

THE EFFECTS OF ECONOMIC SANCTIONS ON INTERNATIONAL TRADE IN THE CONTEMPORARY STAGE

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Abstract: With the expansion of Globalization, international trade gains new importance on the global stage, offering a wider range of goods and services and becoming one of the decisive factors for a state's development. Thus, the role of regulating the flow of commercial exchanges becomes evident, especially with the increasing use of economic sanctions, which are employed as a tool to control political relations between major powers. While some agree that economic sanctions have proven to be one of the most diplomatic measures to resolve misunderstandings on the global stage, without resorting to armed force, others think that sanctions are only a tool to control less powerful states. Our paper aims to understand the effects of economic sanctions on a state in the contemporary period by analyzing trade relations between countries and the changes that occurred after the imposition of economic sanctions on a state. The research objectives are to provide a statistical analysis of the trade flows of a state before sanctions, identify the context in which a state was sanctioned, and determine the changes in trade policy promoted by a state after the imposition of economic sanctions. As a case study, we have chosen the Republic of Moldova and the analysis of its trade policy before and after sanctions.

Keywords: sanctions, trade policy, diplomatic instruments

JEL Classification: F13, F51, O24, P45

Introduction

After the Second World War, the establishment of *collaborative* diplomatic relations between the states of the world became more evident. Thus, many international organizations were created with the purpose to promote peace and security through a democratic interaction between states. It was during

that period that the foundations of the main standardization instruments, such as sanctions, were laid, whose role was to stabilize international regulations in multiple economic sectors of the states.

In our work, the definition and main classifications of sanctions are considered for a deeper understanding of their influence on the development of a state. The conceptualization is followed by the focus of our research being put on performing an analysis of the application of economic sanctions on the Republic of Moldova and their impact on the reorientation of the country's commercial policy as a consequence of the sanctioning process applied. Thus, by using statistical data, the evolution of import and export flows before, during and after the sanctioning period of the Republic of Moldova is represented.

Throughout the entire paper we tried to address the importance of economic sanctions in international relations, drawing attention to the idea that they are some of the most frequently used diplomatic tools for conflict resolution to avoid the use of armed force.

Methodology

1. *Analysis*: the theoretical analysis of sanctions is conducted to provide an authors' definition of them and understand their impact on a state's commercial fluxes.
2. *Case study*: the commercial situation of the Republic of Moldova, created due to the embargo of the Russian Federation is investigated to represent the impact of sanctions in changing the trade policy of a state.
3. *Comparison* of the statistical data which reflect the situation before and after the sanctions imposed on the Republic of Moldova were applied to highlight the major impact that sanctions have on a state.

Research results and discussion

The analysis of the specialized literature highlights the following definitions for the term "sanction". According to the opinion of Tău and Antoci (2021), sanctions are prohibitive economic measures imposed by international communities on the commercialization of goods, services or resources.

According to Geiran and Durnescu (2020), sanctions are those restrictive measures that restrain those suspected or criminals, limiting their freedom by certain conditions and obligations.

Jura and Buruian (2015) are of the opinion that international sanctions can be defined as restrictions and obligations between state governments, adopted by the UN Security Council, the EU, other international organizations or by state decisions, in order to maintain peace and international security. Thus terrorism is prevented, fundamental rights and freedoms are respected in the most democratic way.

According to Antoci (2018), the adoption of international sanctions regimes is an important tool for maintaining global peace and security. Sanctions are applied with the aim of determining the change of some activities or policies that do not conform to the standards of conduct and ethics shared by the international community.

In our opinion, *economic sanctions* are some of the most diplomatic measures to combat misunderstandings that have arisen in the global arena, without resorting to armed force. However, the sanctions could also be considered in another perspective: the sanctions often satisfy the political interests of the great powers, with a direct impact on the commercial, financial, touristic and cultural sectors of the less developed states.

According to the ASF (2024), at the international level, sanctions are divided into the following types:
o *Trade sanctions*. These can be perceived as sanctions that limit the import and export flows of the sanctioned state. In the first case, sanctions are imposed on products of major importance for the development of that state, being deficient. In the second case, the goods or services that represent the

main sources of commercial income of the state are sanctioned. One of the worst cases is represented by the limitation of both imports and exports, stopping all commercial relations between the state on which the sanctions are imposed and the one applying the sanctions.

- *Financial sanctions.* They become effective due to the high level of development of the financial market and the role it has for global economic development. Moreover, thanks to the digitization process, financial sanctions can be easily monitored and controlled, having a negative impact on FDI, depriving the sanctioned state of the right to credit.
- *Travel restrictions.* This type of sanctions can be perceived as the imposition of travel restrictions on certain influential persons of a state or on all persons holding the citizenship of the sanctioned state.
- *Sports, cultural, diplomatic sanctions.* They have a political impact, negatively affecting the visibility of the state and raising a negative opinion on the targeted state.

We have found that some of the most impactful sanctions are intended to constrain a state's trade. As Antoci (2018) points out, the most well-known forms of sanctions based on restrictions are:

✓ *Boycott* – the refusal of certain states or entities to participate in bilateral transactions on the commercial market. Often the trade flows of specific products that are in short supply for that state are boycotted.

✓ *Blockade* – total or partial isolation of a state, depriving it of the possibility to practice commercial relations with other neutral parties.

✓ *Embargo* – prohibition of imports and exports, retention, sequestration by a state of the goods of another state, in the ports or in the territorial waters of the country applying the restrictive measures. Among the economic sanctions, sanctions with the greatest impact are considered to be commercial and financial, due to the importance of the given areas to the countries' economies and the faster monitoring of the given areas.

The last Round of GATT negotiations in Uruguay became the longest trade negotiation in history. During that period, two major events took place that left a major imprint on the development of the world. The first of them was the fall of the Iron Curtain associated with the collapse of the USSR in 1991, and the second was the rapid rise of global economic systems, with new results being achieved within the GATT negotiations and the creation of the World Trade Organization in 1995.

According to Igler (2023), the completion of the Uruguay Round and the foundation of the WTO represent a victory for the multilateral trading system. Thus, maintaining peace, regulating trade differences, reducing the cost of living by liberalizing exchanges, offering a varied range of products for consumption, increasing trade revenues, have become crucial objectives, being controlled by the application of trade sanctions, standardized according to WTO principles.

As the analysis shows, the biggest players of the GATT-WTO that use its standards and principles as a pretext for applying the new sanctions are: the USA, the EU and Japan. Having based on the analysis of the data provided by C4ADS *Sanctions Explorer* (2024), we can see that one of the biggest authorities that applies the sanctions is OFAC (see figure 1). It represents the central apparatus for monitoring and sanctioning under the US government leadership. The applied sanctions in the world economy constituted a value of 75% for the period 1994-2024. The other two players that actively used the sanctioning mechanism were the EU and the UK with 7 % each, followed by Japan with 6% of the total amount of sanctions imposed until 2024. It is interesting to observe that the UN holds only

1% of the number of sanctions imposed. This proves that the most developed states have chosen sanctions to be used in their bilateral policy with other countries.

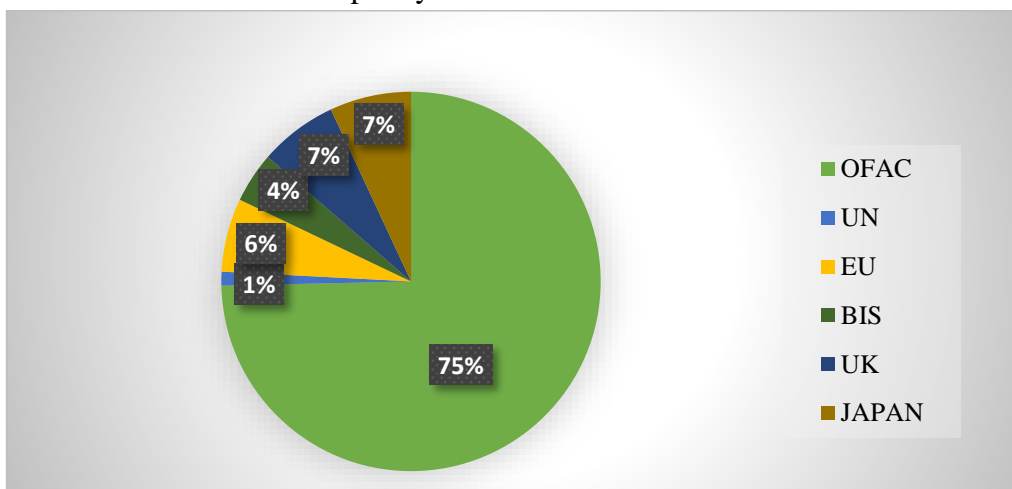


Figure 1. Application of sanctions in world economy in the period 1994-2024

Source: elaborated by the authors based on Sanctions Explorer, <https://sanctionsexplorer.org/analytics>

The figure 2 based on Vuksic (2024) *Castellum.AI Research*, demonstrates five most sanctioned countries in 2023.

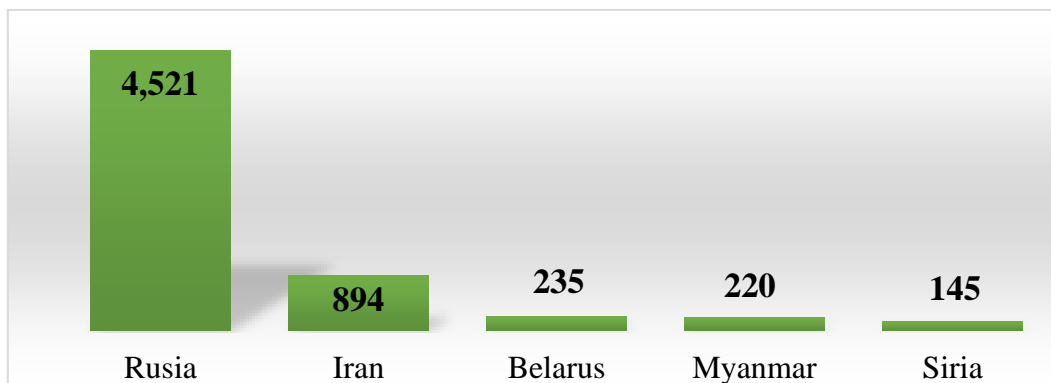


Figure 2. The most sanctioned countries in 2023

Source: Vuksic (2024) *Castellum.AI Research*. <https://www.castellum.ai/insights/2023-sanctions-year-in-review>

According to these data, we can see that Russia was the most sanctioned country in the world, followed by Iran and Belarus. We can mention that the reason for sanctioning these states was related to the need to weaken and penalize them by means of other states of the world as a reaction to their foreign policy.

The results of the application of sanctions: the case of the Republic of Moldova

The Republic of Moldova became a full member of the World Trade Organization in 2001. This important step signaled the country's readiness to comply with all WTO international standards. After gaining its independence in 1991, the Republic of Moldova adopted the free trade policy, collaborating openly with the members of the CIS states and the European Union. The country practiced the export of agricultural products, the predominant category being raw material products. The most considerable economic force of the CIS is represented by the Russian Federation. The Republic of Moldova has concluded numerous commercial agreements with that state in order to practice fair foreign trade:

- Agreement on Free Trade – 1993;
- The Treaty on Economic Collaboration between 1999-2008;
- The Moldovan-Russian Friendship and Cooperation Treaty – 2001.
- The Economic Collaboration Program for the years 2009 – 2020.

Another strategic commercial partner of R. Moldova was the European Union. The Moldovan-European cooperation accelerated with the year 2014, when the Republic of Moldova signed the Association Agreement with the European Union with the aim of intensifying the financial, technological and informational diplomatic collaboration of the signatory parties.

In the same way, the year 2016 was extremely important for the strengthening the relations between the Republic of Moldova and the European Union with the entry into force of the DCFTA. That agreement enhanced commercial relations between the parties by providing the necessary support for raising the quality of Moldovan commercial products, opening commercial markets, excluding taxes, and harmonizing related legislation.

Along with the increase of the cooperation of the Republic of Moldova with the EU, the Russian Federation has shown its dissatisfaction arguing that the strengthening of diplomatic relations between R. Moldova and the EU can lead to political instability and affect the national security of Russia. The following actions were taken by the Russian leadership:

- 2006-2014 - raising of natural gas prices by Russia;
- 2006 - the introduction of multiple sanctions against exports from the Republic of Moldova;
- 2013 - imposition of trade sanctions on wine and meat products;
- 2014 - the imposition of fruit sanctions.

All these sanctioning measures applied by Russia to the Republic of Moldova have a connection with the consolidation of the economic cooperation of the Moldovan state with the EU. Similarly, having analyzed the conditions of the sanctioning process, it becomes obvious that the majority of penal actions had a political character. Russia resorted to all the instruments to stop the European course of the Republic of Moldova, and the Russian pressures increased along with the dynamism of Moldovan-European relations.

Although, during many years, R. Moldova suffered enormous economic difficulties, increased by the Russian embargo, that international context initiated the reorientation of the Moldovan trade policy. Thus, even if wine production was almost stopped in 2006, in 2013-2014 the quality of Moldovan wines increased, which allowed the country to expand its wine exports to the markets of the USA, Germany, Poland and China.

In this context, having analyzed the international environment, one may determine some characteristics of economic sanctions, as a whole:

- Sanctions are a tool that involves the participation of the entire governmental force of a state to resolve their consequences;
- The cost of economic sanctions can be zero for the party that imposes them, and the enforcement process captures international public attention;
- Once imposed, economic sanctions can lead to consequences diametrically opposed to the objectives set by the state that initiates them.
- Sanctions can cause situations of political blackmail.

For example, in the case of the Republic of Moldova, we found out that the sanctions of the Russian Federation led to the deepening of Moldovan-European collaboration. As well as the fact that they catalyzed the support offered by the European Union to the Republic of Moldova, offering the opportunity to export Moldovan products to the European market.

Being subject to economic sanctions from the Russian Federation and signing the Association Agreement, followed by the creation of the DCFTA with the EU, the Republic of Moldova reoriented its trade flows towards the EU, limiting commercial collaboration with the Russian side and some CIS member states. The underlying reasons for the reorientation of trade practice were based on the desire to improve diplomatic relations with the EU, to reduce the influence of the Russian Federation on it and to benefit from the efficiency of the reduction of trade tariffs by the EU. Through European partners, the Republic of Moldova has improved the quality of its goods and their commercialization processes, and the new trade agreements have supported Moldova's national visibility in the global arena.

Thus, in figure 3 one can observe the dynamics of the trade of the Republic of Moldova with the CIS and the EU in the period of 2003-2023.

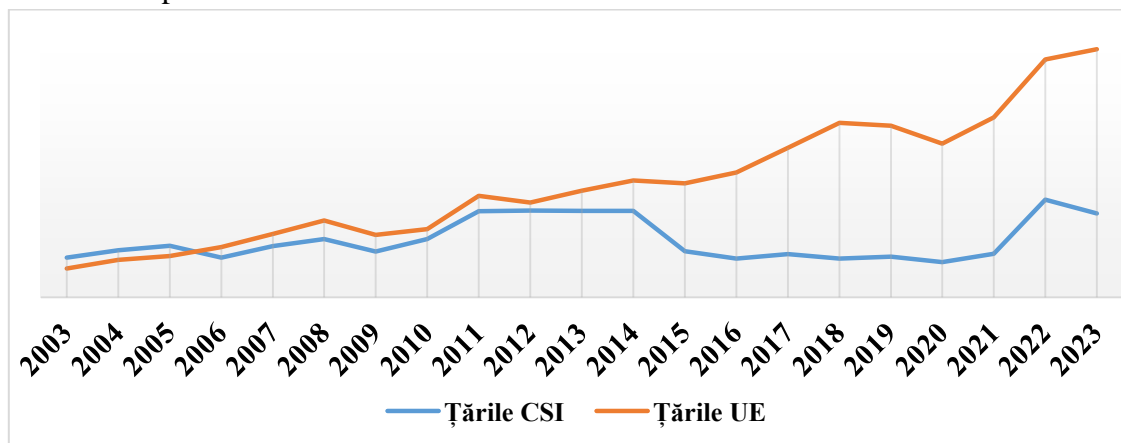


Figure 3. The effect of economic sanctions on the orientation of trade policy of the Republic of Moldova

Source: adapted by the authors based on National Bureau of Statistics of R. Moldova

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After obtaining its independence and until the 2000s, the Republic of Moldova had much more significant trade with the CIS countries than with the EU. This was due to the Free Trade Agreement with the CIS countries, as well as some inertia in trade relations established before the independence. Starting with year 2001, when the Republic of Moldova became a member of the WTO, the role of trade exchanges with the EU increased, although the dominance of trade flows destined for the CIS countries persisted. The imposition of the first embargo by Russia in 2006 changed the situation. Namely, since 2006, trade with the EU began to intensify, and in 2014-2015, it doubled as a result of the third wave of sanctions imposed by the Russian Federation on R. Moldova. This dynamic is preserved until now, after the Covid19 crisis, the rate of trade with European states reaching around 65%-70% annually.

Analyzing the total value of foreign trade of the Republic of Moldova, one can see that the commercial practice of the Republic of Moldova of the period 2003-2023 increased about 4 times (see Figure 4).

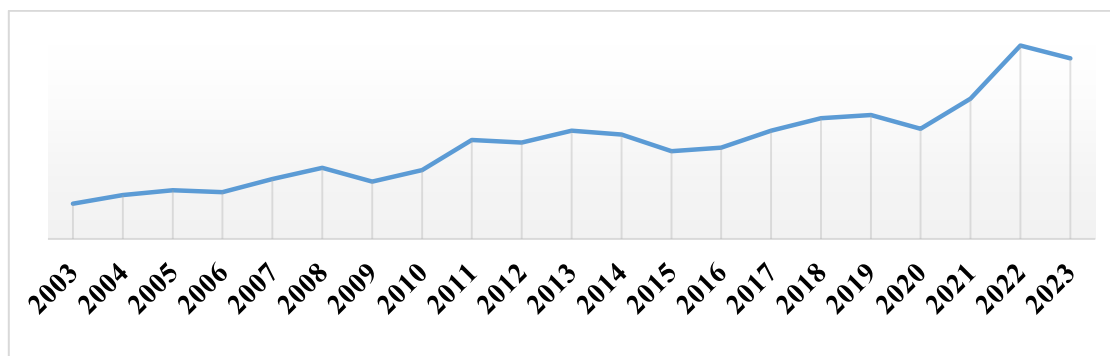


Figure 4. The total value of trade of the Republic of Moldova in the years 2003-2023

Source: adapted by the authors based on National Bureau of Statistics of R. Moldova

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If during the years 2003-2009 it had a slow dynamic, after 2016, when the DCFTA entered into force, Moldovan trade began to intensify, being affected only by the stagnation during COVID 19, after which it quickly recovered, and in 2022 doubled compared to 2020. This fact is also due to the commercial partners on the global arena, which appeared as a result of the diversification of foreign trade carried out by the Republic of Moldova in reaction to the sanctions imposed by Russia.

Conclusion

After the Second World War the economic sanctions were attributed the role of stabilizing international regulations in multiple economic sectors of the states. Increasing use of economic sanctions was explained by their interpretation, first, as a tool to control political relations between major powers, secondly, as the diplomatic measures to resolve misunderstandings on the global stage, without resorting to armed force. Most of the sanctions applied were commercial and financial, which directly influenced the economy of a sanctioned state. In the case of trade sanctions, the specific sanctions were imposed on deficient products, which directly influence the prosperity of the sanctioned state. Sometimes, sanctions became weapons of political control over less developed countries, being applied by the states with higher economic capabilities.

Economic sanctions often have unintended consequences for the parties involved, influencing their diplomatic relations, sometimes, in ways other than planned. In order to reduce the negative impact of sanctions on the economy, states can reform their trade policy by starting concluding new collaborative relationships with other parties. The newly established partnerships can become more profitable for the sanctioned states, thus favoring their development and, later, neutralizing the effect of the sanction.

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