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On the brink of Subsequent Sanctions Against Russia Implications for Azerbaijan

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Introduction

In response to Russia's continuing war against Ukraine and the scope of the current escalation against humanity and civilian infrastructure in Ukraine, the European Council adopts the ninth package of new sanctions targeted to step up the existing pressure on Russia and its government. Since March 2014, the EU has progressively imposed prohibitive measures on Russia in this vein including individual sanctions, economic sanctions including energy, transport, and diplomatic sanctions of which multidimensional backgrounds are attributed to the illegal annexation of Crimea, Russia's military attack on Ukraine and illegal annexation of Donetsk, Luhansk, Zaporizhzhia and Kherson regions in the current year.

After food and hunger, the winter is being weaponized by deliberately depriving millions of civilians of energy access. The European Union is responding with hard-hitting sanctions, which include a series of restrictive measures. The sanctions are, as the formers, contemplated to include export controls with restrictions, banking, broadcasting, energy, consulting services and individual listings.

Export controls impose restrictions on dual-use goods and technology including the goods and technology with the potential to advance the technological enhancement of Russia's defense and security. Moreover, the EU will expand the export ban on aviation and space industry-related goods and technology to include aircraft engines and drones.

The banking sector intends an asset freeze against two additional Russian banks and adds the Russian Regional Development Bank to the list that is subject to a full transaction ban.

Broadcasting: the Council initiated the process for suspending the broadcasting licenses of four additional media machines that are under the control of Russia's government to disseminate the concerted information.

Energy sector sanctions prohibit investments in Russia's energy and Mining sectors.

Individual entities are envisaged as well in the subsequent sanctions package in addition to economic sanctions.

Timeline

| | |
|------------|--|
| 16/12/2022 | Ninth package of sanctions in response to Russia's invasion of Ukraine |
| 03/12/2022 | Russian oil: EU agrees on price cap at \$60 per barrel |
| 28/11/2022 | EU adds violation of sanctions to list of EU crimes |
| 20/10/2022 | EU sanctions three individuals and one entity in relation to the use of Iranian drones in Russian aggression |
| 06/10/2022 | Eighth package of sanctions in response to Russia's invasion of Ukraine |

The sanctions against Russia are proving to be effective weakening Russia's stance in economic, military and political terms, as well as hindering its transport potential. On the other hand, geopolitical, economic, and financial implications of Russia's aggression are clear, as the war has disrupted global commodities markets that appear to be economically disruptive for the world, particularly as spillover effects for the neighborhood, which is closely interlinked through economic and trade channels.

Owing to economic interdependencies with interlinked trade channels and supply-demand systems in the pre-war era as Russia has been a key global supplier of several economically important products, the economic breakup fueled by the EU sanctions stemmed from military outbreak yields two-sided benefits and losses for parties. While sanctions envisage minimizing EU dependence on Russia in some regards, at least in the short-term energy and food-related challenges for the EU and other developing countries are unavoidable.

Notwithstanding the coordinated fashion of commitment in a way towards the restrictive measures against Russia, EU members' unified agreement on the ninth package of sanctions in time is still due to reach the legislative basis. Disagreements do remain therefore it stipulates an accelerated level of action to complete the task ahead of time as the council is on a busy agenda. Moreover, objections from the side of Poland and other member states come, and the EU restrictions generate a threat, to a certain degree, to food security in other developing countries delaying the unanimous conclusion.

Exacerbated by the multi-sided detrimental impact of sanctions imposed on Russia, which are being negatively translated to various sectors, the country's financial sector faces losses of foreign currency capital. The Russian military is having difficulties procuring key components to improve its capacity to gain advances in the Ukraine war. Furthermore, the factories suspended production due to the absence of import materials and international companies exited the domestic market leading to increasing unemployment. The country's main revenue source-oil- is being sold below the market prices.

The adoption of the ninth package with economic implications has political perspectives to impair Russia's military strength and its influence in the region. The global break in the supply-demand system as Russia played a significant role in providing key commodities and agricultural, chemical product was a shock doubled by the Covid-19 pandemic that showed its effects across the global system. The sanctions caused disruptions in global supply chains, higher global commodity prices, and a slowdown in global economic growth increasing the inflation rate.

It should be noted, outside this frame, in the aftermath of ongoing geopolitical developments in the Caucasus region coupled with sanctions that deprive Russia of its transport and logistics benefits, and higher energy revenues, Azerbaijan's role in this vein gains increasing importance that can open new opportunities as an emerging middle corridor.

Implications for Azerbaijan: Repercussions or Prospects?

The ongoing war between Ukraine and Russia resulted in the implementation of subsequently tough sanctions on Russia in different economically vital sectors such as international trade, finance and commodities. The repercussions of the sanctions appear to be of crucial consideration for countries with close economic relationships, in particular in the neighborhood to which negative impact is highly likely to be transferred through channels as spillover effects of investment, trade channels.

In comparison with other countries in trade pies, Russia accounted for 9% of the trade turnover, and with 12.1% of growth it reached almost \$3 billion in 2021 with Azerbaijan. While Azerbaijan mostly exports agricultural products to Russia, it imports food products and beverages from Russia. Russia also remains to be the largest source of remittances transferred to Azerbaijan that signify exclusion of Russian from International Money Transfer system will certainly deteriorate financial transactions between third largest trade partner and Azerbaijan coupled with sharp depreciation of ruble causing losses for exporters from Azerbaijan. Moreover, unavoidable detrimental consequences with global impact have been generated by trade disruptions, surge in inflationary pressure in post-covid period of inflation combat, import and export volatilities and etc. that did certainly not bypass Azerbaijan in the interlinkage of global economic chain.

Notwithstanding with sanctions, the Russian economy fared better than expected, and disruptive impact for Azerbaijan mirrored itself in the form of above-mentioned factors predominantly due to economic interdependencies. The sharpening oil market supply system with pressurized embargo on Russian-exported commodities including oil by a subsequent package of sanctions provided favorable market conditions for Azerbaijan to generate increasing revenue inflows to budget. Following the recent introduction of price cap for Russian oil, Azerbaijan is highly likely going to leave behind the period of short-term high resource windfalls induced by war-stemmed global market structure. The high dependence of the economy on energy revenues stipulates the need for the government to have more holistic view in the upcoming period and budget planning.

On the other hand, the depreciated Russian national currency and economic challenges led the Azerbaijani investors to withdraw the respective investments and stocks of which partially returned either back to investor country or were directed to other countries. Furthermore, decreasing value of ruble substantiated the increasing nominal value of remittances transferred to Azerbaijan doubled with investment withdraws indicating currency losses for Russia. According to the table 1, the amount of money transfers to the individuals in Azerbaijan from Russia experienced more than 5 times upsurge in the respective period compared to 2021. Another contributive factor is attributed to the entities operating under shadow economy that disappear due to recent escalations and trends.

Table 1 Money transfers in favor of individuals to the Republic of Azerbaijan

| Country name | 2021, 9 Months | | 2022, 9 Months | |
|--------------------|---------------------------|-------------|---------------------------|-------------|
| | thousand of US dollars | share, % | thousand of US dollars | share, % |
| TOTAL | 772,470 | 100 | 2,779,259 | 100 |
| Russian Federation | 409,353 | 53.0 | 2,267,336 | 81.6 |

Source: CBAR, 2022

As enlighten by the figure, Russia in both terms accounted to be the largest remittance source of Azerbaijan. However, the prompt increase in the remittances implies warnings about the possible reduction in remittances in the future in this direction.

Trade

In trade relations, as post-soviet union countries in pre and post-independence era of economic relations, both countries have been important trade allies for Azerbaijan particularly in non-oil sector. In comparative terms, in the year 2021, total trade turnover between Russia and Azerbaijan, and Russia and Ukraine accounted for 2.295 bln USD and 922 473.48 million USD respectively. While Azerbaijan mostly exports agricultural products to Russia (4.1% of the total exports), it imports food products and beverages from Russia (17.7% of the total imports). Within the structure of goods and services imported to Azerbaijan from Ukraine, tobacco, beef, cigarettes, poultry products, medicines, food products, agri-food products and so on. top imported products. On the export side from Azerbaijan to Ukraine, food products, oil products prevail. However, in November 2022, Azerbaijan-Russia trade turnover rose by around 23%, and over the past 9 months the trade turnover between Azerbaijan and Ukraine amounted to \$522 million indicating reductions that could be attributed to destruction of economic system, production in Ukraine. It should be noted that Russia is also main exporter of wheat to South Caucasus countries. In this case, export ban on wheat to protect the domestic market in Russia could lead to serious shortages as these countries have high consumption rate of this product. Limited access to fertilizers could also ward off agricultural production level.

Table 2: Figures on export and import in the period of 2022 January/October between Russia Ukraine and Azerbaijan. Thousand USD

| Countries | Import | Export | Saldo | Compared to the same period in 2021 in percentage | |
|------------------------------|-------------------|-------------------|-------------------|---|--------------|
| | | | | Import | Export |
| By all countries | 11587582.6 | 34711427.2 | 23123844.6 | 124.1 | 206.0 |
| By Russia and Ukraine | | | | | |
| By Russia and Ukraine | 3461445.4 | 1299433.4 | -2162012.0 | 152.3 | 89.8 |
| Russia | 2148693.2 | 719091.6 | -1429601.6 | 130.4 | 103.2 |
| Ukraine | 204541.4 | 345170.3 | 140628.8 | 56.4 | 81.9 |

Source: State Statistical Committee of Azerbaijan, 2022

As table 2 plots, overall, in the year 2022, both exports and imports of Azerbaijan with all countries sustained upsurge. Particularly, imports from Russia showed 30% increase with the same period of the previous year, while exports rose just at a slight proportion. This upsurge in imports is related to inflation, increasing price of goods and services imported from Russia. High exports from Azerbaijan are being eroded influenced by the depreciation of ruble that negatively affect the Purchasing Power inside Russia. However, trade relations in exports and imports with Ukraine have been heavily deteriorated causing a mass decrease in the amount of exports, and imports by around half.

The outbreak of the war in eastern Europe gave impetus to rethink the geopolitical and geoeconomics arrangements in the region. Taking advantage of the emerging energy gaps, Azerbaijani gas could be transported to Europe in an increasing amount giving rise to the influence of Turkey and Azerbaijan. Azerbaijan could be both a supplier of the gas and an intermediary from Central Asia to the West. In addition, transport and logistics opportunities have prospects to gain momentum.

To conclude, the ongoing economic situation brings about two-sided mixed fortunes for Azerbaijan. Will the sanctions impair the economic relations with the important non-oil trade

partners or provide a signaling background for Azerbaijan to diversify its export markets under new geopolitical trends with economic implications.

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