packages of the European Union against Russia

In protest against the Russian armed forces' annexion of Ukraine, the European Union has adopted a modern method of pressure in the form of sanctions packages. This method of economic and political pressure has shown its relative effectiveness for small regional states like Iran, Venezuela, or North Korea. It cannot be argued that the methodology of sanctions packages is a modern effective tool for containing or managing the domestic or foreign policy of any state. As experience shows, states experiencing economic pressure from one coalition quickly begin to establish relations with political opponents that form a coalition for another. This is exactly what the political leaderships of Iran and Venezuela did, which drew closer to Russia and partly to China. Thus, these states managed to partially neutralise the economic problems that arose as a result of the sanctions applied against them. In this article, we do not consider the political aspects of the legitimacy of the imposition of economic sanctions by any conglomerate of countries against another state. More important for analysis are those processes that have changed and reduced the planned sanctions damage to states and thus did not lead to the expected results for the coalition, e.g., changes in domestic or foreign policy, a change of power or cardinal concessions. It is also necessary to understand that the modern sanctions practice was applied to regional small states that are significantly dependent on the resource base of the region or the whole world, do not have much influence in the international arena and cannot act as a kind of center of attraction initially for political forces, and behind them for economic resources.

In February 2022, the European Union in coalition with the United States, Great Britain, Canada, Australia, New Zealand, Japan, and a number of other states began to apply the technique of sanctions pressure through restrictive packages in relation to the Russian Federation.

Package 1 was accepted on February 15, 2022. It was introduced after Russia recognised the so-called Donetsk Republic and Lugansk Republic as independent republics. This package contained the following articles:

- against 351 State Duma deputies who voted on February 15, 2022 in support of an appeal to President Putin with a request to recognise the Donetsk Republic and Lugansk Republic;
- against 27 individuals and legal entities who “played a role in undermining or threatening the territorial integrity, sovereignty and independence of Ukraine” (including against Sergei Shoigu, Andriy Kostin, Igor Shuvalov, Maria Zakharova, Margarita Simonyan, Volodymyr Solovyov, the Internet Research, Rossiya Bank, Promsvyazbank and VEB);
- a ban on financing the Russian government and the Central Bank. Trade and investment sanctions were imposed on the DPR and LPR (*EU adopts package of sanctions in response to Russian recognition, 2022*).

This package of sanctions measures contained several directions at once, which were supposed to harmoniously link each other, given that these measures were applied immediately by a coalition of almost 30 countries of the world.

On February 24, 2022, the European Union made an addition to the first sanctions package. The European Parliament banned Russian and Belarusian diplomats and civil servants from entering their residences in Brussels and Strasbourg. Also, the European Parliament banned the access of Russian lobbyists to its premises. In addition, the European Council and European Commission “instructed to no longer accept people who represent the interests of Russia” (The EU has banned access to its organisations to lobbyists from Russia, 2022). Austria and France did not invite representatives of Russia to official events dedicated to the anniversary of the end of World War II in Europe. Latvia and Lithuania lowered the level of diplomatic relations with Russia – both states expelled Russian ambassadors and recalled theirs from Russia, and also recognized Russia as a terrorist state (*The Lithuanian Seimas has recognised Russia as a terrorist state, 2022*).

In addition, the countries of the European Union launched a full-scale attack on Russian diplomats, guided either by the data of their special services or by the principle of protest against the start of a military operation in Ukraine (*Table 1*). The European Union has declared persona non grata of 19 members of the Russian Permanent Mission to the European Union (*Westfall & Simon, 2022*). From February 24 to April 5, Western countries expelled 315 Russian diplomats (*Kovalev, 2022*); in two days – April 4 and 5 – the EU countries sent more than 200 (*Arinushkina, 2022*).

The EU sanctions package 2 was adopted on February 24, 2022 and contained a large list of pressure tools:

- Russian banks are to be banned from borrowing and lending money in the EU in the future;
- Shares in Russian state-owned companies may no longer be traded;

- The acceptance of deposits from Russian citizens or residents exceeding certain values and the sale of securities denominated in euro to Russian customers is prohibited;
- The supply of spare parts and other technology to the Russian transport sectors will be cut off;
- There are additional export restrictions on dual-use goods and technologies;
- The same applies to goods and technologies that could help improve Russia's defense and security sector;
- Sale, supply and export of certain goods and technologies for oil refining is prohibited;
- Restrictions on visa policy: Entry opportunities for Russian diplomats and businessmen will be restricted;
- Irrespective of the authorised sanctions by the EU, the German government has halted the authorisation process for the "Nord Stream 2" pipeline project (*EU Official Journal, L 54, 2022*).

Thus, the European Union has imposed sanctions affecting the financial, energy, transport, technology sectors, as well as visa policy, i.e., personal sanctions against Russian President Vladimir Putin, Foreign Minister Sergei Lavrov, Prime Minister Mikhail Mishustin and Defense Minister Shoigu, Deputy Chairman of the Security Council Dmitry Medvedev, Special Representative of the President Sergei Ivanov, Interior Minister Vladimir Kolokoltsev, State Duma deputies and Belarusian officials, providing for the freezing of assets. The sanctions also affected the Ministry of Defense, the foreign intelligence service, and the presidential administration. A ban was announced on the supply of goods and technology, as well as the provision of financial assistance. The EU blacklist, which implies a ban on European institutions from providing them with investments, assisting in transactions with securities or other financial market instruments, as well as making deals, includes such giants of the Russian economy as Almaz-Antey, Kamaz, commercial port of Novorossiysk, Rostec, Russian Railways, Sevmash, Sovcomflot, Uralvagonzavod, Kalashnikov Concern, aerospace, aircraft and shipbuilding corporations MiG, Russian Helicopters, Sukhoi, Tupolev, Rocket and Space Center "Progress", etc. Sanctions were imposed against Russian banks Alfa-Bank, Otkritie, Rossiya Bank and Promsvyazbank. In relation to these banks, it is prohibited to make transactions, including the purchase and sale, as well as investment, operations with securities issued after April 12, 2022. European banks were prohibited from accepting deposits from Russians and Russian companies over EUR 100,000, from selling securities denominated in euros to clients from Russia, from providing services for the sale of securities issued after April 12, 2022, and from listing shares of any Russian state-owned companies on European exchanges. The sale and leasing of aircraft, spare parts and equipment to Russian airlines, as well as aircraft insurance and maintenance, were prohibited. At the same time, a ban was announced on the sale, supply, transfer and export to Russia of goods and technologies intended for use in the aviation or space industry, as well as dual-use goods and technologies and equipment and technologies for oil refining. The EU has imposed restrictions on the export of high-tech goods and technologies for their production. As part of the second package of sanctions, the visa policy was changed for the first time, but so far only for certain groups of Russians. The Committee of Ministers of the Council of Europe

decided to suspend the membership of the Russian Federation in the organisation (*Romaschenko, 2022*). The Danish autonomous province of Greenland joined the sanctions (*Bresnahan, 2022*).

Package 3 was accepted on February 26, 2022. It includes 6 groups of sanctions:

- Exclusion of certain banks from “Swift”. The following Russian banks are excluded from the international payment service system “Swift”: Bank Otkritie, Novikombank, Promsvyazbank, Bank Rossiya, Sovcombank, Vnesheconombank (VEB), VTB Bank. These institutions shall be excluded from international financial flows and their global operations shall be restricted. No euro banknotes may be delivered to Russia (*EU Official Journal, L 63, 2022*);
- Restrictions on Russian Central Bank. It was decided to further restrict the Russian Central Bank’s ability to support the ruble’s exchange rate with international financial transactions. There is a ban on transactions related to the management of reserves and assets of the Central Bank of Russia, as well as on transactions with legal persons or entities acting on behalf of or at the direction of the Central Bank of Russia (e.g., the Russian National Wealth Fund) (*EU Official Journal, L 57, 2022*);
- Establishment of a Task Force. A task force with representatives from the EU will be established to ensure a quick implementation of the sanctions and to freeze the assets of sanctioned individuals, their families and companies;
- It is prohibited to enter the airspace of the EU for Russian aircrafts (*EU Official Journal, L 57, 2022*);
- Broadcasters are not permitted to broadcast Russian media such as Russia Today (*EU Official Letter, L 65, 2022*);
- Sanctions on the maritime sector: Maritime goods and technology listed in Annex XVI, whether originating in the EU or not, may not be supplied or exported, directly or indirectly, to natural or legal persons in Russia. In addition, the list of legal persons and entities subject to restrictions on financing through loans, transferable securities and money market instruments was extended to the maritime sector (*EU Official Journal, L 81, 2022*).

Thus, the European Union froze the reserves of the Central Bank of Russia, located in the banks of the G7 countries, i.e., half of all reserves of Russia, cancelled the program of “golden passports” for investors from Russia, disconnected 5 large Russian banks from the SWIFT system. The European Union announced the expansion of the third package of sanctions. It provides for a restriction on the supply of technologies for maritime navigation and radio communications to the country. The previously introduced financial restrictions on the Russian Federation have been extended to cryptocurrencies. 160 persons were added to the list of personal sanctions – 146 members of the Federation Council who voted for the ratification of agreements with the “Donetsk Republic” and “Lugansk Republic”, and 14 oligarchs with family members. Bosnia and Herzegovina joined the EU ban on the export of maritime goods and equipment, and also expanded the sanctions list by 16 people. The Barents Euro-Arctic Council has suspended Russia-related activities in the Barents Euro-Arctic Cooperation. Iceland has banned Russian vessels from entering its ports or receiving services if they are catching or processing a catch from general fish stocks for which the Icelandic authorities have not agreed on a specific catch (*Jonassen, 2022*). The European Aviation Safety Agency has decided to suspend

all certificates issued by it, including certificates for products, parts and instruments, as well as certificates for organisations and training devices for flight simulation, if the holder of the certificate is located or resides in Russia or is otherwise subject to sanctions. Among the companies deprived of certificates: Aeroflot, S7 Group, Volga-Dnepr, Ural Airlines, Azur and others, and also stopped licenses from a number of aircraft maintenance enterprises and for Sukhoi Superjet aircraft manufactured in Russia 100 and Tu-204.

Package 4 was accepted on March 15th. It already includes 7 groups of sanctions:

- Russia's so called most-favoured-nation (MFN) status in EU markets will be withdrawn. Thereby, important advantages that Russia enjoys as a WTO member will be cancelled. That would allow member states to unilaterally impose tariffs and other trade barriers against Russia. Under the WTO agreement, countries would normally not be allowed to be discriminatory between their trading partners.
- The Russian state and leading elites will be blocked from trading cryptocurrencies in order to prevent the circumvention of already existing sanctions (*Statement by President von der Leyen...*, 2022)
- Export of luxury goods from the EU to Russia will be banned. These include wines, beers, cigarettes, perfumes, clothing, jewelry, etc.
- Import of essential goods from the iron and steel sector as listed in Annex XVIII from Russia to the EU will be stopped. It is prohibited to directly or indirectly provide technical assistance, brokering services, financing or financial assistance, including financial derivatives and insurance and reinsurance, related to the specified goods.
- It is agreed upon a major ban on new European investment in Russia's energy sector. Export of equipment, technologies and services for the energy sector in Russia is not allowed.
- The Russian state and Russian companies will no longer be allowed to be rated by EU rating agencies. Access to subscription services in connection with rating activities may also not be granted.
- Transactions with Russian state owned enterprises listed in Annex XIX are prohibited. This includes those enterprises which are under public control or in public hand by more than 50%, or in which Russia and its government or the Central Bank of Russia has the right to participate in profits or have other significant economic relations with or enterprises outside the Union in which more than 50% of the shares are held directly or indirectly by one of the organisations listed in Annex XIX (*EU Official Journal, L 87I, 2022*).

Thus, a ban was introduced on the import of steel products into the EU. It is impossible to invest in fuel and energy companies in Russia, to export luxury goods to it. The country is no longer rated by rating agencies. The sanctions list has been expanded for individuals and legal entities. The Russian Federation was expelled from the Council of Europe. Albania, Iceland, Moldova, Norway, North Macedonia and Montenegro have deprived Russia of the most favored nation treatment in trade. Bosnia and Herzegovina has imposed a ban on the purchase, import and transport of fossil fuels. Finland suspended the delivery of commercial mail, including urgent letters and cargo, and from March 27 announced the cessation of receiving freight trains from Russia. The European Organization for the Exploitation of Meteorological Satellites has suspended Russian user licenses and a bilateral cooperation agreement with Russia. The

European Commission has provided a clarification according to which companies, the majority of whose shares are jointly owned by two or more persons included in the sanctions lists, are considered to be under sanctions. Since March 29, Poland has increased sanctions at the national level, it will “block the assets of entities that contribute to supporting the Russian invasion of sovereign and independent Ukraine”. Poland also announced the withdrawal of consent to an agreement on the promotion and mutual protection of investments with Russia (*Sawicki, 2022*). From April 4, the European Bank for Reconstruction and Development suspended Russia’s access to the bank’s finances and expertise.

Package 5 was accepted on 8 April. It includes 6 groups of sanctions:

- Ban on imports of coal from Russia worth EUR 4 billion annually.
- Complete ban on transactions against four Russian banks, including Russia’s second largest bank VTB.
- Ban on Russian ships and Russian-operated vessels from calling at EU ports (exceptions include certain essential goods such as agricultural and food products, humanitarian aid, and energy) and ban on Russian and Belarusian road transport companies.
- Targeted export bans of EUR 10 billion on additional certain goods and technologies to Russia (e.g., quantum computers, advanced semiconductors, sensitive machinery, and transportation equipment) to weaken Russia’s technological base and industrial capacity.
- Further ban on imports of timber, cement, seafood, and alcoholic beverages (vodka).
- A ban on the participation of Russian companies in the awarding of public contracts in EU member states and an exclusion of any financial support from the Union or its member states for Russian public institutions (*EU Official Journal, L 111, 2022*).

Thus, the European Union introduced a ban on coal imports, transactions with four largest banks of the Russian Federation. Vessels flying the Russian flag, with some exceptions, are not allowed to enter European ports. The import of alcohol, seeds, wood, seafood from the Russian Federation is prohibited. Additional sanctions have been introduced against Sberbank and Alfa-Bank, imports of fertilizers have been restricted. Norway joined the fifth package of sanctions and closed its borders and ports to Russian trucks and ships.

Package 6 was adopted on May 31, 2022 and contained 5 more groups of sanctions:

- Complete ban on imports of Russian oil (crude oil and petroleum products) by sea, which accounts for about two thirds of Russian deliveries to the EU. Imports via pipelines remain possible (especially at the insistence of Hungary), but Germany and other states have already announced that they will no longer import any oil at all from Russia by the end of the year, so imports are likely to fall by up to 90%. The import ban is expected to take effect within the next six months.
- Asset freezes and travel bans against other Russian companies and individuals accused of war crimes in Bucha.
- Swift exclusion of Russia’s largest bank (Sberbank).
- Ban on three major Russian state broadcasters from distributing content in the EU.
- Export control restrictions on advanced technologies to additional military-industrial establishments (*EU Official Journal, L 153, 2022*).

Thus, the work of three Russian media on the territory of the EU countries is prohibited. Sberbank, Rosselkhozbank, Moscow Credit Bank were disconnected from SWIFT. A partial embargo on Russian oil has been introduced. Sanctions have been introduced against PAO Severstal. Norway has imposed new sanctions against 65 people and 18 companies, a ban on the purchase, import or transfer of oil transported by sea, as well as a ban on the provision of technical assistance, financing and other things related to the purchase, import or transfer of oil, a ban on the provision of a number of services to legal persons or the government of the Russian Federation, such as auditing and accounting, financial advice, etc. Estonia banned the import from Russia (including private individuals) of a long list of sanctioned goods, including alcoholic beverages, furniture, wood, fertilizers, with the entry into force of the ban on July 10 (*A ban on the import of sanctioned goods from the Russian Federation...*, 2022). Finland banned the import of strong alcohol from Russia (*Bogdanov, 2022*). Lithuania has introduced a ban on the import of cement, alcohol, timber, alcohol-based industrial chemicals and a number of other goods of Russian origin into the territory of the European Union, including transit to Kaliningrad (*Wenkina, 2022*).

Package 7 was accepted on July 21, 2022. It consists of five groups of sanctions:

- Ban on imports of gold originating in Russia under Annex XXVI and ban on remarketing and purchase of processed Russian gold. Also prohibition of technical assistance in connection with such goods. Exception applies to natural persons from the EU and their accompanying immediate family members for personal use.
- Ships sailing under the Russian flag are now also prohibited from accessing sluices in the EU territory. They are now only allowed to use sluices to leave the EU territory. Possibility of derogation if access for unloading is necessary for the completion of a renewable energy project in the Union.
- New exemption possibility of goods according to Art. 3k / Annex XXIII for medical or pharmaceutical purposes as long as there are no sufficient reasons for a military end-use. Authorization by the competent authority of the member state is required.
- Adjustment of capital market and financial-related sanctions: Prohibition on accepting deposits in excess of Euro 100,000 also from legal entities established outside the Union, more than 50% of whose shares are held directly or indirectly by Russian nationals or natural persons resident in Russia.
- Inclusion of further goods in Annexes VII (*EU Official Journal, L 193, 2022*)

Also, the port of Rotterdam stopped container traffic to and from Russia. Latvia suspended an agreement on economic cooperation with Russia, an agreement between the facilitation of mutual travel between residents of border areas with Russia and terminated an agreement with the Russian Federation on the establishment of an intergovernmental commission in the fields of economic, scientific, technical, humanitarian and cultural cooperation (*Par starptautisko vienošanās darbības apturēšanu, 2022*).

Particular damage was supposed to be inflicted on the financial sector of the Russian economy, especially on financial resources, which, in a strange way, were left on numerous accounts of state financial institutions, large public and private Russian companies in the countries of the European Union and its partners. By March 14, Belgium had frozen about 10 billion euros of Russian assets: 2.7 billion in bank accounts and 7.3 billion in frozen transactions

(Belgium freezes €10 billion Russian assets, 2022). On March 20, France froze more than 22 billion euros of holdings of the Central Bank of Russia, 150 million euros in private accounts and real estate worth 539 million euros. The Netherlands, according to the Dutch Ministry of Finance on March 22, froze about 392 million euros of Russian assets, and Poland – 140 million zlotys. Luxembourg has frozen Russian assets worth 2.5 billion euros. On March 30, the German Finance Ministry froze 95.5 million euros on the accounts of individuals and legal entities from Russia. On April 1, Latvia froze 55 million euros of Russian assets in its banks. Thus, on April 5, the European Union estimated the volume of assets frozen by it at 35 billion euros (*Follain, 2022*). On April 29, Ireland froze Russian assets in the amount of 1.2 billion euros. In the first quarter of 2022, Credit Suisse froze 10.6 billion dollars US in Russian assets. On May 25, the European Commissioner for Justice, Fundamental Rights and Citizenship Didier Reynders said that since the outbreak of the war in Ukraine in February, the EU has frozen about 23 billion euros of the assets of the Central Bank of Russia (*Yuriko Backes présente les derniers chiffres sur les sanctions contre la Russie 2022*). On August 2, Belgium froze Russian assets for 50 billion euros.

Thus, in early August 2022, in just 5.5 months, the European Union and the European partner countries of the European Union imposed hundreds of sanctions articles, thereby actually using the entire set of effective measures to put economic pressure on Russia. Such a huge frequency and volume of sanctions decisions as an avalanche effect could destroy the economic basis of any developing country in the world or a small developed state that does not have preferences in geographical and political positions. However, “sanction avalanches” are not an equally effective weapon against states and societies of a low inclusive nature with a huge internal resource.

Physical-geographical and political-economic features and traditions of Russia

This paragraph will consider the main features of politics, economics, ethnopsychology and sociology of Russian society, which fundamentally distinguish the Russian Federation from the category of developing countries and greatly simplify its adaptation to the “sanction avalanches”.

The main advantage of Russia is a vast territory with a large oceanic coastline that cannot be blocked. Domestic transportation of goods by land in Russia is quite expensive, but it is easily offset by the huge profits from export sales. This is a significant problem for the domestic consumption economy, because Russian enterprises gravitate towards hyper profits, so they tend to export more than sell on the domestic market.

Russia borders on land, mainly not with the countries of the European Union, but with the states of Central and East Asia, including with direct allies – Kazakhstan, Mongolia, and China. Through these countries, Russia is able to develop trade relations with the entire Asian region. At the end of 2021, Russia had a large export income with such Asian states as:

- China – 68,028.9 million dollars, or 138.4% by 2020,
- Turkey – 26,512 million dollars, or 166.4% by 2020,
- Kazakhstan – 18,477.7 million dollars, or 131.5% by 2020,
- Republic of Korea – 16,896.8 million dollars, or 135.5% by 2020,
- India – 9,128.7 million dollars, or 157.4% by 2020,
- Uzbekistan – 5,204.9 million dollars, or 111.7% by 2020,
- Iran – 3,067.9 million dollars, or 215.5% by 2020,

Azerbaijan – 2,323 million dollars, or 112% by 2020,
Kyrgyzstan – 2,153.7 million dollars, or 147.8% by 2020,
Armenia – 1,893 million dollars, or 114% by 2020,
Mongolia – 1,816.1 million dollars, or 131.1% by 2020,
Israel – 1,737.6 million dollars, or 130.2% by 2020,
Singapore – 1,670.2 million dollars, or 145.1% by 2020,
Malaysia – 1,429.8 million dollars, or 136.5% by 2020,
Tajikistan – 1,114.1 million dollars, or 140% by 2020 (*Russian Foreign Trade, 2022*).

As can be seen from the statistics presented above, most of the countries in the Asian region, with which Russia actively traded before the start of the war in Ukraine, maintain friendly partnerships and are less interested in trade with Europe than with Russia. In addition, the growth rate of exports of goods and resources to this region is impressive. It brings Asian countries even closer to Russia. This effectively minimizes the preventive border measures that the Baltic States, Finland and Poland can take. The European region has almost no resources that are needed for Asia, except for innovative technologies. However, it must be understood that the consumer resource base is much more in demand for developing countries than the technologies of the future.

In 2021, Russia's foreign trade turnover, according to the Bank of Russia, amounted to 798.0 billion US dollars (139.3% by 2020), including exports – 494.0 billion dollars (148.2%). The trade balance remained positive at \$190.1 billion (in 2020 positive at \$93.7 billion) (*Russian Foreign Trade, 2022*). These indicators (*Diagram 1*) also indicate that the Russian economy is growing strongly in terms of exports, that is, in receiving more and more income.

If we consider the structure of Russian exports for 2021, then there is a strong bias towards the fuel and energy complex and metals:

54.3% – fuel and energy products;
10.4% – metals and products from them;
7.7% – products of the chemical industry, rubber;
7.3% – food products and agricultural raw materials;
6.6% – machinery, equipment and vehicles;
6.4% – precious stones, precious metals and products made from them;
3.5% – timber and pulp and paper products (*Russian Foreign Trade, 2022*).

However, researchers do not rely on relative percentage data as an opportunity to drastically put pressure on the Russian economy. The Russian Federation is in second or third place in oil production after the United States and Saudi Arabia, in second place in oil export after Saudi Arabia. If we consider the mineral resources of Russia, it turns out that:

nickel – 33%,
gas – 32%,
potassium salts – 31%,
iron – 25%,
tungsten – 18%,
zinc – 15%,
oil – 11%,
coal – 11%,

lead – 10%,
tin – 7.5%,
uranium – 5% (*Russian Foreign Trade, 2022*).

The Russian economy is based on a huge resource base that only the United States can compete with. However, unlike the United States, Russia is trying to make the most of the export opportunities of raw materials, including grain and oil crops. On the one hand, this reduces the state's profitability per unit of goods, but on the other hand, it contributes to the rise in the importance of Russia as a resource player that has the ability to destabilize the world market in a short time.

An important factor that shapes the Russian economy is the social factor. A Russian still genetically feels his historical formation as a part of a large society that appreciates the “power of a strong leader”, that is, Russians still respect precisely the authoritarian style of government, which can reach the absolute form of manual control of sectors of the economy by one person. Thus, over the course of the 21st century, Vladimir Putin was gradually promoted to the leader, and then absolute. His leadership role, infallibility, idealized views, belonging to the power structures and the army were gradually formed and elevated by the political elite of Russia in order to obtain permanence and guarantees of state subsidies in return for loyalty. This returned Russian society to the genetic need for “strong power”, concentration around it and even protection from external enemies. This social effect is called “sobornost” (*Vitruk & Buychik, 2021*) and has been very little studied in the US and Europe. In this regard, many forecasts and expert assessments of the collapse of the economic and political model of Modern Russia, which are logical for the West, turn out to be erroneous and lead to incompetent decisions at the highest level, further rejection of Russian society from Europe, and not vice versa, to rapprochement and obtaining effective levers of influence.

The defeat of Russian society by a high inflation rating is mistakenly considered. Relative to the countries of the European Union, the inflation rating in Russia is always much higher. Russians are quite resistant to annual inflation of 15-20%, as evidenced by statistics (*Diagram 2*). This is an objective reason why the expected social dissatisfaction of Russian citizens with the military actions of the Kremlin against Ukraine and some of the impact of sanctions against the country remains extremely weak. The use of reserve funds and tight internal banking management policies have helped to push inflation past its peak in 2022 (*Diagrams 3 and 4*). Since the most significant sanctions have already been used by the European Union, and their number has exceeded one thousand, it becomes obvious that the “sanction avalanches” have not been materializing until now.

Thus, the most important parameters of Russia's advantage over many large developing and developed countries are the following:

- 1) a huge territory that cannot physically be blocked;
- 2) a huge mineral resource base in conjunction with the food base, which has a fundamental impact on the balance and stability of international economic relations;
- 3) low sensitivity of Russian society to inflation;
- 4) the presence of a nationally heterogeneous, but historically connected society, which does not gravitate towards inclusiveness, but genetically respects “strong power”, authoritarianism and manual control, which is part of “sobornost”.

In addition, it is important that the memory of the Second World War is strong in Russia, in which almost all of Europe opposed the Soviet Union, since the fascist army included separate corps and units of representatives of many EU countries. The US was the only country in the world that benefited economically from the war. This disposition clearly fits into the logic of the formation of the modern ideology of the Russian citizen and strengthens the authoritarianism of Vladimir Putin.

Economic mistakes of the European Union in the sanctions policy towards Russia

This paragraph will list and briefly analyse the main and fundamental mistakes of the economic part of the EU sanctions policy, which did not allow the European community to achieve significant results in achieving its goals to stop Russia's military actions against Ukraine and contribute to the normalisation of the economic situation.

1. The waves of sanctions were extremely poorly organised and formed despite the fact that a large number of economic and political analysts participated in their consideration. It was obvious that the sanctions packages could only have a deferred character. However, the Central Bank of Russia found financial reserves to stabilise the economy from those resources that were previously considered by experts to be "lost" or "stolen" by various Russian business structures close to power.
2. Sanctions packages were formed too often and in a large amount of sanctions. This allowed Russia to draw up in advance a rough list of all possible "punishment" options for a military invasion of Ukraine and prepare an international coalition of countries that will maintain economic relations with Russia in principle or effectively. Such a coalition included such major international players as China, India, Turkey, Saudi Arabia, Brazil, as well as significant regional countries, such as Kazakhstan, Uzbekistan, South Africa, Israel, Egypt, and Iran. It should also be taken into account that the weak policy of the European Union in Asia, Africa and South America, as well as some historical views, have contributed to the growing interest of many countries in these regions in economic integration with Russia.
3. Sanctions strike on their own critical industry structures. Maintaining the economic balance within the European Union and all of Europe has been and remains fundamental. Any sanctions against Russian oil and gas without a clearly prepared fallback in the form of international treaties were doomed to failure in stabilising the domestic fuel and energy market. It is extremely beneficial for OPEC countries to receive hyperbolic demand for any reason. In this case, there is no need to increase the extraction of energy resources, since their cost will grow much more profitable than profiting from an increase in exports under the regulation of supply and demand.
4. The fundamental mistake is the pressure on large European trading companies, which are forced to close their chains of stores and representative offices in Russia. First, Europe is losing a large share of tax revenues, which can be used both for rearmament and financial injections in industries experiencing a crisis. Secondly, this is a very significant way of outflow of large financial resources from the domestic ruble turnover of Russia. Thirdly, the departure of major European brands plays into the hands of China, India, Korea, Kazakhstan, Uzbekistan, Turkey, and Iran.

5. The alleged and planned visa blockade by Estonia, Latvia, Lithuania, Poland, Czechia, and Slovakia, as well as the refusal of the Agreement between the Russian Federation and the European Community on the facilitation of issuing visas to citizens of Russia and the European Union of May 25, 2006, deprive the European Union of the influx of Russian tourists, which will keep the flow of financial resources from the internal circulation of Russia into the internal circulation of the EU countries. In addition, the possibility of socio-political influence on Russians through tourism and advertising of the cultural values of the European community will sharply decrease.

Conclusion

Thus, the sanctions economic policy of the European Union, which also covers the candidate and partner states of the EU, for all its general logic, has five main and fundamental errors. These errors are so critical and obvious that they cannot contribute to the expected results. On the contrary, this sanctions policy helped Russia significantly strengthen its political position in the international arena and attract a sufficient proportion of Russian citizens to the side of the authoritarian government in order to start fundamental social transformations in the country aimed at distancing Russian society from the European community so that the principle of “sobornost” becomes again leading in social behavior of the majority of Russians.



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Appendix

Table 1. Results of the diplomatic attack of the European Union countries on Russia (*author: Buychik, A.*)

State	Number of expelled diplomats	State	Number of expelled diplomats
Bulgaria	73	Greece	12
Poland	45	North Macedonia	11
France	41	Estonia	10
Germany	40	Portugal	10
Slovakia	38	Romania	10
Slovenia	33	Montenegro	6
Italy	30	Austria	4
Spain	25	Ireland	4
Belgium	21	Lithuania	4
The Netherlands	17	Norway	3
Latvia	16	Sweden	3
Croatia	18	Finland	2
Denmark	15	Czechia	1
		Luxemburg	1

Diagram 1. Indicators of export, import and foreign trade balance of Russia in 2020-2021 (*Russian Foreign Trade*)

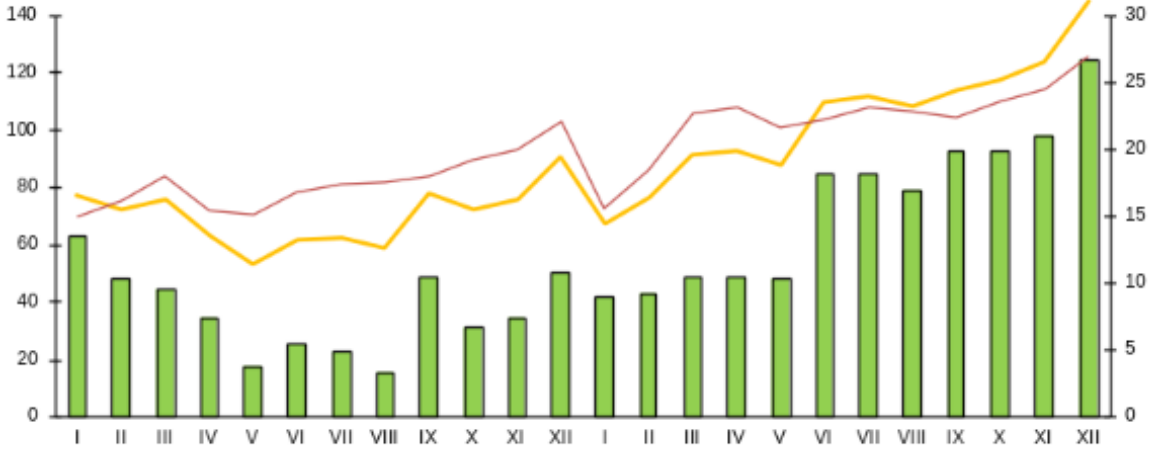


Diagram 2. Russia Inflation Rate for the last 25 years (*Russia Inflation Rate, 2022*)



Diagram 3. Russia Inflation Rate for the last 10 years (*Russia Inflation Rate, 2022*)



Diagram 4. Russia Inflation Rate from March 1, 2022 till July 31, 2022 (*Russia Inflation Rate, 2022*)

