

Analysis of America's Economic Hegemony in Light of Russo-Ukrainian War **By**

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Abstract

The United States of America and her Allies has responded to the war in Ukraine in an extraordinary way by using economic sanctions and defensive trade instruments in demonstration of political opposition to the Russian invasion. The sanctions are intended to further increase the costs to Russia of prosecuting the war in Ukraine by cutting Russian access to foreign revenue, services that could be used to evade sanctions. In light of the unprecedented depth, breadth, and complexity of multilateral sanctions already issued against Russia, in turn, Russia retaliated by cutting gas supplies to certain European countries who fails to pay in roubles and restrictions on exports of some food products. It is against this background this paper seeks to investigate United States of America's and her Allies strength in shaping the global economy as the world is witnessing another major war between Russia and Ukraine. The article adopts a qualitative approach to do a content analysis of secondary data using the various documents that examine the title at stake. Findings here

reveal strong cooperation among the big powers in making sure Russia's aggression is not undermined. This paper submits that there is more to be done before the war between Russia and Ukraine can be stopped.

Keywords: America, Economic Hegemony, Russia, Ukraine, NATO

Introduction

Immediately after the end of second World War in 1945, Britain was drained and too demotivated to continue as a preponderant power despite her victory consequently, a confidently prosperous, well-armed United States of America assumed leadership of the World-and did so while creating a United States -led international order that we have lived with ever since. Furthermore, America was victorious from the war militarily and financially. More so, its purportedly vaunted land might, the Soviet Union was in no position to confront the United States, because in relative potency the United States of America was "vastly superior" to the Soviet Union. Because of its enormous edge in strategic airpower and naval strength, only the United States had the power and capability to project massive military power over long distances (Burton, 2020). More so, in 1949 the United States retained a monopoly on nuclear weapons and a meaningful nuclear superiority well into the early 1960s. As a result of wartime operations, United States military reach had expanded immensely. The United States projected formidable land and naval power across the water into Western Europe, Asia and Africa respectively. Furthermore, the United States did not only establish it as the leading power, it led in the creation of universal institutions that not only invited global membership but also brought democracies and markets closer together. Washington built an order that facilitated the participation and integration of both great powers and newly independent countries (BBC, 2022).

According to BBC (2022) that the United States of America is the world's foremost economic and military power. It has the third largest population in the world (325 million) and its economy produces around one quarter of the world's wealth – \$17.97 trillion in 2015. Income in 2015 was \$56,300 per capita, one of the highest in the developed world. The US is home to many entrepreneurs and has created many iconic products which are highly sought after around the world, for example Apple and Facebook. The US also provides the greatest amount of international

aid. Although its percentage contribution to the UN is relatively small-0.2 per cent of its GDP – this represented over \$30 billion in 2013. In addition, private American companies and foundations also donate billions of dollars in aid every year. The U.S. Agency for International Development – USAID is involved in 87 missions around the world, has 3500 partnerships and is allocated 1% of the federal budget. Militarily, the US remains the world's only superpower. Although the United States does not spend the most in the world on defence as a proportion of GDP (3.8%), in absolute terms it spends vastly more than any other country – \$640 billion from a world total of \$1747 billion in 2013. Over one third (36%) of the total world's defence spending is by the US alone. The United States has the largest naval fleet in the world. The US carrier fleet dwarfs every other country in the world, particularly in terms of in size and technological hardware. The scale of the United States navy allows it to have a military presence anywhere in the world (BBC, 2022).

More so, United States of America is a leading member of a number of important international organisations for instance, G8 and G20 Group, these groups contain most of the countries in the world with the largest economies. Summits or meetings of the leaders of the G8 countries offer the opportunity for the US and other group members to develop closer economic ties to expand trade. In addition, it allows the US another forum to discuss issues of global concern such as climate change, terrorism or conflict and poverty. In 2014, Russian membership of the G8 was suspended because of its involvement in the crisis in Ukraine. The G20 has similar aims to the G8 but includes an additional 12 members to reflect the growing economic importance of countries such as Brazil, India and Indonesia etc. The United States America is a founding member of the United Nations (UN): it is one of the five permanent members (P5) on the UN Security Council, alongside the UK, China, Russia and France, it is the biggest single contributor to the UN budget, providing 22% of its total the USA contributes 27% of the UN peacekeeping budget. Although the United States is an important member of the United Nations, the relationship between the two has been strained. The United States hosts the United Nations headquarters in New York and contributes the most of any single country to United Nations programs but in most years the US has failed to pay its contribution in full (BBC, 2022).

As a permanent member of the United Nations Security Council, the United States has the opportunity to veto any Security Council proposal put forward. Since the Security Council is the part of the United Nations responsible for peace making and peacekeeping as well as international sanctions, this gives the US a very influential role. The United States has at times found decision making within the UN Security Council frustrating or time consuming. Russia and China are also permanent members and often use their veto to block US proposals.

On occasion the US has ignored the UN and its decision-making procedures. For example, the US did not seek UN approval when it decided to invade Iraq in 2003. The US has also consistently backed Israeli actions financially and militarily despite widespread UN and international condemnation.

Similarly, the US has been a member of the North Atlantic Treaty Organisation (NATO) since it was established in 1949. NATO is the largest and most powerful military alliance in the world. In theory, the 28-nation organisation is made up of members of equal standing, where each country has one vote in decision making. the USA is the dominant player within NATO, it contributes far more troops, resources and finances than any other single member of the alliance and more than any other country the USA sets the NATO agenda for example, it is claimed the USA has kept the pressure up on European countries to look to expand NATO eastwards

In recent years, the USA has also tried to encourage the other members of NATO to take a greater responsibility for their own defence and to make a larger contribution to NATO's finances. It has been argued that the US has been focusing its attention more towards Asia and the Far East as opposed to Europe. However, with Russian annexation of the Crimea in 2014, NATO and American support for the Atlantic Alliance has moved close to the top of the US international agenda.

US leadership within NATO remains very important. For example, in terms of the NATO involvement in Libya in 2011, American military support was crucial in securing the downfall of Libyan President Gaddafi. The USA also played the lead role in NATO's mission to Afghanistan. However, the US also needs NATO as it allows the US to confront difficult and diverse threats to its security alongside

other countries which support democratic values. As part of NATO the US is stronger (BBC, 2022).

The Russo-Ukrainian War began in 2014 February, following the Ukrainian Revolution of Dignity, and initially focused on the status of Crimea and parts of the Donbas, internationally recognised as part of Ukraine. The first eight years of the conflict included the Russian annexation of Crimea in 2014 and the war in Donbas 2014 till present between Ukraine and Russian-backed separatists, as well as naval incidents, cyberwarfare, and political tensions. Following a Russian military build-up on the Russia–Ukraine border from late 2021, the conflict expanded significantly when Russia launched a full-scale invasion of Ukraine on 24 February 2022.

Following the Euromaidan protests and a revolution resulting in the removal of pro-Russian President Viktor Yanukovich in February 2014, pro-Russian unrest erupted in parts of Ukraine. Russian soldiers without insignia took control of strategic positions and infrastructure in the Ukrainian territory of Crimea, and seized the Crimean Parliament. Russia organized a widely-criticised referendum, whose outcome was for Crimea to join Russia. It then annexed Crimea. In April 2014, demonstrations by pro-Russian groups in the Donbas region of Ukraine escalated into a war between the Ukrainian military and Russian-backed separatists of the self-declared Donetsk and Luhansk republics.

In August 2014, unmarked Russian military vehicles crossed the border into the Donetsk republic. An undeclared war began between Ukrainian forces on one side, and separatists intermingled with Russian troops on the other, although Russia attempted to hide its involvement. The war settled into a static conflict, with repeated failed attempts at ceasefire. In 2015, the Minsk II agreements were signed by Russia and Ukraine, but a number of disputes prevented them being fully implemented. By 2019, 7% of Ukraine was classified by the Ukrainian government as temporarily occupied territories, while the Russian government had indirectly acknowledged the presence of its troops in Ukraine.

In 2021 and early 2022, there was a major Russian military build-up around Ukraine's borders. NATO led by United States accused Russia of planning an

invasion, which it denied. Russian President Vladimir Putin criticized the enlargement of NATO as a threat to his country and demanded Ukraine be barred from ever joining the military alliance. He also expressed Russian irredentist views, questioned Ukraine's right to exist, and stated Ukraine was wrongfully created by Soviet Russia. On 21 February 2022, Russia officially recognised the two self-proclaimed separatist states in the Donbas, and openly sent troops into the territories. Three days later, Russia invaded Ukraine. Much of the international community have condemned Russia for its actions in post-revolutionary Ukraine, accusing it of breaking international law and violating Ukrainian sovereignty. Many countries implemented economic sanctions against Russia, Russian individuals, or companies, especially after the 2022 invasion.

Investigating Hegemonic Theory and its Role in the International System

Regardless of the centrality of the concept of hegemony to any aspect of the discipline of International Relations, the discipline has not yet managed to come up with a single analytical framework for studying hegemony. As a result, there seems to be no way of comparing the characteristics of the different approaches to hegemony, and their implications for world politics' theory and practice. The response to two major world politics events of the 21st century exemplifies these limitations. First, as a result of the 9/11 terrorist strikes and the subsequent United States war on terror, issues of hegemony, hegemonic power, benign and malign hegemons, and so on, returned to the top of the International Relations agenda. Moreover, concepts such as empire and imperial power gained new currency in International Relation's attempt to make sense of the post 9/11 dynamics at work in world politics. Yet, to a significant extend this revived field of hegemony analysis in International Relations remained compartmentalised along the traditional dividing lines of the established International Relations approaches. Similarly, in response to the global economic crisis that was triggered by the US subprime crisis in 2007, there was a new wave of publications on the impact of the crisis on the United States hegemony or the ever dominant (or declining) nature of neoliberalism as a hegemonic project. But there were few attempts for cross-fertilisation between the different theories of hegemony in International Relations (Andreas, 2018).

According to Micheal C. Webb and Stephen D. Krasner (1989) hegemonic stability theory is that international economic openness and stability which is most likely when there is a single dominant state, is the most prominent approach among international relations scholars for explaining patterns of economic relations among the advance capitalist nations since 1945. It has provided a research programme for scholars, both as a positive guide and as a foil against which to test alternative theoretical explanation.

The basic contention of the hegemonic stability thesis is that the distribution of power among states is the primary determinant of the character of the international economic system. A hegemonic distribution of power, defined as one in which a single state has a predominance of power, is most conducive to the establishment of a stable, open international economic system.

Similarly, hegemony stability theory is a concept developed by different scholars notable among them are Robert Gilpin, Stephen Krasner, Robert Keohane and George Modelski to mention but a few. However, a hegemon is a nation that has the capability and the qualification to effectively control all important international rules, institutions and agreements, through a mixture of persuasion, diplomacy, military and economic coercion. By the same token, a state powerful enough to impose its will upon the rest of the world will establish a system of rules and norms that contribute to global stability (Keohane 1984). According to Jeremy Black (2008) that hegemonic power, to protect their status, will commit to defending an image of an international system, rather than simply serving their own self-interest. The extent to which this ideological element is an irrelevant by-product of power, an instance of necessary benevolence or a cynical calculation by elites to co-opt the lower classes and the poorer states depends upon which variant of the theory is being applied (Black, 2008). In a similar vein, Hegemony may take different forms. Benevolent hegemons provide public goods to the countries within their sphere of influence. Coercive hegemons exert their economic or military power to discipline unruly or free-riding countries in their sphere of influence. Exploitative hegemonies extract resources from other countries (Isabelle, 1990).

Robert Keohane (1984) maintains that to be considered hegemonic in the world political economy, therefore, a state should have access to crucial raw materials, maintain a big market for imports, control major sources of capital, and hold comparative advantages in goods with high value added, producing relatively high wages and gains. It must also be stronger, on these dimensions taken as a whole, than any other country. The theory of hegemonic stability predicts that the more one such power dominates the world political economy, the more cooperative will interstate relations be.

In contrast to Keohane's liberalist view on hegemony, Robert Gilpin (1987) offers a realist theory of hegemony. For Gilpin, the existence of a liberal economic state in a hegemonic position is a necessary condition for the continued development of international market economy. The consolidation, maintenance and successful functioning of liberal international economy demand political leadership. More importantly, the international political economic framework led by the hegemonic state is the key pillar of international order and the world economy. A hegemonic state capable and willing to maintain international order provides public goods that consolidate international political stability. In a unipolar system, the hegemon's offer to maintain order, a public good, dissuades other states in the system to challenge and overthrow the hegemon. Absence of challengers consolidates the hegemon's position and stabilizes the system. Chaos and instability ensue with the hegemon's decline in power. In short, as long as states gain and benefit in the hegemonic system, there is no reason to overturn the status quo.

In the final analysis, Ting Liu and Ming-Te (2011) suggests that the leading state must provide public goods in order to maintain stability in the international arena. Maintenance of a liberal international economic order requires the long-term support and leadership of a hegemonic power and the power must possess economic, political and military capabilities to control the arrangement of international political and economic norms (Ting Liu and Ming-Te, 2011).

A number of International Relations scholars have examined the decline of hegemons and their orders. For some, such decline tends to be disruptive because the stability that the hegemon provided gives way to a power vacuum. Others

have maintained that cooperation may persist in the face of hegemonic decline because of institutions or enhanced contributions from non-hegemonic powers.

There has been a long debate in the field about whether American hegemony is in decline. As early as in the 1970s, Robert Gilpin suggested that the global order maintained by the United States would eventually decline as benefits from the public goods provided by Washington would diffuse to other states. In the 1980s, some scholars singled out Japan and its economic growth and technological sophistication as a threat to U.S. primacy. More recently, analysts have focused on the economic and military rise of China and its challenge to U.S. hegemony.¹

Scholars differ as to whether bipolarity or unipolarity is likely to produce the most stable and peaceful outcomes. Kenneth Waltz and John Mearsheimer are among those who argue that bipolarity tends to generate relatively more stability, whereas John Ikenberry and William Wohlforth are among those arguing for the stabilizing impact of unipolarity. Some scholars, such as Karl Deutsch and J. David Singer argued that multipolarity was the most stable structure.

Scholars disagree about the sources and stability of U.S. unipolarity. Realist international relations scholar argue that unipolarity is rooted in the superiority of United States of America. material power since the end of the Cold War. Liberal international relations scholar John Ikenberry attributes U.S. hegemony in part to what he says are commitments and self-restraint that the United States established through the creation of international institutions (such as the United Nations, International Monetary Fund, World Bank, and World Trade Organization). Constructivist scholar Martha Finnemore argues that legitimation and institutionalization are key components

The Role of United States of America and its NATO Allies in the Russo-Ukrainian War

In 1949, the prospect of further Communist expansion prompted the United States and 11 other Western nations to form the North Atlantic Treaty Organization (NATO). The Soviet Union and its affiliated Communist nations in Eastern Europe founded a rival alliance, the Warsaw Pact, in 1955. The alignment of nearly every European nation into one of the two opposing camps formalized the political

division of the European continent that had taken place since [World War II](#) (1939-45). This alignment provided the framework for the military standoff that continued throughout the [Cold War](#) (1945-91). Conflict between the Western nations (including the United States, Great Britain, France and other countries) and the Communist Eastern bloc (led by the Union of Soviet Socialist Republics or USSR) began almost as soon as the guns fell silent at the end of World War II (1939-45). The USSR oversaw the installation of pro-Soviet governments in many of the areas it had taken from the Nazis during the war. In response, the United States and its Western allies sought ways to prevent further expansion of Communist influence on the European continent. In 1947, U.S. leaders introduced the [Marshall Plan](#), a diplomatic initiative that provided aid to friendly nations to help them rebuild their war-damaged infrastructures and economies (Amanda, Sullivan and Mullen, 2010).

Events of the following year prompted American leaders to adopt a more militaristic stance toward the Soviets. In February 1948, a coup sponsored by the [Soviet Union](#) overthrew the democratic government of Czechoslovakia and brought that nation firmly into the Communist camp. Within a few days, U.S. leaders agreed to join discussions aimed at forming a joint security agreement with their European allies. The process gained new urgency in June of that year, when the USSR cut off ground access to Berlin, forcing the U.S., Britain and France to airlift supplies to their sectors of the German city, which had been partitioned between the Western Allies and the Soviets following World War II. The discussions between the Western nations concluded on April 4, 1949, when the foreign ministers of 12 countries in North America and Western Europe gathered in Washington to sign the North Atlantic Treaty. It was primarily a security pact, with Article 5 stating that a military attack against any of the signatories would be considered an attack against them all. When U.S. Secretary of State [Dean Acheson](#) (1893-1971) put his signature on the document, it reflected an important change in American foreign policy. For the first time since the 1700s, the U.S. had formally tied its security to that of nations in Europe—the continent that had served as the flash point for both world wars (Amanda, Sullivan and Mullen, 2010).

In another development, Ukraine is not a member of NATO, though the international security alliance has been a key player in its ongoing conflict with

Russia, which escalated to a full-scale invasion by Russian forces by February 2022. Since the United States helped form NATO, or the North Atlantic Treaty Organization, in 1949 to counter Soviet aggression in Europe, the alliance has grown to 30 member countries, including three former Soviet Republics- the Baltic states of Estonia, Latvia and Lithuania. In 2008, NATO appeared to open the door to membership to two more former Soviet republics when its heads of government declared that Georgia and Ukraine "will become members of NATO." Neither have formally received a pathway to eventual membership, with corruption concerns and a lack of consensus among members seen in part as holding back Ukraine's invitation. Russian President Vladimir Putin has demanded that Ukraine never join the alliance as he seeks to limit NATO's presence in Eastern Europe.

Similarly, in 2004, pro-Russian candidate Viktor Yanukovich was declared Ukraine's president but allegations of vote-rigging trigger protests, known as the Orange Revolution, forcing a re-run of the vote. Pro-Western former prime minister, Viktor Yushchenko was elected president. Yushchenko takes power in 2005 with promises to lead Ukraine out of the Kremlin's orbit, toward NATO and the EU and in 2008, NATO promises Ukraine it will one day join the alliance. In 2013, Yanukovich's government suspends trade and association talks with the EU and opts to revive economic ties with Moscow, triggering months of mass rallies in Kyiv. Ukraine's parliament votes to remove Yanukovich from power in February 2014, after bloodshed in the protests. Within days, armed men seize parliament in the Ukrainian region of Crimea and raise the Russian flag. Moscow later annexes the territory (Haaretz, 2022)

In 2019, former comic actor Volodymyr Zelenskyy was elected president. Zelenskiy appeals to United States president Joe Biden in 2021 to let Ukraine join NATO. In the autumn of 2021, Russia started massing troops near Ukraine's borders in what it says are training exercises. Satellite images showed ongoing build-up of Russian forces near Ukraine. In December, Russia presented security demands, including that NATO pull back troops and weapons from eastern Europe and bar Ukraine from ever joining. In January, NATO put its forces on standby and reinforced eastern Europe with more ships and fighter jets. Washington responded to Russia's demands, repeating a commitment to NATO's "open-door" policy while offering a "pragmatic evaluation" of Moscow's concerns.

Two days later Russia said its demands were not addressed. In February, amid growing Western fears Russia attacked Ukraine, the United States said it would send 3,000 extra troops to NATO members Poland and Romania. Washington and allies say they will not send troops to Ukraine, but warn of severe economic sanctions if Russian President Vladimir Putin takes military action. In February 2022, Putin said Ukraine is an integral part of Russian history and has a puppet regime managed by foreign powers. Putin orders what he called peacekeeping forces into two breakaway regions in eastern Ukraine, after recognizing them as independent. Three days later Putin authorizes "special military operations" in Ukraine. Russian forces begin missile and artillery attacks, striking major Ukrainian cities including Kiev. In response, Western allies announced new sanctions, with NATO sending additional forces to the region and NATO allies vowing to send arms and supplies to Ukraine (Haaretz, 2022).

The Unprecedented American-Europeans Sanctions on Russia and its Impacts on Global Economy

In the distance of just few months, the global economic outlook has darkened while troops battled in Ukraine and unexpectedly potent financial sanctions rocked Russia's economy and threatened to further fuel worldwide inflation. The price of oil, natural gas and other staples spiked. At the same time, the groaning weight on supply chains, still labouring from the pandemic, rose as the United States, Europe and their allies tightened the screws on Russia's financial transactions and froze hundreds of billions of dollars of the central bank's assets that are held abroad. Russia has long been a relatively minor player in the global economy, accounting for just 1.7 percent of the world's total output despite its enormous energy exports. President Vladimir V. Putin has moved to further insulate it in recent years, building up a storehouse of foreign exchange reserves, reducing national debt and even banning cheese and other food imports from Europe (Cohen, 2022).

In the same vain, Russia's invasion on Ukraine has had a ripple effect across the globe, adding to the stock market's woes. The conflict has already caused dizzying spikes in energy prices and is causing Europe to raise its military spending. More so, oil prices already are at the highest since 2014, and they have continued to rise since the invasion. Russia is the third-largest producer of oil, so more price

increases are inevitable. Europe gets nearly 40 percent of its natural gas from Russia, and it is likely to be walloped with higher heating bills. Natural gas reserves are running low, and European leaders worry that Moscow could cut flows in response to the region's support of Ukraine. Russia is the world's largest supplier of wheat; together, it and Ukraine account for nearly a quarter of total global exports. Countries like Egypt, which relies heavily on Russian wheat imports, are already looking for alternative suppliers. The price of palladium, used in automotive exhaust systems and mobile phones, has been soaring amid fears that Russia, the world's largest exporter of the metal, could be cut off from global markets. The price of nickel, another key Russian export, has also been rising. Global banks are bracing for the effects of sanctions intended to restrict Russia's access to foreign capital and limit its ability to process payments in dollars, euros and other currencies crucial for trade. Banks are also on alert for retaliatory cyberattacks by Russia (Cohen, 2022).

Similarly, that uniquely American power to regulate global commerce through the US dollar system has grown stronger as the world's economy has become more intertwined. Globalization has meant that more and more economic activity flows through an extremely small number of chokepoints, controlled by the United States and its close European allies. Over many years, the US has also built out a significant regulatory apparatus, controlled by the executive branch, to police those chokepoints very effectively. So, any sanctions policy the US puts in place can be carried out quickly and with great effect.

The sanctions put in place by the US and Europe fall into two broad categories: financial, meaning they deal with the banking system and capital markets; and economic, meaning they affect the rest of Russia's economy. On the financial front, Russian President Vladimir Putin and 11 other top Russian government officials have been hit personally with sanctions by the US Treasury Department. Their names have been added to the Specially Designated Nationals list, a compendium of entities and individuals that includes terrorists, drug cartel leaders, and government officials from countries like North Korea, Iran, and Venezuela. Being included on the list effectively means that any assets held in the global banking system are frozen and Americans are legally barred from doing business with those individuals. More so, several Russian oligarchs are also facing sanctions, and

the US Justice Department and some European law enforcement agencies are working to confiscate non-financial assets like real estate and yachts from those billionaires (Walsh, 2022).

The financial sanctions go well beyond individuals and any companies they may use to hold assets. The US has also placed sanctions on Russia's central bank and "immobilized" the reserves it held in the US financial system. The European Union put in place similar sanctions, meaning it has been impossible for Russia to use its \$630 billion in reserves to help crutch up the ruble by, for instance, selling US dollars or euros it holds and buying its own currency, or from using those reserves to make purchases to further the war effort.

The US also cut off Russia's largest bank, Sberbank, which holds a third of the country's banking assets, from the US banking system. It froze all assets held in the US financial system by VTB Bank, Russia's second-largest bank, which holds a fifth of the country's assets, and barred Americans from doing business with it. Russian state-owned companies, including Sberbank and Gazprom, the oil and gas giant, are also now blocked from accessing US bond and equity markets.

One action by the European Union with US support has gotten the most attention: removing the banking sector from SWIFT, the main messaging system used in the international banking system. SWIFT (named after the Belgian group that runs it, the Society for Worldwide Interbank Financial Telecommunication) is sometimes mistaken for the banking system itself because of its importance. But it does not touch individual bank accounts — instead, it is the electronic messaging system that is used to send and receive cross-border payment instructions between banks. More than 11,000 different banks use SWIFT, and it was used in about 70 percent of transfers in Russia; while Russia has worked to develop a parallel system in order to reduce the impact of exactly this type of sanction, it is not widely used. But there is one massive hole in the SWIFT sanctions, carved out by necessity: energy. Europe is reliant on Russia for natural gas. In 2021, the EU imported 155 billion cubic meters of gas from Russia, or about 40 percent of its total natural gas used, according to the International Energy Agency. Europe cannot run its power plants and heat its homes without Russian gas, and the pipelines that send gas west have not been shut down; in fact, during the first day of the invasion, the

amount of gas sent from Russia in pipelines across Ukraine to Western Europe actually increased (Walsh, 2022). And, of course, in order to keep the natural gas flowing, someone has to pay for it, and someone else has to receive that payment. As a result, Russia's central bank, Sberbank, and the financial arm of Gazprom are excluded from the SWIFT removal because they are the main Russian institutions that receive gas payments from Europe and there is no way to, for example, ban them from using SWIFT for all purposes except for gas payments. Notably, the Swiss government has also said it will drop its long-held neutral stance and join in the sanctions by freezing Russian assets, including bank accounts. Evading the sanctions that have crippled the traditional Russian banking system would seem like the moment crypto was made to meet—after all, the largest cryptocurrency, bitcoin, was created to allow for anonymous individuals to directly send money with no possibility of government interference.

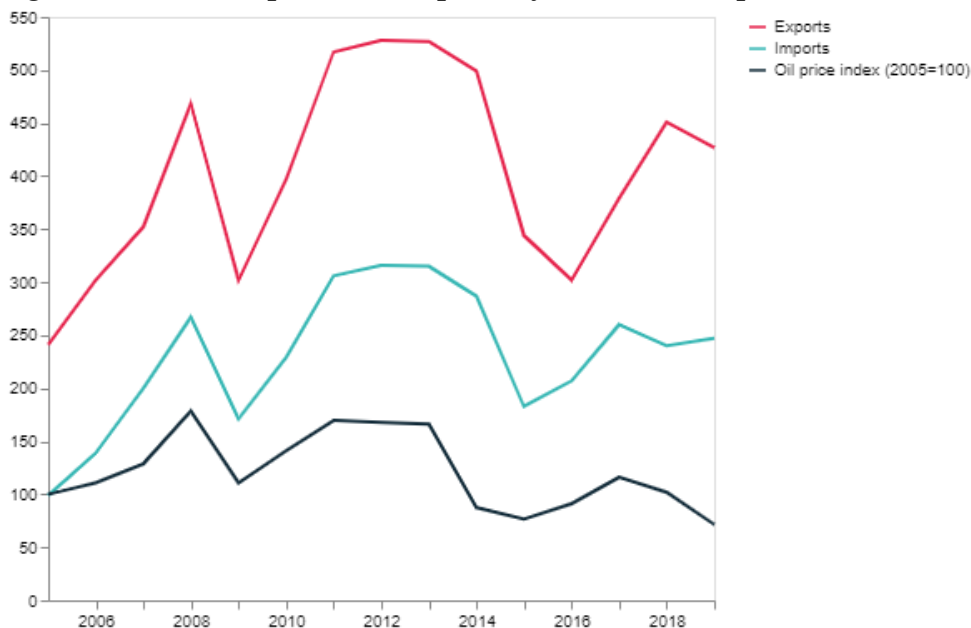
The US has also put in place controls that block companies from sending a wide array of goods to Russia, including aviation, defense, and shipping components, along with higher-tech items like semiconductors and telecom equipment. Those US export controls are intended to hurt Russia's ability to get its hands on the kinds of manufactured goods it needs to wage a lengthy war, but they are also intended to hobble high-value manufacturing and other domestic economic activity that is not strictly related to the war effort, such as commercial aviation, which will not find it very hard to source replacement parts for its planes. There is also an almost total embargo against US companies exporting anything to the Russian military (Walsh, 2022).

Historically, there have been some attempts to estimate the impact of current economic sanctions on Russia by looking at the limited sanctions imposed after the 2014 annexation of Crimea. These included financial restrictions on capital for investment, freezing of financial assets, immigration sanctions on particular individuals, prohibitions on technology transfer and technical assistance, and highly targeted trade sanctions. In turn, Russia retaliated with some restrictions on exports of some food products.

Evidence from world trade data suggests that both import and export values fell after 2014 (see Figure 1). But it is important to note that Russian trade values were

already on a downward trend before that time, reflecting the weakness of the world oil and gas market. Indeed, as illustrated in Figure 1, the oil price index is a very good predictor of the value of Russian trade.

Figure 1: Russian exports and imports by value and oil price index, 2005-2019



Source: United Nations (UN) International Trade Statistics Database. Note: the dark blue line (oil prices) is an indexed value, rather than a nominal value.

It is estimated that the trade restrictions implemented in 2014 resulted in no more than a 1% reduction in Russian GDP (Korhonen, 2019).

The most significant sanctions are thought to be those that restricted Russian companies' access to foreign capital, since investors in the EU and the United States were barred from providing capital to five major Russian banks, as well as companies operating in the oil and gas, and military sectors (Korhonen, 2019). Another study also suggests that targeted companies performed significantly worse than other companies engaged in similar activities in Russia (Ahn and Ludema, 2019).

Cutting off external sources of financial support to Russian companies after 2014 had an impact on the viability of their activities. Investors in the EU, the UK and the United States were forbidden to provide financing beyond 30 days to several Russian state banks, oil companies and several firms operating in the military sector. This had two major effects: First, foreign investment in Russia fell as a consequence of these sanctions – by one estimate by \$700 million per quarter (Korhonen and Koshinen, 2019). Second, the foreign debt of Russian banks held abroad fell from a peak of \$214 billion to \$74 billion in 2019, as these institutions switched to assets held domestically in roubles. The Russian economy has become increasingly dependent on capital generated internally, a process that will be exacerbated by the more wide-ranging sanctions introduced in 2022.

Similarly, the financial sanctions introduced in 2022 are wide-ranging. First, the Russian central bank has been barred from using its 'emergency reserves' held in foreign central banks and commercial banks in the form of foreign exchange and securities. By freezing these assets, Russia's ability to use its foreign exchange reserves to purchase goods and services abroad is severely limited. In the same line, the Russian sovereign wealth fund has been targeted and cannot sell assets abroad to finance purchase material. This has an immediate impact on the much-vaunted Russian 'war chest' of \$600 billion (Cecchetti and Schoenholtz, 2022).

Since these sanctions are internationally co-ordinated and include countries that are normally reluctant to participate in actions of this kind – such as Switzerland – these are potentially powerful constraints on Russian economic activity. They are forcing the economy to rely largely on current receipts from its exports to finance foreign purchases. Russia is running a trade surplus – and has imposed capital controls to limit outflows of foreign exchange through capital flight or purchase of non-essential imports – the immediate effect may be limited. But as countries currently importing from Russia find alternative sources of supply, the constraint on foreign exchange reserves will bite harder.

Russia has responded to the financial effects of these sanctions by demanding that foreign countries pay for their energy supplies in roubles. This could be difficult to enforce, especially since the assets of the Russian central bank abroad are frozen and contracts would have to be legally re-negotiated for changes to occur. Even if

this could happen so that foreign purchasers of Russian oil and gas have to convert their currencies into roubles via the remaining parts of the Russian banking system that are not sanctioned, it is hard to see that this threat is anything other than symbolic.

Russia could try to enforce some sort of multiple exchange rate system by which roubles must be purchased at an artificially high rate, but it is not clear how this would work. Such exchange rate regimes typically collapse or lead to the development of increasingly overt black markets where the local currency is purchased at a cost well below the official rate (Cygan, Richard, and Szyszczak 2022).

Conclusion

Conclusively, the world has responded to the war in Ukraine in an unprecedented way: by using economic sanctions and defensive trade instruments to show political opposition to the Russian invasion. In particular, financial sanctions against Russian banks and other state agencies have had a dramatic impact on Russia's ability to use foreign exchange and credit lines to bolster its war effort. This makes the Russian economy more dependent on current revenue flows from its exports of oil, gas and related products. Cutting usage of such products, especially by EU countries, remains a priority. But as Figure 1 shows, any fall in the price of oil will have an adverse effect on Russia's foreign exchange revenues. Measures to enhance supplies of oil and gas from other producers are therefore a priority, thereby raising total supply while simultaneously allowing countries to divert demand to other producers.

On the legal side, time will tell if the response can have political leverage and force Russia to withdraw from Ukrainian territory. For example, one question, both legal and economic, remains unanswered: how long should the sanctions and revocation of the Most Favoured Nation (MFN) last, and can Russia successfully appeal any of the dramatic legal and administrative measures taken against it?

A cessation of military activity and withdrawal from Ukrainian territory seems an essential prerequisite before these questions can be answered – and this will only be the first step in what could be protracted negotiations over the future security

of Ukraine It therefore appears that Russia and its most important trading partner – the European Union – have in many ways become less integrated as a result of Russia’s aggressive foreign policy and violations of international laws. While sanctions have in all likelihood helped to deter a further deterioration of the situation in eastern Ukraine, it is currently difficult to be optimistic about a speedy resolution to the crisis.

Even though the most recent news from eastern Ukraine is somewhat encouraging, it will most likely take several years for all the stipulations of the Minsk agreement to be met. This also means that the lifting of EU and US sanctions is still some ways off. Moreover, the way the United States has introduced many additional sanctions against Russian entities and individuals since 2018 – sometimes almost as if against the wishes of the US president – would lead many to believe that in the immediate future there will be more economic sanctions, not less. This is also true for Russia’s countersanctions. As they are now part of Russia’s more comprehensive import substitution program, it would be quite optimistic to expect them to be lifted anytime soon. Finally, United States of America is relying on her hegemonic strength with the aid of NATO and the G-7 to unleash sanctions on Russia because of her economic power while Russia continue to invade Ukraine without any physical interference from the US and its NATO allies.

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