

Policy Briefing

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How do the sanctions affect Russia as a global actor?

Ielizaveta Rekhtman – Junior Fellow

As the military conflict in Ukraine is simmering, the EU and US retain the sanctions imposed on Russia after the “annexation” of Crimea and expanded in the course of military actions in the Eastern Ukraine. On June 22nd the Council of the European Union extended the economic sanctions against Russia until the end of January 2016.¹ In his statement following the G7 summit on June 7th Obama declared that “sanctions against Russia will remain in place so long as Russia continues to violate its obligations under the Minsk agreements”.²

At the same time, Russia adopted the “counter-sanctions” measures, including import ban on the food products from the US, EU and states that joined the sanctions against Russia.

The intensified exchange of sanctions between the Western political actors and supporting states on the one side and Russia on the other raises a problematic question: How do the sanctions affect Russia as a global actor?

As a foreign policy tool, the sanctions are envisaged by the EU and US as one of the means to influence Russia’s stance and actions in regards Crimea and Eastern Ukrainian conflict by targeting the state’s strategic economic sectors. The economic pressure generated by the sanctions has two goals: firstly, to persuade Russia’s policy-makers that Russia’s current policies and actions towards Crimea and Eastern Ukraine are detrimental for the Russian state, and, secondly, to encourage the Russian public to question the state’s policies in regards Ukraine.

The EU perceives the instrument of sanctions, or restrictive “preventive” and “non-punitive”

measures, as a complimentary to diplomacy.³ The package of such measures targeting Russia consists of individual visa bans and asset freezes, restriction of access to EU capital markets and loans for certain Russian banks and companies, embargo on the import and export of arms from Russia, restriction of goods and technology export in the military field, as well as energy and oil industry.⁴ It is worthy of note that sanctions are designed to be a flexible instrument, which is revoked once the target object responds to them by changing the targeted policy.

This policy brief aims to analyse the effectiveness of the sanctions policy in regards Russia and the impacts on its global behaviour. For this reason, we will start by discussing the effect of the sanctions on Russia’s economy, and then, proceed with the analysis of Russia’s response and sensitivity to the sanctions.

Effect on Russia’s economy

Sanctions are designed as a long-term mechanism with a gradually unfolding effect. Firstly, the implementation of restrictive measures creates uncertainty among investors and undermines their credibility towards the targeted object. This results in intensified capital outflow, devaluation of the national currency and exchange rate volatility. Finally, the positions of the national companies on the international stock market are undermined.⁵

According to the predictions of the International Monetary Fund (IMF), the overall decline of Russia’s GDP due to internal and external factors would amount to 3,4% by the end of 2015.⁶ At the same time, the sanctions and counter-sanctions could reduce Russia’s GDP by 1 – 1,5%.⁷

According to the IMF report, Russia entered 2014 with a decline in potential growth. This trend was the consequence of various factors, such as excessive state regulation, weak investment, structural reform suspension, total productivity

¹ EU restrictive measures in response to the crisis in Ukraine, [[Link](#)]

² Remarks by President Obama in Press Conference after G7 Summit, June 7, 2015. [[Link](#)]

³ European Union External Action, [[Link](#)]

⁴ EU restrictive measures in response to the crisis in

Ukraine, [[Link](#)]

⁵ Kuzman T. (2015) “Sankcii protiv Rossii: ojidaniya i rezultaty”, *Yevropeyska Pravda*, [[Link](#)]

⁶ International Monetary Fund, Country Report (Russian Federation), August 2015, P. 1. [[Link](#)]

⁷ *Ibd.*, P. 5.

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decline and oil price stabilisation.⁸

In 2014, Russia's accumulated economic hardships were aggravated by two external "shocks": the oil price drop from 110\$ down to below 50\$ a barrel and sanctions that were unfolding in the course of the Ukrainian crisis.⁹ *Importantly, it is rather complicated to discern the economic effect of the sanctions and oil price fluctuation.* The cumulative effect of the two external factors implied severe turbulence for Russia's economy, including the loss of the ruble's value by half and substantial large capital outflow in the end of 2014.¹⁰

The beginning of 2015 marked an overall stabilisation trend; while the oil price slightly increased, the ruble strengthened and inflation decreased in response to the "anti-crisis" measures of the Russia's government.¹¹ However, starting from May till August the ruble weakened again due to another drop of the oil price.¹²

According to Tanja Kuzman, the director of the Institute for Competitiveness at the Harvard Business School, *the sanctions have made Russia's economy more susceptible to the oil price volatility.*¹³ It can be suggested that for Russia's economy, whose oil and gas account for 70% of export incomes, *the sanctions are an external factor, which aggravates the effect of oil price decline and internal economic hardships accumulated throughout 2011 – 2014.*¹⁴

Russia's response to the sanctions: policies and rhetoric

Due to the economic and financial turbulence created by the oil price drop and sanctions, Russia's government adopted a package of prompt anti-crisis measures, including a transition to a floating exchange rate regime, banking system

stabilisation and capital support programme.¹⁵ The anti-crisis plan also contained the import substitution policy, which was publicly presented as a "reciprocal measure" in response to the Western sanctions.¹⁶

As the Western sanctions were unfolding, Russia's top policy-makers adopted a stance on the "illegality" and "illegitimacy" of such restrictive measures. D. Medvedev, Russia's Prime Minister, and S. Lavrov, the Foreign Affairs minister, claimed the unlawful nature of the sanctions by the fact that they were not based on the UN Security Council resolution.^{17,18}

At Russia's Security Council meeting on 3rd July V. Putin linked the "so-called sanctions" against Russia with the "unfriendly policy" of certain "geopolitical opponents".¹⁹ In response to the EU's decision of 22nd June to prolong the sanctions against Russia, the state's foreign affairs ministry expressed its "disappointment" with the domination of "Russophobe lobby" within the EU.²⁰

*In general, it can be suggested that one of the focal messages in the official "anti-sanctions" policy-making discourse was the necessity of Russia's defensive "retaliatory measures" to protect the state's national interests.*²¹

The official information support of the "counter-sanctions" policies has been built on several messages, which were analysed by the chief of the Economy policy research centre at the Moscow State University Oleg Buklemishev.

1. Western sanctions are inefficient and counter-productive for their initiators.²²

This statement is transmitted by the officials

⁸ Ibid., P. 4.

⁹ BBC News, January 19, 2015. [\[Link\]](#)

¹⁰ BBC News, December 16, 2014. [\[Link\]](#)

¹¹ International Monetary Fund, Country Report (Russian Federation), August 2015, P. 5. [\[Link\]](#)

¹² Deutsche Welle, August 24, 2015. [\[Link\]](#)

¹³ Kuzman T. (2015) "Sankcii protiv Rossii: ojidaniya i rezultaty", Yevropeyska Pravda, [\[Link\]](#)

¹⁴ Ibid.

¹⁵ International Monetary Fund, Country Report (Russian

Federation), August 2015, P 5. [\[Link\]](#)

¹⁶ RIANOVOSTI, June 22, 2015. [\[Link\]](#)

¹⁷ Kommersant.ru, July 17, 2014. [\[Link\]](#)

¹⁸ Izvestiya, March 20, 2014. [\[Link\]](#)

¹⁹ Prezident Rossii, July 3, 2015. [\[Link\]](#)

²⁰ Ministerstvo inostrannyh del Rossiyskoy Federacii, June 22, 2015. [\[Link\]](#)

²¹ RBK, September 18, 2014. [\[Link\]](#)

²² Buklemishev O. (2015) "God sankciy. Rabotayut li oni i kak dorogo obhodyatsya", [\[Link\]](#)

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and media to show that instead of creating concern and discontent among the Russian public, the sanctions have a consolidation effect. According to the survey conducted by the independent non-governmental Moscow Levada Centre in the end of June, 66% of Russian citizens believe that the aim of the Western sanctions is to weaken and humiliate Russia.²³ Such interpretation of sanctions can be linked to the opinion supported by 68% of respondents that Russia has to continue its policies despite the sanctions.

At the same time, an alternative understanding of the sanctions was expressed by one fifth of the Russian citizens, who stated that by the means of restrictive measures Western actors aim to “restore the geopolitical balance that was disrupted by Crimea’s reunification with Russia”.²⁴ According to this perspective, Russia needs to seek compromise and make concessions, so that the Western actors would lift the sanctions.²⁵

2. Sanctions harm their initiators²⁶

In response to the decisions of the Western policy-makers to extend and expand the sanctions, Russia’s officials and certain experts emphasise the negative economic consequences of the sanctions policy for its initiators. For instance, Russia’s foreign affairs ministry claimed that as the EU was extending the sanctions against Russia, “hundreds of thousands” or “several million” EU citizens would lose their jobs.²⁷

At the Saint-Petersburg economic forum in June, V. Putin stated that the estimated damage of the EU producers from the sanctions ranges from 40-50 to 100 billion Euros.²⁸

However, the appliance of sanctions is

detrimental for both sides: their initiator and target.²⁹ By expanding and extending the sanctions, the EU has demonstrated the awareness of the potential losses that they might cause. This can be explained by the fact that the intended political outcome of the sanctions - the change of Russia’s policy in regards Crimea and Eastern Ukraine – would outweigh their economic damage for the EU.

3. Sanctions stimulate Russia’s economy to develop³⁰

The policy of import substitution has been elaborately used by Russia’s officials and federal media to advocate the benefits of the sanctions. According to Prime Minister Medvedev, the Western restrictive measures stimulate Russia to reduce its dependence on import and produce certain previously imported goods within the state.³¹

On 6th August Russia launched a disposal campaign against all the banned food products, which are subject to the embargo, and found on the state’s border or territory. Although the disposal campaign raised criticism and condemnation in the public, 68% of Russian citizens supported the food embargo as a policy-making decision.³²

At the same time, approximately one fourth of the respondents expressed a negative assessment of Russia’s ban on food products imported from the EU and US.³³ In order to be genuinely beneficial for Russian national producers, the import substitution policy has to be sufficiently and effectively funded. Additionally, national producers need affordable raw commodities of good quality and competent employees.³⁴ In such

²³ Levada-Centr, “Sankcii i kontrsanckcii”, [\[Link\]](#)

²⁴ *Ibid.*

²⁵ Levada-Centr, “Vospriyatie sobytij na Vostoke Ukrainy i sankcii”, [\[Link\]](#)

²⁶ Buklemishev O. (2015) “God sankciy. Rabotayut li oni i kak dorogo obhodyatsya”, [\[Link\]](#)

²⁷ RIANOVOSTI, June 22, 2015. [\[Link\]](#)

²⁸ Prezident Rossii, “Plenarnoe zasedanie Peterburgskogo mejdunarodnogo ekonomicheskogo foruma”, [\[Link\]](#)

²⁹ Buklemishev O. (2015) “God sankciy (chast 2): Kak vmesto importozamescheniya poluchaetsya sankcionnaya renta”, [\[Link\]](#)

³⁰ Buklemishev O. (2015) “God sankciy. Rabotayut li oni i kak dorogo obhodyatsya”, [\[Link\]](#)

³¹ RIANOVOSTI, April 22, 2014. [\[Link\]](#)

³² Levada-Centr, [\[Link\]](#)

³³ *Ibid.*

³⁴ Buklemishev O. (2015) “God sankciy (chast 2): Kak

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a way, the success of the import substitution is determined by the efficiency of the state's policy rather than the effect of sanctions.

How sensitive is Russia to the sanctions?

The dynamics of the sanctions against Russia, their expansion and extension, indicate Russia's deterrence to the restrictive measures.

At the same time, Russia has demonstrated its adaptability through internal "counter-sanctions" policies and attempts to solidify the 'pivot East' strategy in foreign policy.

Despite the fact that Russia is economically sensitive to the sanctions, its policy towards Crimea and official stance on Ukraine are unlikely to change in the nearest future.

The sanctions can potentially become a bargaining instrument in the negotiations between the diplomacy of the West and Russia. In the context of the recent reports on Russia's military presence in Syria, it remains unknown whether the Russian state chooses to continue providing individual support to Syrian President Bashar al-Assad in the fight against the Islamic State, but also against the anti-Assad groups; alternatively, Russia could play a mediating role between the Western coalition and Assad. Hypothetically, this remains possible upon condition that the threat of the Islamic State is urgent enough to bring together Western political actors, Russia's top officials and Assad.

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Ielizaveta Rekhtman is a Junior Fellow with the HSC. Contactable at:

ielizaveta.rekhtman@hscentre.org

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