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THE CONSEQUENCES OF DISCRIMINATORY MEASURES FOR THE NATIONAL ECONOMY IN THE GLOBAL MARKET

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Abstract. The paper considers trade and finance flow limitation measures of countries that are involved in the global economy. Authors clarify the terminology, particularly, they argue that discriminatory measures against Russia as well as Russian responding measures can't be called sanctions. Only supranational unions, which have particular authority to implement sanctions toward its members, can use this instrument. Embargo and boycott are regarded as extreme forms of competitive struggle between national economies. The efficiency of limitation measures on goods and capital movement is estimated by matching benefits and losses from these measures for the national economy, not by matching the losses of contractors. In the short run boycott is more effective than embargo, because it leads to the growth of industries that are protected by the trade barrier. The embargo, in turn, is less effective, due to the variety of trade links in the global economy. The analysis of Russian protectionist trade measures for agricultural industry shows that there was rapid sectoral growth of domestic production and displace of agricultural import with short-term recoupment. In capital-intensive sectors, there has been a change in sales geography. It is expected that in the long run boycott will lead to loss in effectiveness and competitiveness, and embargo will restrain economic growth by preventing effective industry development.

Keywords: global economy, embargo, boycott, efficiency of protectionist policy

JEL Classification: F51, F52, F62

1. Introduction

Globalization is an undulating process and it's common that the periods of liberalization of economic processes sometimes turns to strengthening of protectionist policy. Current conflict between Russia and the majority of developed countries has a political implication, but realizes in economic domain. The point at issue of this article is ongoing and forecasting consequences of restrictions of commodity and finance flows for the development of different sectors of Russian economy and its growth rate. Peculiarity of the applied method is the estimation of gains and losses of Russian economy from the discriminatory measures. Due to a short period of observations it's impossible to use econometric modelling, therefore the authors implement the method of comparative analyses that include a graphic visualization and generalization.

2. Globalization and protectionism. Nontariff barriers, sanctions, embargo, boycott

The material basis of globalization is the formation of a market embracing all countries and functioning according to common rules established by similar institutions. On the one hand, this market assumes homogeneity of consumer preferences, consumer behavior stereotypes and the formation of global brands (Cleveland et al., 2015); on the other hand, unified market competitive mechanisms ensure the freedom of expansion of large corporations (Podrug et al., 2016), (Harumova, 2015). The process of shaping the global economy in the modern understanding of this term was accelerated due to the collapse of the Soviet bloc and information technologies that radically reduce the transformation costs (Kuritsky, 2003).

At the same time, the gains from globalization are distributed unevenly: usually, the advantages are belonged to the countries that determine the rules of the game, whose brands set the stereotypes of consumer behavior around the world. The maintenance of the rules requires regulation of the economic (and not only economic) behavior of participants by transnational organizations such as the WTO, the IMF, etc. Violation of existing norms in ideological, political, and any other spheres increases uncertainty and creates a threat to the stability of the current world order.

Liberalism becomes the economic ideology of globalization, which meets the interests of countries with the highest level of economic development. The relative economic advantages of the leading countries are concentrated on the most significant (from the point of view of long-term growth) industries that produce the highest added value and ensure the preservation of the productivity gap (Williamson, 2011). The countries of catching-up development, on the contrary, specialize in industries with low added value. The liberalization of markets fixes the existing specialization, not giving them the opportunity to develop and make competitive knowledge-intensive industries with high added value (Reinert, 2007).

Developed economies use non-tariff protective barriers, the application of which is difficult for developing countries, in order to restrict the competition from countries of catching-up development. As such, there may be special requirements for the quality of products, quality certificates, voluntary supply restrictions, environmental requirements, etc. Control over norms, rules, standards becomes an important competitive advantage in all markets.

Competition for the application of capital leads to the movement of industry in countries that have cheaper production conditions. The difference in costs and returns creates huge incentives for the movement of production that non-tariff forms of competition restriction do not cope with the task of maintaining the existing division of labor. As a result, economies that loose leadership positions are giving up free trade in favor of protectionism. In particular, the economic program of D. Trump is built on the rejection of the freedom of trade in favor of various forms of protectionism, which, as a result of the long evolution of the mainstream of economic science, seemed finally rejected by economic theory (Veeman, 2017).

Violation of the standards of behavior set by globalization creates a threat to the emerging world order and developed countries, as the main beneficiaries of the globalization processes, take various kinds of economic pressure to restore the current world order. As instruments, it can be anti-dumping procedures within the WTO framework, litigations in the context of

claims for infringement of intellectual property rights, antimonopoly legislation, etc. The extreme form of economic pressure can be various kinds of non-economic actions in the economic sphere, which become a specific form of non-market competition.

In the twentieth century, international economic sanctions became an element of international law: supranational organizations arose that had the right to impose sanctions on behalf of the international community (for example, the UN). In total in the 20th century, sanctions were applied 174 times (Hufbauer, 2007), which indicates that they become the main element of political, economic and social pressure on the country-violator of international norms or that pursue a contradictory policy to the interests of the "great powers". For Russia, this topic has become particularly relevant after the introduction of discriminatory economic measures against it in 2014 year.

The term "international economic sanctions" is borrowed from the field of law and does not have a universally recognized definition. One of the controversial issues is the question of the subject of international sanctions - who introduces them: the state or an international organization? There are at least two points of view: some researchers understand by sanctions any aggressive measures of non-military influence on the country that can be implemented by both individual states and international organizations (e.g. Hafbauer, 2007), (Han, 2012), (Hart, 2000), (Oja, 2015); Others understand sanctions as restrictive actions applied by a supranational organization in relation to its members, but actions of one state in relation to another designate as countermeasures (Calamita, 2009), (Kozheurov, 2015), (Lieflaender, 2012), (Vitzthum, 2013). In particular, the International Law Commission of UN adheres to the second point of view: according to the annual report of the Commission for 1991, international sanctions are limited to coercive measures taken by international organizations representing the international community and having the authority to apply these measures - first of all, such an organization is the UN itself.

Unilateral coercive measures, therefore, do not have legitimacy and are unreasonably called sanctions - the principle of sovereign equality of states excludes the possibility of a lawful application by one state of sanctions against another state or group of states unilaterally and, therefore, such individual actions apply the term "countermeasures".

Thus, countermeasures characterize the situation when the subject of international law reacts to the previous violation of his rights and independently takes measures to protect and realize them (Vitzthum, 2013), while the main goal of sanctions is the maintenance of law and order at the global level. It follows that UN sanctions may include economic discrimination with a view to achieving the rule of law, they are introduced and implemented solely on the basis of the consensus of the members of the UN Security Council in response to an international offense committed by a specific state. Countermeasures are, on the contrary, a notion based on the private economic interest of the state, introducing them and one of the key objectives is to cause the greatest damage to the economy in respect of which they are introduced and to obtain the greatest benefit, direct or indirect, for the economy of the country that introduces them (for example, the US ban on any economic relations with Cuba).

Despite the fact that these phenomena have a fundamentally different nature (sanctions - a legal concept, countermeasures - a concept based on economic interest), they are expressed in the same form, as a rule these are trade restrictions (embargo - refusal to sell certain goods, boycott - refusal to buy certain goods, economic blockade - the termination of any trade

relations), financial restrictions (for example, a ban on borrowing abroad) and freezing of assets.

Since sanctions and countermeasures as a specific type of external influence on the country have recently become used as an alternative to military action more and more often, certain approaches have been developed to analyze the effectiveness of these instruments. Let us single out three main approaches: the econometric analysis of panel data (e.g. Hafbauer, 2007; Shin, 2016), game-theoretic modeling (e.g. Han, 2012), and the case study methodology (Hafbauer, 2007), (Giumelli, 2015). These approaches usually highlight the economic and political consequences of external discriminatory measures. Considering the particular cases of using countermeasures and sanctions, it is possible to use more specific methods of analysis - for example, when analyzing the impact of countermeasures introduced in 2014 on Russia, Russian authors use the modeling of the dynamics of individual components of capital inflows (Gurvich, 2016), the method of allocation and evaluation of risks (Mirkin, 2015) and some others (e.g. Fedorova, 2016). As a rule, in these types of analysis only macroeconomic consequences are investigated.

3. The impact of "sanctions and counter-sanctions" on the structure of economic growth

After the Ukrainian events in regard to the Russian Federation an embargo was introduced that extended to three areas related either to sectors that create competitive threats in foreign markets (arms production, dual-use products and technologies, Arctic and shelf sea hydrocarbon production, production technologies of tight oil), or to the financial sphere. Restrictions on the access of the largest Russian banks and financial corporations to the world financial market deprived them of the source of cheap loans and, as a result, slowed down the investment process.

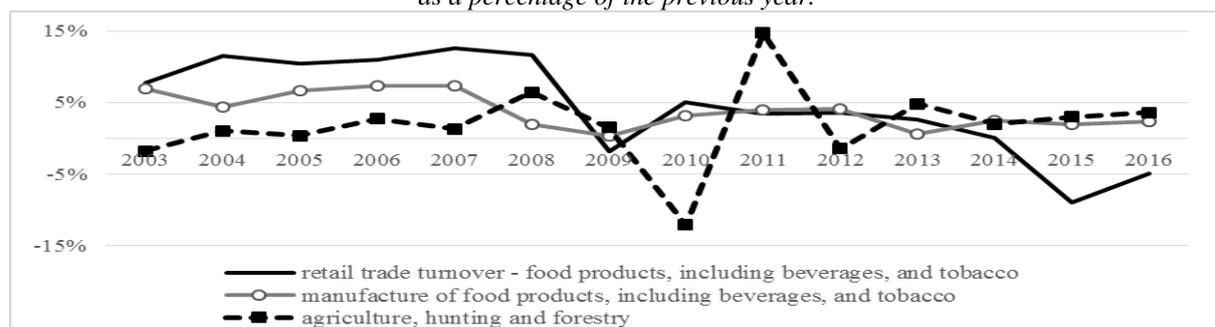
The sectors selected for the restrictive measures meet two characteristics: the embargo against them has a minimal negative impact on the economies of the initiating countries, and in the long run it restrains the most competitive sectors of the Russian economy (MIC and power industry) and also reduces the potential for economic development. Accordingly, the measures taken are becoming a specific form of non-tariff restrictions on economic growth.

Russia took an asymmetric retaliation - boycotting food supplies from countries that supported the embargo, closing the domestic food market for them. Import opportunities from other countries have been preserved, but these products on the Russian market were less competitive and therefore poorly represented. The purpose of these measures was not so much the loss of counterparties, but rather the creation of advantages for domestic producers. In particular, this is shown by the choice of commodity groups for a boycott. Obviously, it was possible to choose more painful restraints for the EU economies, but the damage to the counterpart would not create benefits for the Russian economy. The reduction in food imports has led to a break in the usual ties and opened the way to the supermarket counters for Russian small and medium-sized enterprises, despite the problems of unsustainable quality, stability of supplies, etc. Hence, when assessing the effectiveness of the boycott, it is necessary to take into account not the losses of countries whose products were not allowed to enter the market, but the growth of industries covered by a protectionist barrier.

The difficulty in assessing the consequences of discriminatory measures for the Russian economy lies in the fact that the moment of introducing of mutual restrictions coincided with the fall in world prices for hydrocarbon raw materials, the deep devaluation of the ruble and the restructuring of the balance of payments. The restriction of food imports initially led to an acceleration in the growth of prices for it, however, the subsequent devaluation of the ruble made a comparison of domestic prices with pre-crisis less obvious. The statement has become popular that the boycott of the food products in developed countries made the least well-off strata of the population pay the agricultural growth, since they have the largest share of food in expenditures. This statement is partly true. The rate of agro-inflation in Russia exceeded the overall increase in consumer prices throughout almost the entire 2000s, and after the introduction of the Russian boycott, this advance became significant. If in 2012-2013 the excess of the growth rates of food prices on CPI for all goods and services was 1-2%, then in August 2014 - 2.8%, and by February it reached 6.8%¹⁵. However, the expansion of domestic output of agricultural products has led to a consistent reduction in the rate of food inflation already in 2016, from which the rate of growth in food prices is steadily below the CPI. At the same time, the increase in domestic output made prices more resilient to fluctuations in the exchange rate.

Protection of the domestic market ensured the growth of a number of industries despite the decline in the economy in whole. The peculiarity of the past crisis was that with a general economic decline, a number of industries maintained their growth or even accelerated it. The mining industry (2.6%), which faced a decline in world prices, retained production volumes due to the incentives generated by the devaluation; for the chemical industry (11.9%), the situation was extremely favorable, the growth of the rate contributed to both an increase in exports and an increase in production to the domestic market. Agriculture (7.1%) and food production (4.4%) grew steadily due to the protection of the domestic market.

Figure 1: Growth index of turnover of retail trade in food, manufacture of food products and agricultural goods, as a percentage of the previous year.



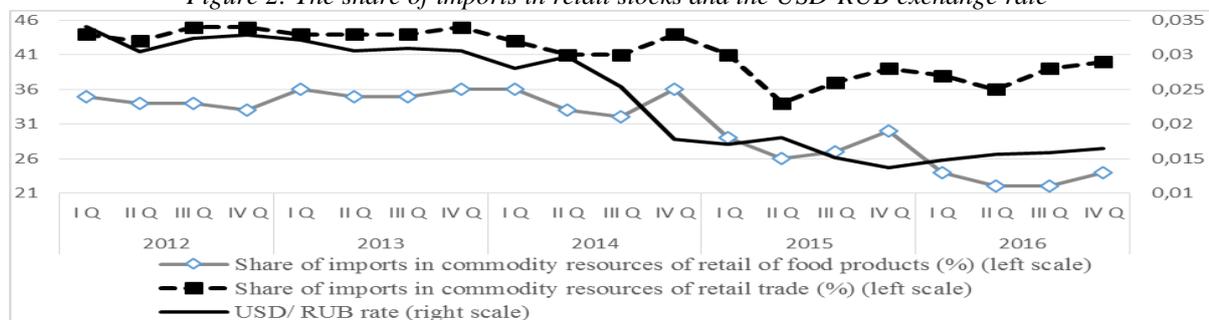
Source: (FSSS, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/importexchange/#)

As can be seen from the graph (Figure 1), the dynamics of retail trade turnover, production of agricultural products and food products in 2014-2016 is seriously different from previous periods. The decline in trade turnover is accompanied by a stable growth in production and processing of agricultural products. During this period, poultry farming and pig farming are actively growing, investments in which were made before the crisis, and the opportunities for expansion were previously limited to the competition that became aggravated after the WTO accession. At present, the main problem for these sub-sectors is the demand deficit.

¹⁵ FSSS http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/tariffs/#

The fact that the changes in the domestic issue of the considered sectors are due not to exchange rate fluctuations, but to the administrative barriers introduced, confirms the dynamics of the share of imports in commodity retail stocks (Figure 2).

Figure 2: The share of imports in retail stocks and the USD-RUB exchange rate



Source: (FSSS, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/importexchange/#)

Assessing the inhibitory effect of the embargo imposed on the Russian economy, it must be considered in the general context of the Russian crisis caused by a deep fall in oil prices. While mutual restrictions are rather short in time, macro-statistics illustrates only the most serious consequences. Certainly, restrictions on the access of Russian banks and corporations of the real sector to capital markets contributed to the outflow of capital (Table 1) and, accordingly, to the sharp and deep devaluation of the ruble. The export of capital went in two main directions: a reduction in the external debt of the Russian business and the purchase of currency by the population. The external debt of the Russian economy as of July 1, 2014 reached its maximum and amounted to 732.8 billion USD, as of January 1, 2017, it decreased to 513.5 billion USD, while capital export amounted to 152.1 billion USD in 2014, in 2015 - 52.8, in 2016 - 19.1 billion USD.

The most sensitive losses in the two years of the crisis from 2015 to 2016 concerned industries involved in the investment cycle (metallurgical production -8.7%, machinery and equipment production -7.7%, production of electricity, electronic and optical equipment - 8.8%, production of vehicles and equipment -11.2%). Among the economic sectors, the deepest decline was in trade -11.7%, construction -6.1% and the financial sector -5.2%. All of them depend on changes in interest rates and availability of credit resources. Changes in financing conditions for the Russian economy are presented in Table 1.

Table 1: Change in conditions for investment financing in the Russian Federation (2012-2016)

	2012	2013	2014	2015	2016
Increase (+) / decrease (-) of Russia's external debt (billion USD)	97,54	92,44	-128,96	-80,8	-5,62
Spread between interest rates on loans and deposits	...	2,93%	4,40%	6,06%	5,33%
The ratio of loans to the non-financial sector to GDP	2,44	2,61	2,57	2,19	2,20
Investments in fixed assets as % of GDP	18,8%	18,9%	17,6%	16,7%	17,0%
FDI (billions of USD)	50,59	69,22	22,03	6,85	32,98

Source: (Federal State Statistics Service, <http://www.gks.ru/>; The Central Bank of the Russian Federation <http://cbr.ru/statistics/?PrId=svs>)

The outflow of capital due to the decrease in the external debt of Russian corporations and the impossibility of refinancing debts, the reduction of foreign direct investment, the general decrease in lending to the non-financial sector – all of that lead to a reduction in investment. During the same period, the share of processing industry in the volume of issued loans has increased from 13.8% on average for 2011-2013 up to 21.8% on average for 2014-2016.

Industries that lose credit resources are trade and construction. Such a redistribution of resources indicates a change in the demand for loans in connection with the crisis that has begun, the incidence of income of the population and changes in its consumer behaviour. It is not possible to separate the effect of the embargo from the effect of devaluation and the crisis. Obviously, the sanctions helped deepen the negative processes that started around the same time and have a different nature.

The second line of sectoral sanctions imposed on Russia is an embargo on the supply of oil-producing equipment, the transfer of technology in some form, participation in joint projects for the development of deep-water areas, Arctic fields and hydraulic fracturing technologies. In the long term, this can be a rather painful measure for the Russian economy, which in any case will remain highly sensitive to the development of the oil and gas industry.

The most obvious negative impact on the growth of the Russian economy in the short term was to put restrictions on the import of equipment, components, element base, etc. that have a dual purpose. These measures affected the products of the defense-industrial complex and its competitiveness in world markets, and influenced civil engineering. At the same time, these restrictions have not yet caused a noticeable macroeconomic effect. Analysis of customs statistics on imports of investment goods showed that the share of imports of these goods from the group of countries that supported the embargo does not have a clear tendency to decline; also there is no movement of demand in favor of countries that did not support the embargo.

The degree of impact of the sanctions regime is determined not so much by formal measures, as by uncertainty and increasing risks for investments and joint projects.

4. Conclusion

The initiators of discriminatory measures aim not so much at the competitor damage as their own benefits, and the measures themselves are a certain form of protectionism. The global economy makes it possible to avoid them due to the diversity of international economic ties. The Russian boycott allowed to stimulate the growth of a number of industries covered by a protectionist barrier and to prepare conditions for trades to abolish the boycott in exchange for the removal of restrictions that are sensitive to the Russian economy.

The boycott is more effective than the embargo in the short term, because it creates conditions for the growth of certain protected sectors, and embargoing for a large open economy is difficult. In the long run, the boycott limits the competitiveness of the protected sectors. Introduced sectoral sanctions proved to be of little significance in the short run, with less damage from them than from falling oil prices, but they become a problem for the long-term growth of the Russian economy and, above all, for the investment recovery.

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