Economic Sanctions and Their Impact on Russian Economic Relations with the European Union

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To cite this article: Marina Klinova & Elena Sidorova (2016) Economic Sanctions and Their Impact on Russian Economic Relations with the European Union, Problems of Economic Transition, 58:3, 218-234, DOI: 10.1080/10611991.2016.1200391

To link to this article: http://dx.doi.org/10.1080/10611991.2016.1200391

Published online: 05 Aug 2016.

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This article considers the exchange of sanctions between the European Union (EU) and Russia, and the impact of this exchange on their economic ties. The exchange of sanctions fits the pattern of destructive "economic patriotism," which has spread in the context of twenty-first-century globalization. The process contributes to economic isolation and negatively affects, although to varying degrees, the economic development of the EU and Russia.

**Keywords:** economic sanctions, sectoral restrictions, strategic sectors, investment ties, foreign capital

**Jel Classification:** F21, F42, H77, L52, O19, O38, O52
Economic sanctions as part of the concept of “soft power”

Economic sanctions at the beginning of the twenty-first century, as they were in the twentieth century, are an important (though double-edged) instrument of both foreign policy and international diplomacy. Although implemented for a limited time, they can have lasting effects, which are not felt immediately. Many of the negative effects (e.g., reduction of gross domestic product [GDP] growth, loss of jobs, and loss of opportunities for the development of the market economy) are delayed. In addition, sanctions are often removed much more slowly than they are implemented.

For example, the Jackson–Vanik amendment to the Trade Act of the United States (1974)—adopted during the Cold War as a response to the Soviet Union’s emigration restrictions—was abolished in regard to Russia (the successor of the Soviet Union) only in 2012, while the Soviet Union’s emigration restrictions were lifted in 1987. Among other things, the amendment embargoed the provision of government loans and loan guarantees.

In the monograph, *Economic Sanctions Reconsidered* (Hufbauer, Schott, and Elliott, 1990), researchers at the Peterson Institute for International Economics analyzed more than 100 cases, and concluded that only about a third of such sanctions achieve their desired result. Despite the dramatic changes in the world over the past quarter of a century, the main conclusions of the authors of this study are still relevant today.

Economic sanctions in the event of their combination with other measures (e.g., military-political) can be “strikingly effective” in terms of destabilizing the political system of governance. On the other hand, if the sanctions are “not reinforced by other measures, they rarely lead to destabilization.” The growth of military spending in Russia, due to NATO’s encroachment of its borders, may be even more devastating for its domestic economy than the sanctions. This was the case in the 1980s when the arms race proved too heavy a burden for the Soviet economy, and eventually contributed to the collapse of the Soviet Union.

The cost of the sanctions for the economy of the country imposing them are almost never calculated in advance. First, it is very difficult to assess their value, and second, the damage to the major economies of the countries imposing the sanctions is, as a rule, minimal and usually does not exceed 1 percent of gross national product (GNP) (Hufbauer, Schott,
However, if the annual GDP growth rate is about 1 percent in both the European Union (EU) and Russia, the sanctions could lead to negative growth rates for both sides.

The size of the economy that imposes the sanctions is usually much larger than the one against which they are imposed. According to the World Bank, Russia (based on current exchange rates) makes up 2.8 percent of the world’s GDP, while the EU make up 23 percent—the difference is almost an order of magnitude. Objectively, the more vulnerable side has the less powerful economy.

As for the current exchange of sanctions between the EU and Russia, the Russian response—in the form of an embargo on certain imported food products—amounted to approximately €12 billion in trade, which will amount to less than 1 percent of the EU’s total exports (European Union, 2014). In comparison with the EU’s total GDP, this value is small; however, for some countries, such as Poland, Hungary, Finland, and Lithuania, the negative effects of the Russian sanctions are substantial, and the EU has attempted to prevent the import of these products into Russia from Latin America and Asia.

A country often imposes sanctions in a situation when inaction leads to a loss of credibility among its own leadership, within the country and abroad. The undermining of its reputation becomes more costly than the price of sanctions. Germany’s minister of finance, Wolfgang Schäuble stated that “Economic interests are not the main priority. The main priority is to maintain stability and peace. If the German ministers of finance said, ‘be careful, the sanctions will harm our economic interests,’ then the chancellor would have bad ministers, and the breach of peace and stability would be the biggest threat to economic development.”

Russia believed that the economic interests of Europe, especially those of Germany, would take precedence over politics, as business connections often “constrain the politicians’ willingness to engage in confrontation” (Kuznetsov, 2014). Unfortunately, the business community did not resist the economic sanctions to the extent that the Russian leadership had hoped.

The idea that in the era of globalization transnational corporations take precedence over politics has been refuted by current practice. Governments may play a subordinate role to transnationals sometimes, but not in extreme situations. In the latter case, business is subordinate to the international and supranational laws of greater Europe (Khokhlov and Sidorova, 2014). The negative impact of sanctions on the economy
of a country can be mitigated by a sustainable economic model and established mechanisms for its implementation. In this case, an adequate assessment of economic interests means taking into account not short-term gain, but long-term national interests and the long-term effects of economic policy.

Economic sanctions are most effective when the countries involved have been traditional economic partners rather than old rivals. For Russia, the U.S. sanctions are less painful than those of the EU members that have been recognized as strategic partners. At the end of 2013, the volume of accumulated Russian investment in the U.S. economy amounted to $4.1 billion, as opposed to a country like the Netherlands where the amount was $23.3 billion. In turn, U.S. investment in the Russian economy came to only $10.3 billion, whereas that of the Netherlands was $68.2 billion dollars. ³

However, it should be noted that the products and technologies of the United States (e.g., in the field of oil production) are often unique and have patent protection, which complicates their replacement with investments from other markets. Furthermore, in the process of finding alternative contractors and opening new opportunities for competitors from other countries, it is not always possible to find equivalent substitutes for previous business partners in the context of globalization.

In the era of globalization, after Russia “has entered the western world’s political order and the global economy... and is in no way self-sufficient” (Entin, 2014), the effect of the economic sanctions is substantial. However, a possible side effect of sanctions may be the rallying of a country around its government, against which the sanctions are imposed. In 1935, the Italian prime minister Benito Mussolini had this to say in response to the attempt by the League of Nations to force Italy to withdraw its troops from Abyssinia: “We will respond to the economic sanctions with discipline, prudence, and the spirit of self-sacrifice” (Hufbauer et al., 2007).

Such an undesirable scenario cannot be excluded, which could discourage the countries that introduced the sanctions and further strain relations between them.

A similar situation occurred in 1981–82 between the then European Economic Community (EEC) and the United States, regarding the construction of a gas pipeline from the Soviet Union to Western Europe. The Europeans refused to support the sanctions imposed by the United States against the Soviet Union (because of its policy in Afghanistan and
relations with Poland) and did not suspend the project as it contradicted the interests of the European business community. In this case, the U.S. sanctions not only “attacked” the Soviet Union but also threatened West European companies that worked in the U.S. market and simultaneously supplied the Soviet Union with technologies and equipment used in the oil and gas sector. Economic cooperation with the Soviet Union could have led to the loss of their business in the United States, due to a lack of access to certain technologies. Thus, West European governments, having calculated the possible cost to their companies, had to ask themselves: against whom were the economic sanctions really directed?

The ability of the sanctions to achieve their foreign policy goals may be limited. It has been argued that sanctions aimed at weakening a country’s military potential, or even influencing its policy, have rarely been successful, aside from the obvious damage to the economy as a whole. The most ineffective sanctions are those designed to stop a country’s military intervention: only 21 percent of these achieved their desired goal. The most productive are those aimed at moderate policy changes, of which 51 percent were successful (Aslund, 2014).

Economic sanctions in official EU documents

In official EU documents, the grounds for imposing the economic sanctions—developed and published in connection with Russia’s actions—changed with the development of the conflict in Ukraine. First, the sanctions were imposed in connection with “undermining or threatening the territorial integrity, sovereignty and independence of Ukraine” (Council of the European Union, 2014a). This is in reference to the change of Crimea’s status.

Then, before the active phase of the conflict in the southeast of Ukraine, sanctions were imposed “in view of Russia’s destabilization of Ukraine” (Council of the European Union, 2014b). In September, the more rigid wording of March 2014 was again used (Council of the European Union, 2014d). This evolution is likely linked to the escalating conflict in the Luhansk and Donetsk regions. Table 1 shows the EU’s sanctions against Russia and Russia’s response.

In its July decision, the EU embargoed all technical assistance to Russia, going so far as to prohibit spoken advice (Article 1). This particularly relates to cases where “there are reasonable grounds for believing that the sale, supply, transfer, or export of the technologies
### Table 1

**Economic Sanctions and Responses, 2014**

<table>
<thead>
<tr>
<th>Time of imposition</th>
<th>EU sanctions</th>
<th>Russian response</th>
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<tbody>
<tr>
<td>April</td>
<td>Resolution of the European Parliament with a recommendation to abandon the gas pipeline South Stream.</td>
<td>—Ban on the purchase of certain types of foreign engineering products for federal and municipal projects.</td>
</tr>
<tr>
<td>May</td>
<td>EU officials fail to participate in the ninth international conference: “Energy Dialogue Russia–EU: Gas Aspect.”</td>
<td>—Termination of financing by the European Investment Bank (EIB) of new projects in Russia, on the recommendation of the Council of the European Union;</td>
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<tr>
<td>July</td>
<td>—Termination of financing by the European Investment Bank (EIB) of new projects in Russia, on the recommendation of the Council of the European Union; —The European Bank for Reconstruction and Development (EBRD) suspends its activity in Russia; —Restrictions imposed on the export of certain goods and dual-use technologies, with the provision of related services (including technical assistance, brokering). The import of arms and military equipment is likewise restricted; —Restrictions imposed on the sale, supply, transfer, or export, directly or indirectly, of certain types of equipment for the oil industry in Russia. The list of sanctions includes the Crimean companies that changed ownership as a result of nationalization.</td>
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**Sectoral sanctions:**

—EU countries are prohibited from investing in Russian infrastructure projects (transportation, telecommunications, and energy), Russian oil and gas, and Russian mineral resources; prohibitions are made on providing equipment, finances, and insurance services to these sectors;
—European financial institutions are prohibited from conducting transactions in securities (with a maturity of more than ninety days) issued after August 1, 2014, by their Russian counterparts with government participation of over 50 percent. The list includes five banks: Sberbank, VTB, Gazprom, VEB, and Rosselkhozbank.

August
—Ban on the import of certain agricultural products, raw materials, and foodstuffs from the EU, the United States, Australia, Canada, and Norway, who had also decided to impose economic sanctions against Russia;
—Restriction on government procurement of light industry goods (e.g., textiles, outerwear, underwear, specialty clothing, and clothing made with leather or fur).

September
—Prohibition on the direct or indirect supply of dual-use goods and technologies for nine enterprises of the military industrial complex. The list also includes three legal entities belonging to the military industrial complex and energy sector;
—Ban on supplying technology for the development of deepwater, arctic, and shale oil;
—Expansion of restrictions on five Russian government-owned banks;
—European institutions are prohibited from providing, directly or indirectly, investment services, and conducting operations with newly released bonds and other securities with maturities of more than thirty days (starting September 12, 2014).
Table 1
(Continued)

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<th>Time of imposition</th>
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<tbody>
<tr>
<td>October</td>
<td>The accession (rather symbolic—authors’ note) of EU candidate countries to the sanctions against the oil industry, aerospace complex, and military complex. EU summit upholds earlier imposition of sanctions. ³</td>
<td>The company Rosneft, and the banks Sberbank, VTB, and VEB file lawsuits in the European Court of Justice claiming that the sanctions against them were illegal.</td>
</tr>
<tr>
<td>November</td>
<td>Accession of Switzerland to the economic sanctions.</td>
<td></td>
</tr>
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</table>

³ Kerch Ferry; Sevastopol Commercial Port; Kerch Commercial Sea Port; Universal-Avia; Nizhnyaya Oreanda Sanatorium; Azov Distillery Plant; Massandra; Magarach; and Novy Svet (Council of the European Union, 2014b).

⁵ Concern Sirius, Stankoinstrument, and Himkompozit (optoelectronics, mechanical engineering, and materials for civilian and military purposes); Concern Kalashnikov (small arms); Tula Arms Plant (weapons systems); Concern Machine Engineering Technologies (ammunition); NPO High Precision Weapons (antiaircraft and antitank systems); Concern Almaz-Antey (weapons, ammunition, scientific research); Bazalt (equipment for the production of arms and ammunition); Oboronprom; United Aircraft Corporation; Uralvagonzavod; Rosneft; Transneft; and Gazprom (Council Regulation no. 960, 2014).


could be used for deep-sea oil exploration, exploration and production of oil in the Arctic, or the development of shale oil projects’ (Article 3). It is also prohibited to sell, supply, transfer, or export, directly or indirectly, products and dual-use technologies, which “will or may be used for military purposes.” Article 2 states that “if the end user of any good or dual-use technology is the military complex, it will be considered as having a military purpose,” with the caveat that competent EU government authorities may fulfill their obligations under contracts concluded prior to August 1, 2014.

The sectoral sanctions imposed by the EU in July did not affect the goods and dual-use technologies (e.g., aerospace) intended “for non-military purposes or for non-military customers,” and in September it was clarified that the sanctions will not affect the nuclear energy industry (Council Regulation, no. 960, 2014d).
The restrictions on access to capital markets of a number of financial institutions did not affect international organizations established on the basis of intergovernmental agreements in which Russia is one of the shareholders (Council Regulation, no. 833, 2014c).

Later, Russia would amend its own sanctions to exclude products found to be important for the country (including lactose-free milk, potatoes, onions, hybrid sweet corn, sowing peas, dietary supplements, vitamin-mineral complexes, and salmon and trout fry).

The Murmansk fish processing plant—one of Russia’s largest high-tech fish processing enterprises—filed a lawsuit in the Supreme Court of Russia on the grounds that the government decree sanctioning food imports was partially illegal. The plant was forced to completely shut down, as it was 100 percent dependent on Norwegian imports. The plaintiff claims that the decision of the government does not comply with the presidential decree of August 6, 2014, and violates the rights and legitimate interests of the company. The expected effect of import substitution (the reason for imposing retaliatory sanctions in the first place) did not work—the processing will likely be moved to Belarus, and the Norwegian companies will not be affected, since they control 70 percent of an alternate supply route (Chile).

In September, the *Official Journal of the European Union* published documents on the evolution of the sanctions.

These measures are reminiscent of the actions taken by the Coordinating Committee for Multilateral Export Controls (CoCom) in 1949 to control exports into the Soviet Union and other socialist countries. CoCom compiled control lists of embargoed goods and technologies, and limited the export of nonembargoed goods and technologies under the strategy of “controlled technological obstruction.” The latter stated that new technologies could not be delivered earlier than four years after their serial development.

Economic sanctions adversely affecting the borrowing capacity of Russian banks contribute to a drop in domestic investment and weaken the ruble exchange rate. This situation complicates the servicing of external debt by Russian companies, making it far more costly. According to Oleg Kuzmin—chief Renaissance Capital analyst for Russia and the Commonwealth of Independent States (CIS)—during 2014–15, Russian companies will have to repay $160 billion in loans. Of these, the public sector accounts for about $65 billion (Tkachev, Suharevskaya et al., 2014).
According to Morgan Stanley analysts, in the next year Russian government-owned companies in the nonfinancial sector will have to pay $41 billion of external debt, and government-owned banks an additional $33 billion dollars. Likewise, private banks will have to pay $20 billion, while private nonfinancial companies account for another $67 billion of external debt (Hille, Weaver, and Thompson, 2014).

According to the Bank of Russia, Russia’s external debt amounted to $731.2 billion in the middle of 2014, of which the public sector accounted for over half. Therefore, the most serious sanctions are those leveled against the major government-owned banks. According to Bloomberg, VTB, Sberbank, Gazprombank, and VEB will have to redeem approximately $15 billion in bonds in the next three years. But dollar loans given by foreign banks declined to $7.9 billion in the first half of 2014, compared with $25 billion the prior year (Economist, 2014). Without access to long-term financing, repaying external debts will be difficult.

Russian companies that share over 50 percent of their capital with the government (e.g., Gazprom and Rosneft) can no longer place securities in European markets. As a result of the sanctions, the chief executive officer of Rosneft asked the Russian government to buy 2.4 trillion rubles’ worth of new Rosneft bonds at the expense of the National Welfare Fund. Sberbank, VTB, Gazprombank, Rosselkhozbank, and VEB have been prohibited from selling bonds to Europe (issued after September 12, 2014) with a maturity of more than thirty days. The European Commission (EC) has also proposed to close the syndicated loan market to them and other government-owned companies.

Russia receives most of its credit from EU banks. According to London analysts, over the past three years, Russian banks received approximately half of their resources from Europe. Of the $264 billion in foreign loans received in the fall of 2014, EU loans accounted for 74 percent as opposed to 13 percent from the United States. The greatest obligation is to continental banks: France is owed $54 billion, Austria—$52 billion, Italy—$30 billion, Germany—$22.5 billion, and the Netherlands—$19 billion (Jost and Zschaepitz, 2014). It is noteworthy that unlike these loans, France’s accumulated investment in Russia ($13.3 billion) is not the greatest. It is, in fact, five times less than that of the Netherlands, a third less than that of Germany, and half that of Britain.

The EU cut funding to a number of Russian investment projects implemented jointly with the European Bank for Reconstruction and
Development (EBRD). Part of the measures, despite the opposition of Germany and France, affected projects financed by the European Investment Bank (EIB). The EIB’s suspension of new projects in the Russian public sector does not have the same consequences as in the case of the EBRD because Russia is its main recipient of funds. The EBRD’s shareholders are composed of two intergovernmental organizations, the EU and the EIB, and sixty-four countries, including Russia (which owns 4 percent of its total share capital).

As of 2003, the EIB has invested €1.6 billion in Russia, while in 2013 alone the EBRD invested €1.8 billions, while its total investments to all the countries amounted to €8.5 billion. During the first half of 2014 Russia accounted for 19 percent of the EBRD’s investments, while it also lent to thirty-five other countries. As of 2014, the bank was involved in 792 projects in Russia, with investments totaling €24.4 billion.

According to the EC, the funding of programs cosponsored with Russia (up to 2020) is approximately €450 million. Now, the EU may reduce this number to €275 million or even €98 million depending on the severity of the decision (Tkachev, 2014).

Potential consequences of the economic sanctions

The “economic patriotism” observed amid favorable economic conditions, increased during the recession not only in the EU (even among its members) (Klinova, 2008), but also in Russia. The current exchange of sanctions has given this destructive phenomenon its “second wind.”

For the Russian economy, the strongest negative impact will be felt in the sectors where cooperation is most crucial, that is, in the financial, high-tech, and other strategic sectors (Sidorova, 2007). Thus, the embargo on the sale of high technology (e.g., the kind needed for the development of the Arctic shelf) will limit the budget’s hydrocarbon revenues in the long term. In 2014, the share of oil and gas revenues of the federal budget exceeded 50 percent—the maximum for the post-Soviet economy.

According to the International Monetary Fund, in 2014, Russia’s GDP will grow by only 0.2 percent, in association with a decrease in oil prices. According to the Bank of Russia and the Ministry of Economic Development of the Russian Federation (MED), in the first half of 2014,
capital outflow reached $80 billion, and for the year could exceed $100 billion. And the imposition of sanctions has worsened the already less than optimal investment climate in Russia.

The MED has assessed the damage done to the Russian economy by the toughening sanctions. In June 2014, the MED’s minister, Alexei Ulyukayev, noted that “the rate of economic slowing is serious. And even more alarming is the decreasing rate of investment and revenue, in conjunction with rising inflation and shrinking government reserves.” In October 2014, he assessed the Russian economy as “extremely volatile” with inflation at 8.1 percent and GDP growth at 0.8 percent.

Regarding the large-scale public policy of import substitution, the economist Ruslan Greenberg stated at the Moscow Economic Forum that the legitimate long-term goals of economic diversification cannot be achieved via “shock import substitution.” This policy will lead to higher transaction costs, higher prices, and a reduction in private consumption resulting from the diminishing real incomes of most Russians.

The Accounts Chamber of Russia has expressed doubts that Russian agriculture and food industry companies will be able to fully replace western imports. Potential import substitution is “limited by the capacity of existing production facilities of the food industry.” The share of imports in the total of certain food products and in the raw materials used in the production of others is so high that supply restrictions “may have a negative impact on the consumer price index of food products” (Accounts Chamber of Russia, 2014, section 29).

Economic sanctions also have negative consequences for our partners, due to the prevalence of the “boomerang effect” in the EU. According to the EU Observer, the effect may cost the EU 0.3 percent of GDP in 2014 and 0.4 percent in 2015 (Myard, 2014). In March 2014, Deutsche Bank stated that an 8 percent decline in Russian production (as in 2009) will reduce the already uneven growth of Germany by 0.5 percentage points (Granville, 2014).

At the beginning, the EU discussed a total ban on exporting any dual-use goods to Russia. Then in September 2014 a more lenient decision was made, which became binding for all EU member states. A list of the banned products was approved by the Wassenaar Arrangement (1996) in which 33 countries participated (including EU member states and Russia) and consists of 10 categories (Wassenaar Arrangement, 2012). According to the EC, the export of dual-use goods
to Russia accounts for an annual €20 billion, of which approximately 80 percent is intended for civilian use. By the mid-2000s the dual-use sector of Russia’s economy was in serious crisis (Pappe and Antonenko, 2014).

Formally, sanctions relate to future investments and do not affect ongoing projects, but the supply of goods to achieve the present projects is complicated. Below are examples of suspended investment cooperation as a result of the sanctions.

Energy
The French company Total stopped its joint venture with Lukoil to develop hard hydrocarbons in Western Siberia, and stopped its purchase of Novatek shares, the second largest natural gas producer in Russia. The Anglo-Dutch company Shell changed its plans to expand shale oil projects in cooperation with Gazprom Neft. The Italian oil refiner Saras postponed its joint venture with Rosneft for the sale of oil and oil products.

Dual-use and military production
The French manufacturer of civil and military trucks Renault Trucks Defense, a subsidiary of the Swedish group Volvo, suspended its cooperation with the Russian company Burevestnik (a member of the Uralvagonzavod group) to develop the infantry fighting vehicle Atom. The Italian state holding company Fincantieri suspended its joint venture with the Rubin Design Bureau to develop the small, nonnuclear S-1000 submarine.

Despite the sanctions, the Foreign Investment Advisory Council continues to allow foreign investors to buy shares in Russian companies. For example, the council allowed the Dutch pharmaceutical company Abbott Healthcare Products B.V. to acquire the Russian pharmaceutical company OJSC Veropharm; and the German company Blitz F14-206 GmbH was allowed to purchase Heat Exchangers (HX), a German subsidiary of the Russian GEA Mashimpex, a company that produces heat transfer and energy-saving equipment for nuclear power stations.

Today, the parts for SaM146, the only Russian turbofan engine with international certification (first installed on the Sukhoi Superjet 100), come from VolgAero—a plant produced by a joint venture between the French company Snecma and the Russian company NPO Saturn.
(Klinova, 2012). The Russian VSMPO-AVISMA corporation will begin serial deliveries of components for the new engines Silvercrest and Leap designed by Snecma. These engines will be equipped on Boeing’s regional airliners 737 and A320. Another joint venture of this kind, between the Russian joint-stock company Information Satellite Systems and the French-Italian Thales Alenia Space, has produced a satellite that is being readied for launch.

The economic sanctions, along with other factors (e.g., underdeveloped infrastructure, demographic problems, underfunded education, low workforce skills, dependence on the hydrocarbon sector, lack of internal and external investments, weak institutions, and an adverse business climate) have contributed to the decline of Russia’s long-term sovereign credit ratings. Leading rating agencies have cut Russia’s credit rating to just above junk, and given the economy a poor prognosis. Given the current situation, the participation of foreign investors in important Russian projects is possible only if the government provides guarantees and support on the basis of public–private partnership. The question stands whether these partners will trust one another.

* * *

An analysis of the government’s policy of economic sanctions leads to the following conclusions.

The EU has targeted the economic sectors on which Russia’s budget is most dependent. The story of the Cold War is being repeated, but this time under the more complex conditions of globalization. At the same time the country’s economy has for decades been overdependent on the export of raw materials, which contributes to its economic instability.

Russia has almost nothing with which to oppose the EU’s war of economic sanctions. And this is not only due to the disparity of economic size. During the period of high hydrocarbon prices Russia missed the opportunity to modernize its archaic industrial structure, which is unacceptable for a country that aspires to membership in the Organization for Economic Cooperation and Development. (Of course, now the process of including Russia in this international organization has been suspended.)

The sanctions are likewise directed against Russia’s military-industrial complex, which further increases the country’s burden of military spending. The history of the Soviet Union has shown that a drop
in hydrocarbon revenues in conjunction with rising military spending can have disastrous consequences.

The legitimacy of the measures taken by Russia and the EU can be challenged and defended within the framework of the World Trade Organization. It is necessary, however, to consider what reasons this organization considers as justifying economic sanctions.

We believe it is wrong to underestimate the cumulative effect of the economic sanctions. The policy includes the United States, Canada, Australia, and the EU, that is, Russia’s main economic partners. Geopolitical forces have overshadowed economic interests. However, the economic interests will be decisive if the sanctions lead to prolonged negative growth; and the full effect of the EU sanctions will be felt by Russia only in a year and a half.

Of course, the negative effect of the sanctions is not the primary cause of the Russian economy’s current state. The old economic model has exhausted itself, and the way out of the current situation is not the mobilization of the old model, but the creation of a market model that uses the fiscal and monetary resources of the government to support partnerships between public and private capital.

Notes

3. For international investment in 2013, see www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d03/40inv27.htm.
5. The external debt of the public sector, by the expanded definition, covers the external debt of banks and nonbank corporations in which the government or the Bank of Russia, directly or indirectly, owns 50 percent or more of the equity or controls them in any other way (www.cbr.ru/statistics/print.aspx?file=credit_statistics/debt_an_new.htm&pid=svs&sid=itm_7470).
6. Initially, in September 2014, he had asked for 1.5 trillion rubles, which Rosneft proposed to extract from the National Welfare Fund, the resources of which at the time amounted to 3.2 trillion rubles.
7. For the EBRD on new investments in Russia, see the EBRD statement on operational approach in Russia (2014); available at www.ebrd.com/russian/pages/news/press/2014/140723c.shtml.

Funding

This article was prepared in association with the Institute of World Economy and International Relations (IMEMO) and financed by a Russian Science Foundation Grant (Project no. 14-28-00097, “Optimizatsiia rossiiskikh vneshnikh investitsionnikh sviazei v usloviakh ukhudsheniia otnoshenii s EU”).

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