
Luisa Valles
SHUTTING DOWN RUSSIA’S SUPERIORITY COMPLEX:
AN ANALYSIS OF THE INTERNATIONAL COMMUNITY’S RESPONSE TO
RUSSIA’S 2014 ANNEXATION OF CRIMEA

SUBMITTED TO
PROFESSOR HILARY APPEL

WRITTEN BY
LUISA VALLES QUINTANA

FOR
SENIOR THESIS
FALL 2019
9 DECEMBER 2019
ABSTRACT

The United States, the European Union and allies responded to the Russian Federation’s 2014 Annexation of Crimea with economic sanctions. After providing a basic understanding of Russia’s political economy and rent redistribution economic system, this paper supplies an overview of the Western sanctions within Russia’s three economic sectors — the energy industry, the defense industry, and the financial system. From there, I make an analysis of the Russian response to the sanctions is within each sector. Furthermore, I argue that the United States supports ulterior motives for implementing the economic sanctions. Concluding with the effects of the sanctions to Russia's domestic, economic, and political climate and how that affects their role as an actor in the international community.
ACKNOWLEDGEMENTS

I would like to thank Professor Hilary Appel, to whom I submit my thesis, for her support and guidance. Our conversations and your insights inspired this thesis and enlightened my beliefs. Thank you for advising me these past two years, and for the thought-provoking knowledge in your courses. To Anita Shenoi, thank you for cheering me on every step of the way, your edits and late night chats got me through those long nights in Poppa. To my friends, I could not have done it without you, thesis, school, life, all of it. Thank you for making CMC my home. To my suite, thank you for the endless support and words of encouragement. To Alexander, who made sure I slept. I am also thankful to Claremont McKenna College for giving me the opportunity to be a part of their scholarly community. Finally, I would like to thank my mom, dad, and brother, gracias por todo.
# TABLE OF CONTENTS

*Abstract* iii  
*Acknowledgments* iv  

I. Introduction 1  

II. Western Sanctions Chapter 3  
  - Russia’s Political Economy 3  
  - Sanctions and the Energy Industry 9  
  - Sanctions and Defense Industry 12  
  - Sanctions and the Financial System 15  
  - Conclusion 18  

III. The Russian Response to the Sanctions 19  
  - Russian Response in Energy Industry 20  
  - Russian Response in Energy Industry 29  
  - Russian Response in Energy Industry 34  
  - Conclusion 41  

IV. International Relations Perspective 42  
  - Purpose of the Sanctions 42  
  - Long-Term Impacts 49  
  - Conclusion 54  

V. Final Overview and Concluding Thoughts 55  

*Appendix* 57  

*References* 61
I. INTRODUCTION

In 2014, the Russian Federation took an active approach to its secret agenda in Ukraine. That February, Russian military hard power was utilized to dislodge Crimea and the crisis that followed resulted in destabilization and conflict in eastern Ukraine, as well as in the international ‘spheres of influence’. The annexation of Crimea thus came to represent Russia’s willingness to grow and conquer regardless of the accepted norms by the international community. The United States of America viewed the annexation as a violation of international law and the sovereignty of Ukraine as an independent state. To the U.S. this was all too familiar. The end of the Cold War had signified the loss of Soviet control, which had strengthened the United States’s power and influence in the eastern hemisphere. Therefore, when Russia engaged in military operations to acquire Ukranian land, the U.S. felt obliged to respond through non-violent actions and enacted a series of economic sanctions in order to deter Russia’s foreign policy agenda.

Unofficial Russian military operations in Ukraine began on 27 February 2014 when approximately two dozen armed men seized the Supreme Council (parliament) of Crimea and raised the Russian Flag. A week later, Russia moved to annex the peninsula. Although the U.S. was enraged by Russia attempt to redesign the preexisting ‘spheres of influence’, the American president at the time, Barack Obama, did not want to engage in military interaction. On 3 March the United States suspended trade and investment talks with Russia as well as military-to- military cooperation. This began its long and ongoing

---

2 Ivan Gutterman, Wojtek Grojec, *A Timeline Of All Russia-Related Sanctions*.  

implementation of economic sanctions on the Russian Federation. This paper will provide a brief overview of Russia’s political economy to better understand the specific economic sectors targeted by the sanctions, with an analysis of the Russian state’s response and their efforts to save the economy. As well as ulterior motives for imposing the sanctions in 2014 and the long-term impact of the sanctions in Russia.
II. WESTERN SANCTIONS

In response to Russia’s actions in Ukraine, American sanctions were strategically placed to attack the Russian economy via individuals, companies, organizations, and specific economic sectors. The United States alone introduced and altered 22 different sanctions programs during 2014 and 2015. Richard Connolly stated that the three most important targets of American sanctions were the energy industry, the defense industry, and the financial sector. By targeting these three sectors, Americans attempted to exert enough pressure on Russia to modify its foreign policy. The following chapter will discuss the kinds of sanctions and the effects they had on the Russian political economy.

Russia’s Political Economy

According to Richard Connolly, the Russian economic system can be described as a limited-access system of political economy which exhibits a specific pattern of integration with the wider global economy. To create a market economy, the Russian government enacted the privatization of state-owned assets. This resulted in a Russian hybrid economic system dependent on a rent redistribution system with the federal state in charge. Another way to describe Russia’s economic system is ideal-typical patrimonial capitalism. In their paper “Russia's political economy re-conceptualized: A Changing Hybrid of Liberalism, Statism, and Patrimonialism,” Uwe Becker and Alexandra Vasileva describe this system as a “patron-client relations between political and

---

3 U.S. Department of the Treasury, Ukraine-/Russia-Related Sanctions.  
4 Richard Connolly, Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia, 32.
economic elites, which deeply penetrate the social fabric [of Russia].” They believe this system allows the Russian government and ruling class to regard society as their own private domain which allows private appropriation of public resources for personal gain. In addition, the state is allowed to intervene in the economy for political concerns and particularist gains. Given the relationship between the state and the elite, Becker and Vasileva highlight that this system generates an economy that is, “reliant on rents (e.g. from natural resources) which are central for the survival of patrimonial capitalism, sustaining the rent-seeking ruling elite and cronies in business and at the same time enabling patronage of the society.” Connolly and Becker and Vasileva express the existence of a rent-dependent or rent redistribution system in which the Russian government is in charge.

The rent redistribution system is based on the generation of rents from globally competitive sectors of the Russian economy and the subsequent redistribution of those revenues to other less competitive sectors of the economy. According to Clifford Gaddy and Barry Ickes, this makes the extraction and distribution of resource rents the most important dimension of political economy in Russia. This model generates two main sectors for the economy: “Sector A,” or the-rent producing sector and “Sector B,” the

5 Uwe Becker and Alexandra Vasileva, Russia's political economy re-conceptualized: A changing hybrid of liberalism, statism and patrimonialism, 87.
6 Ibid.
7 Richard Connolly, Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia, 32.
8 Ibid.
rent-dependent sector. And Connolly adds “Sector C,” the neutral-dependents sector, to include the rest of the firms that operate mostly outside of the rent redistribution system.

The rent-producing sector — “Sector A”— mostly includes enterprises from the natural resources sector of the economy. These enterprises tend to be globally competitive with their goods and services and account for a large share of tax revenues in Russia. In 2015, Russian mineral products accounted for 65.8% of Russian exports, with an export value of $300 billion.\(^9\) This sector is subject to large state influence but it is not uniform throughout. The state also dominates in the areas of oil (primarily through Rosneft and Gazprom Neft), gas (Gazprom and Rosneft), nuclear power (Rosatom and its subsidiary entities), and defense (primarily though Rostec).\(^10\) In 2013, Rosneft became the world’s number-one oil producer after president Vladimir Putin signed a deal with TNK-BP for $55 billion (£36 billion).\(^11\) Additionally, a 2012 Forbes article described Rosneft as “Putin Oil Corp,” given the oil company is state controlled.\(^12\) With the state in charge of Rosneft, the deal expanded Russian government control to more than 4 million barrels of oil production a day.\(^13\) This solidified the state domination in the area of oil. It is important to note that privately owned firms also play an important role in the oil industry, gas industry, agriculture, and the mining and minerals industry. However, given

\(^9\) The Observatory of Economic Complexity, *Products Exported by Russia (2014).*
\(^12\) Marin Katusa, *Vladimir Putin Is The New Global Shah Of Oil.*
\(^13\) Ibid.
President Vladimir Putin’s high-influence on the Russian elite, strong ties to the state—whether direct or indirect—are apparent in Sector A and shape private firms’ objectives.

As Gaddy and Ickes frame this model, “Sector B” is considered the rent-dependent sector of the Russian economy. This sector comprises industries that should not be considered as competitive because they do not sell their goods and services on global markets and tend to focus their activities on the domestic market. Connolly describes direct subsidies (e.g. transfers from state budget, favorable state procurement rules) and indirect subsidies (the use of regulatory mechanisms to suppress competition from other suppliers) as vital to the survival of firms from within this sector because they struggle to generate consistent profits. The state role in this sector is necessary because it allows the government to manipulate the system through subsidies or other aid (awarding licenses, production, or right to sell) to specific firms and manipulate output and employment in Sector B, which suppresses competition in the domestic economy. An interview with a Moscow car retail, small business entrepreneur highlights the importance of the state in this sector, “When you become big [business], you have friends in the procuracy, the investigation committee, the ministry of the interior … No need to pay bribes to anyone.” Hence the importance of the state in Sector B for ‘administrative resources.’

Together, state-controlled Sectors A and B account for a majority of the economic activity in Russia both internationally and domestically. In 2015, a study directed by

---

14 Ibid.
15 Uwe Becker and Alexandra Vasileva, Russia's political economy re-conceptualized: A changing hybrid of liberalism, statism and patrimonialism, 88.

6
Russia’s Federal Anti-Monopoly Services found that the government and state-controlled companies (including the official public sector, SOEs, and enterprises with partial state-ownership) account for 70% of economic activity. This allows for the rents generated in Sector A to be managed by the state to support economic activity in Sector B. A wide variety of manufactured goods are produced in Russia, but low competition caused by state interference causes very little of this output to be exported. Instead, domestic consumers mostly in Sector A purchase these products and sustain domestic demand for output in Sector B; and it is likely that without government support, domestic consumers could not buy as many Russian manufactured goods. Although this relationship helps sustain the Russian economy as a whole, it also causes the creation of monopolies in Sector A (large firms but not as many) and profitable firms in Sector B if they have state affiliations. Overall, the Russian state remains the single most important actor in the economy today.

Connolly provides a third sector to add to Gaddy and Ickes’s model of the Russian economy. “Sector C” is considered the neutral-dependent sector which includes firms that operate largely outside the rent generation and management system. Instead, they tend to operate mostly at the edge of the rent management system that leads economic activity in Sectors A and B. This can be considered a relatively free sector of the economy and depends on the profitability of small and medium sized firms, not the

---

political contracts made with the state to succeed. With that independence, the Russian government greatly restricts the growth of this sector and will even engage in criminal corporate raiding.\textsuperscript{19} Data on criminal corporate raiding is difficult to find because the Russian state has the majority of control over the media release in the country. However, from 2000 to 2010, professor Michael Rochlitz created a frequency analysis of how many times terms such as “organized crime”, “property rights”, “corporate raiding”, “corruption”, and “siloviki”\textsuperscript{20} were mentioned in Russian national and regional newspapers.\textsuperscript{21} Figure 1 shows a graph of this analysis, in which one can clearly see the number of mentions for terms such as “corporate raiding”, “corruption” and “siloviki” increased significantly throughout the 2000s. With criminal corporate raiding and uneven property rights, innovation is slow and productivity growth is delayed, revealing that Sector C is significantly weaker than Sectors A and B.

Lastly, it is important to acknowledge capital as the unifier for Sectors A, B, and C. All three sectors rely on capital and hence the financial sector. It is crucial for Sector A to be successful because the economy depends on Sector A to bring in international capital and create demand for domestic firms in Sectors B, C and the financial sector. Sector A’s international involvement makes it dependent on foreign financing and technology, and because of its natural resources exports it is also dependent on the global commodity cycle. This makes the Russian economy as a whole sensitive to global

\begin{flushleft}
\footnotesize
\textsuperscript{19} Thomas Firestone, \textit{Criminal Corporate Raiding in Russia}, 1212.
\textsuperscript{20} Silovik - a Russian word used to describe politicians from the security and military services, large proportion of Vladimir Putin’s close associates being siloviki.
\textsuperscript{21} Michael Rochlitz, \textit{Corporate raiding and the role of the state in Russia}, 8.
\end{flushleft}
economic changes. Between July and December of 2014, oil prices more than halved due to a low global demand, international conflict and competition.\textsuperscript{22} This caused the ruble to lose 46 percent of its value against the U.S. dollar and worsened business and consumer confidence.\textsuperscript{23} Thankfully, the Russians were able to avoid a recession despite the economic turmoil.

On the other hand, the financial sector is subject to a degree of rationing and state control over the allocation of scarce credit in order to make cheap sources of capital available to Sectors A and B.\textsuperscript{24} State controlled banks are used as instruments of public policy and to support economic development at home and foreign policy activities abroad.\textsuperscript{25} Since 2000, under Valdimir Putin, a deliberate policy of centralization has grown since the state manages the flow of rents between sectors to achieve wider social and political objectives.\textsuperscript{26}

**Sanctions and the Energy Industry**

Given this breakdown, consider how the United States, the European Union, and their allies aimed at damaging the Russian energy industry in response to the Russian military aggression. Connolly states that, “the energy industry is the most important part of the Russian economy, at least as far as its contribution to aggregate economic activity

\begin{itemize}
  \item \textsuperscript{22} E. L., *Why the Oil Price Is Falling*.
  \item \textsuperscript{23} The World Bank, *Russia Economic Report 33: The Dawn of a New Economic Era*.
  \item \textsuperscript{24} Richard Connolly, *Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia*, 44.
  \item \textsuperscript{25} Richard Connolly, *Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia*, 46.
  \item \textsuperscript{26} Doug Messier, *Putin's Economic Vision: Centralize and Control Everything*.
\end{itemize}
is concerned, and is the key pillar of the rent-generating sector of the Russian economy.”

Therefore the Russian energy sector and its gas and oil companies were quickly restricted of capital and technology. On 29 July 2014, the United States specifically targeted VTB, Bank of Moscow and Russian agricultural Bank. Connolly considers July-August 2014 to be the first phase of sanctions and it was mostly aimed at deliveries of equipment.

The second phase he describes included the sanctions applied in September 2014. It halted the provision of services and the exchange of technical information in addition to targeting deliveries of equipment. Essentially, Russia’s future production of oil and the development of new up-and-coming oil deposits both onshore and offshore in the Arctic were threatened. Production of natural gases and exports of liquefied natural gas (LNG) were also threatened. The sanctions caused a plunge in oil and gas prices. A World Bank update on December 2015 measured that the economy was shrinking, with manufacturing down 5.9 percent, retail services down 11.7 percent and fixed capital investment down 5.2 percent. The Ministry of Energy of the Russian Federation (2009) and the Security Council of the Russian Federation (2015) described the Western meddling with the extraction of hydrocarbons as “highly politicized” and “a threat to

---

28 Ivan Gutterman, Wojtek Grojec, *A Timeline Of All Russia-Related Sanctions*.
national security” given Russia’s economic success is highly shaped by variations in global hydrocarbon prices.\(^{30}\)

From September 2014 to early 2015, oil prices fell from $100 per barrel to around $30 per barrel. To reduce the vulnerability of these threats, Russian policy makers developed a dual policy of Russification and diversification.\(^{31}\) According to Connolly, Russification refers to the support given to the domestic oil and gas equipment industry as part of the government's wider import substitution strategy. He also describes diversification as the efforts made by the Russian government and by state-owned firms towards greater cooperation with non-Western sources of capital and technology. By substituting Western capital and technology, Russia could diminish their dependency and create more competition for Western firms and markets.

Overall, sanctions on the Russian energy industry quickly affected the inflow of foreign capital and technology and increased costs. Large energy firms such as Rosneft, Transneft, and Gazpromneft were banned from new financing on 12 September 2014. By 4 March 2015, all U.S. sanctions imposed on Russia in 2014 were extended by one year in an attempt to change Russia’s foreign policy in Ukraine.\(^{32}\) On 14 March 2015, E.U. sanctions against 151 individuals and 37 entities were extended until September 15, 2015.\(^{33}\) However, the sanctions did not affect the subsidiaries of Western oilfield service


\(^{32}\) Ivan Gutterman, Wojtek Grojec *A Timeline Of All Russia-Related Sanctions*.

\(^{33}\) Ibid.
companies operating in Russia, which helped keep companies like Gazprom Neft afloat.\textsuperscript{34} In addition, the sanctions imposed by the E.U. did not entirely match the sanctions imposed by the U.S.. Since the EU has some legal relations with Russian oil companies, the U.S. was the only one to impose financial sanctions on major gas producers like Gazprom and Novatek. And unfortunately for the West, the U.S. and E.U. sanctions did not negatively affect oil and gas productions as much as they would have hoped (illustrated in Figure 2).

**Sanctions and the Defense Industry**

The Russian defense industry is not only strategically important, it is also a source of industrial employment, and it represents technology-intensive manufacturing that is successful in exports. Additionally, the defense industry is categorized as a large and politically important component of the rent-dependent Sector B in the Russian economy. The Russian defense industry differs from the energy sector in that it does not rely on global investment or capital. According to the OEC, in 2013 only 2.3 percent of Russia’s firearms imports came from the United States.\textsuperscript{35} And according to the E.U., European arms exports to Russia are relatively small, totaling around $400 million in 2013.\textsuperscript{36} After Russia’s poor performance in the 2008 war with Georgia, Putin pushed for a massive rearmament drive. In 2013, Russia increased its national defense spending from 2.1

---

\textsuperscript{34} Richard Connolly, *Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia*, 94.

\textsuperscript{35} The Observatory of Economic Complexity, *Where does Russia import Other Firearms from? (2013).*

\textsuperscript{36} Jefferson Morley, *U.S., EU Sanction Russia’s Arms Sector.*
trillion rubles to reach 3.38 trillion rubles in 2016. Sanctions to the defense industry worked to halt integrations with the global defense industry, but on a more profound level symbolized the Western disapproval of Russia’s ‘illegal’ annexation of Crimea.

In April 2014, the U.S. expended an executive order signed by former president Barack Obama. The order placed restrictions on the export of defense-related technologies and services to Russia and prohibited the sale of a broader range of defense and dual-use equipment. It was important to restrict dual-use imports because commercially-available technologies, such as microelectronics and quantum, had increasingly important modern military applications.\(^{37}\) The U.S., E.U., and their allies identified specific firms related to military development and blocked these entities from transferring any assets, receiving payments, or processing withdrawals in the U.S., essentially denying access to capital, technology, and services.\(^{38}\) Sanctioned Russian firms included Almaz-Antey (Russia’s leading defense contractor), KBPO (which manufactures the anti-aircraft system believed to have destroyed the Malaysia Airlines plane), and Kalashnikov (which manufactures a popular assault rifle).\(^{39}\) As mentioned above, arms exports to Russia only total around $400 million in 2013, but exports of dual-use goods to Russia in 2012 were worth an estimated $26 billion.\(^{40}\) Thus, targeting dual-use goods hurt Russia’s efforts to integrate with the global defense industry.


\(^{39}\) Jefferson Morley, *U.S., EU Sanction Russia’s Arms Sector.*

\(^{40}\) Ibid.
Although the U.S. and E.U. were the major imposers of sanctions starting in 2014, the role of Ukrainian sanctions was equally important when discussing the defense industry. On 7 June 2014, Petro Poroshenko was elected as the new president of Ukraine and endorsed a legislation that prohibited almost all defense cooperation between the Ukraine and Russia. This legislation included dual-use items as well as final weapons systems.\(^4\) On 14 August, a bill was approved that provided sanctions against 172 individuals and 65 entities in Russia and other countries for financing “terrorism” in Ukraine.\(^5\) Overall, Ukraine made efforts to become less dependent on Russia and show that the country is able to protect itself against Russian aggression.

To conclude, after 2008, Russia was heading toward the industry’s integration with the greater global economy and had begun to see the benefits of a more open relationship with foreign firms. In response to the violence in Crimea and Ukraine, Western and Ukrainian sanctions caused most of the joint projects between Russia and foreign firms to come to a halt.\(^6\) In August 2013, the German defense firm, Rheinmetall, was stopped by the German government from supplying parts for a Russian military training facility.\(^7\) Another German firm, MTU, decided to cancel the delivery of engines for use in Russian naval vessels.\(^8\) France also backed off sending Mistral warships to Russia— it was a $1.7 billion deal—in response to Russia’s aggressive actions in eastern

---


\(^5\) RFe/rl, *Ukraine Passes Law On Russia Sanctions, Gas Pipelines*.


\(^7\) Jefferson Morley, *U.S., EU Sanction Russia’s Arms Sector*.

Ukraine. Overall, not all deals and firms were affected by sanctions, but Russia’s defense industry experienced significant disruptions as a result of Western and Ukrainian sanctions. Together, the imposing countries worked to show Russia that it was not okay to engage in military aggression toward Ukraine.

**Sanctions and the Financial System**

The financial sector is made up of various organizations, including banks, investment funds, insurance companies and other organizations that allocate capital, or that act as intermediaries between savings and investment.\(^{46}\) Firms in Sector A (the natural resources sector) are mostly responsible for generating savings in Russia and state-owned or state-controlled organizations are responsible for managing capital flows.\(^{47}\) The allocation of capital often privileges individuals and political concerns over profitability. According to Connolly, this system has established a specific pattern of investment in Russia which grants Sector B easy access to capital, but not Sector C.

The Russian domestic financial system has gone through a series of changes throughout the years. The system changed from planned economy in the 1980s, to a chaotic and unregulated banking sector led by an even weaker Russian state in the 1990s, to new laws and regulation measures established to strengthen and develop the institutional foundations of the financial system in the 2000s.\(^{48}\) By 2014 the domestic


\(^{47}\) Ibid.

financial system had become more stable than ever before. The financial system can be seen as the glue that holds the government to politically significant Sectors A and B. Unfortunately, capital to the banks is based off of the global economy and international community; hence the sanctions immediately affected the Russian financial system.

Throughout the summer of 2014, as tensions in Ukraine increased so did the sanctions imposed on Russia. Western sanctions were mostly aimed at restricting or banning the transfer of external financing and capital. The sanctions also imposed restrictions on banks that were either state owned or linked to individuals with close ties to the government. These sanctions began as early as 17 March 2014, when the U.S. imposed visa restrictions and asset freezes on 11 Russian officials, including the speaker of the Federal Council Valentina Matviyenko, Deputy Prime Minister Dmitry Rogozin, and presidential aide Vladislav Surkov. Although they appeared aggressive, at this point the sanctions did not affect the wider financial sector. By 29 July the U.S. had placed sanctions on the financial system and specifically targeted VTB, Bank of Moscow, and the Russian Agricultural Bank. On the same day, the E.U. added eight individuals and three entities to the E.U. sanctions list, bringing the total up to 95 individuals and 23 organizations. Other countries like Australia, Switzerland and other allies of the E.U. and U.S. adopted similar restrictions.

In September 2014, the U.S. Treasury and E.U. introduced new bans on the financial sector and tightened the sanctions enacted earlier that year. An article by The

---

49 Ivan Gutterman, Wojtek Grojec A Timeline Of All Russia-Related Sanctions.
50 Ibid.
51 Ibid.
Guardian reported that, “Russia's largest bank, Sberbank, would be barred from accessing their capital markets for any long-term funding, including all borrowing over 30 days.”\(^{52}\) Additionally, “Existing 90-day lending bans affecting six other large Russian banks will also be tightened to 30-days, something U.S. officials claim will sharply increasing their borrowing costs and deny access to important dollar-denominated funding sources.”\(^{53}\) To put it another way, the maturity period for new debt issued by targeted banks was reduced from ninety days to thirty days. All together, the financial sanctions on banks and individuals reduced lending due to limited external funding and shrunken balance sheets and caused many projects to drop off at the margin.\(^{54}\)

Together, the four banks affected by the E.U. and U.S. sanctions accounted for around half of total banking assets in Russia in 2014 and were clearly designed to create an immediate effect on the Russian economy.\(^{55}\) Given that specific banks and individuals were targeted as a result of their link within the financial system, banks and firms that were not restricted experienced “soft” sanctions, making it harder to access foreign capital. Therefore, the impact of the sanctions on the financial sector was not just felt by state-owned banks or individuals, but felt by the majority of the economy.

Economist Mark Stone ran a series of regressions on the effects of news about the sanctions (in the media) and the sovereign dollar-denominated bonds due in 2030

---

\(^{52}\) Dan Roberts, *Sweeping New US and EU Sanctions Target Russia's Banks and Oil Companies.*

\(^{53}\) Ibid.


(“Russia 30s”) and the five year sovereign CDS (“5-year CDS”) (Figure 3). Stone’s research led him to conclude that news on the sanctions induced investors to discount Russian security prices, increased the conditional variance of investor pricing, and sanctions announcements generally reduced returns. As a result, many aspects of the Russian economy and Russian political economy were affected due to their hybrid economic system that was dependent on a rent redistribution system.

**Conclusion**

In 2014, Russia’s political economy and was made up of three main sectors. According to political economist Richard Connolly those were the energy industry, the defense industry, and the financial sector. In response to Russia’s actions in Ukraine, American sanctions were strategically placed to attack the Russian economy via individuals, companies, organizations. Moreover, the West targeted vital aspects of Russia’s rent redistribution economic system. With the system being based on the generation of rents from Sector A and the redistribution of those revenues to dependent Sector B and independent Sector C. The West interrupted capital flows with sanctions to the Russian market, which as a whole was entirely dependent on the price of hydrocarbons and foreign capital. Next, we will look at how Russia responded to the economic aggressions and the state’s involvement in ensuring Russia’s prosperity in spite of adversity.

---

II. THE RUSSIAN RESPONSE TO THE SANCTIONS

The Russian economy suffered a series of economic shocks due to the Western sanctions imposed on the country starting in the spring of 2014. The Russian state dealt with each set of sanctions differently, responding with an array of legislations and retributional-sanctions that were deeply contingent on what aspect of the Russian economy had been targeted by each specific sanction. Political economist Richard Connolly identifies three main efforts by the Russian state to salvage the economy: securitization, import substitution, and the diversification of Russia’s foreign economic relations. As previously seen, the Russian state remains the single most important actor in the economy today. For example, the four largest state-owned banks in Russia have over 55 percent of the banking sector’s total assets and around two-thirds of the banking sector’s assets.\(^5\) In order to save the Russian economy, the state pushed for securitization, Russification and diversification in Russia’s most important sectors of the economy— the energy industry, the defense industry and the financial system. This chapter will analyze the Russian response to the Western sanctions and what the state’s response looked like in each economic sector with the support of quantitative analysis of the effects of the sanctions. The chapter explores how and why the state’s involvement was the key factor ensuring that Russia would not just survive the sanctions, but thrive in the global economy.

The basis of my analysis lies on the understanding of securitization, substitution and diversification as response actions made by the Russian state. The identification of

\(^5\)Finlands Bank, *State Banks Dominate Russian Banking Sector.*
these concepts within the three main sectors of the economy was developed by political economist Richard Connolly, which he expands on in his book *Russia’s Response to Sanction*. In the book, securitization is explained as the securitization of economic policy in those areas of the economy targeted by sanctions. Russification was aimed at import substitution of foreign technology and capital with Russian products, and diversification was essential to expand Russia’s foreign policy relations and diversify necessary sources of capital. Connolly’s concepts enabled me to categorize the different types of responses enacted by the Russian state into three main strategic responses, which provides a clear structure to the following chapter. Therefore, it is necessary to acknowledge Connolly’s influence in my writing.

**Russian Response in Energy Industry**

As previously discussed, the energy industry of the Russian economic system is the most important part of the Russian economy as it greatly contributes to the aggregated economic activity of the Russian economy. Before the sanctions were imposed, in 2013, 70 percent of Russia’s net exports were categorized as mineral products.\(^{58}\) After two years of the effects of the sanctions, that number dropped by 10 percent.\(^{59}\) In the same timeline, mineral product exports to the United States dropped from 60 percent to 43 percent.\(^{60}\) It is clear that the energy industry accounted for a large part of Russia’s net

---


\(^{59}\) Ibid.

\(^{60}\) The Observatory of Economic Complexity, *What does Russia export to the United States?* (2013).
exports. Given the energy industry is also at the head of Sector A— the-rent producing sector of the rent-redistribution economic system— it was crucial for the Russian state to protect the energy industry in order to salvage the entire economy.

Securitization, Russification and diversification were useful tools, both complementary and overlapping, used by the Russian state to respond to Western sanctions. In the case of the energy industry, import substitution and diversification took charge because the industry to require foreign investment and technology to prosper and continues to do so. In a short publication by Global Risk Insight titled, Russia’s Energy Sector: Evaluating Progress on Import Substitution and Technological Sovereignty, the sanctions significantly impacted the energy sector negatively:

Under US sanctions, the Russian energy sector was prohibited from the provision, exportation, or re-exportation of goods, services, or technology in support of oil exploration or production for deepwater (more than 152 metres), Arctic offshore, or shale projects. These restrictions apply to state-owned and the largest energy companies such as Gazprom, Gazprom Neft, LUKOIL, Surgutneftegaz, Rosneft and subsidiaries owned by more than 50% by these companies. EU restrictions targeted the export or sale of certain energy-related equipment and technology destined for Russia’s oil exploration and production in deepwater (more than 150 metres), Arctic offshore and shale projects. Services such as hydraulic fracturing, drilling, well testing, and logging were prohibited. In addition, completion services and the supply of specialized floating vessels were banned.\footnote{Global Risk Insights, Russia’s Energy Sector: A GRI Special Report Evaluating Progress on Import Substitution and Technology Sovereignty, 4.}

Combined, the technological and financial sanctions targeting energy-related banking between Russia and the West hit the Russian economy the hardest. Some of the major projects delayed or cancelled were 11 projects and cooperations with Rosneft, three deals
from Gazprom, one deal with Oracle and one joint venture with LUKOIL. In conclusion, the energy industry relied heavily on Western technologies and financing. See figures 3, 4, and 5.

To reduce the dependency of the Russian economy on Western companies and individuals, securitization of the Russian energy market was attempted through import substitution and diversification of both U.S. and E.U. resources. This provided an opportunity for the diversification of market shares to non-Western countries. More specifically, diversification toward Asian countries became an emergency measure, but for the Russian government import substitution was meant to be a long-term strategy.

Russia’s response to the sanctions, is revealed in President Vladimir Putin’s meeting with the Commission for Strategic Development of the Fuel and Energy Sector and Environmental Safety in which he discussed creating a cohesive import substitution programme. On 27 October 2015, President Putin met with the Commission to discuss how to protect the Fuel and Energy Sector so that it could continue to act as the driver of the national economy as a whole. While addressing the Commission, Putin highlighted some main points in his opening speech that gave the public insight into what the programme should look like. First, he deemed it imperative for state-run infrastructure projects to cooperate with energy companies’ investment programs. Second, he highlighted the need for an increase in the availability of domestic technologies and

\[ \text{Global Risk Insights, Russia’s Energy Sector: A GRI Special Report Evaluating Progress on Import Substitution and Technology Sovereignty, 5.} \]

\[ \text{President Vladimir Putin, Meeting of the Commission for Strategic Development of the Fuel and Energy Sector and Environmental Safety.} \]
equipment necessary for Russian companies and domestic consumers, as well as the transparency of the orders. Third, Putin said it was imperative to continue to diversify exports of Russian energy resources and enter new markets to be more flexible to changes in trends. Fourth, improvements are necessary to the stock exchange mechanisms in trading oil, oil products and natural gas in addition to the creation of an independent national price indicator for fuel and energy products.

Oddly enough, President Putin stated that these measures were in response to the unstable world energy markets and the crisis in the world energy sector, with no mention of the Western sanctions. Thus, it is easy to see how reluctant Putin was to admit any sort of defeat to the West, a concept that will be further expanded on later. An important reason to highlight Putin’s meeting with the Commission is that they outline the exact steps the Russian state took to resolve the challenges generated by the sanctions. The program was well underway prior to the October meeting, but it serves to highlight how the Russians responded to the damages and potential lasting effects caused by the West, in 2014 and beyond.

The first step illustrated the need for cooperation between the Russian state and energy companies. This can be seen by the creation of an Industrial Development Fund by the Ministry of Industry and Trade on 3 September 2014, only five months after the first sanction. The fund was meant to provide targeted loans of between 50 and 500 million rubles at the interest rate of 1 percent and 5 percent per annum for up to 7 years

---

64 Invest Russia, *Industrial Development Fund.*
on a competitive basis. With the fund, the Russian state was able to provide some financing for the industry, but it was not enough. The plan was to increase the fund up to 70 billion rubles by 2019, of which 20 billion were allocated in 2015. Throughout the year, Russian officials intensified its import substitution and localization programme, which eventually became the programme Putin mentioned in his speech months later. As of April 2015, the programme was worth RUB1.5 trn (USD30 bln), out of which RUB235 bln (USD4.7 bln) would be funded from the federal budget. The programme aimed at substituting and localizing imported goods, services, and technology necessary for the extraction, production and sale of oil and gas. The Ministry also committed to compensating 50 percent of the costs for pilot industrial studies and subsidize 10 percent for the heavy industry sector.

Second, increasing the level of localization for technologies and equipment needed by Russian companies and demanded by domestic consumers meant lots of opportunities for non-Western firms. The Russian Energy Ministry planned on decreasing the level of import in oil and gas machinery from 43 percent in 2015 to 60 percent by 2020. The imported goods that needed to be substituted specifically included equipment and technologies for off-shore, horizontal, controlled-angle and directional drilling, and equipment for hydraulic fracturing. Russia began to substitute their supply of equipment

---

65 Ibid.
67 Global Risk Insights, Russia’s Energy Sector: A GRI Special Report Evaluating Progress on Import Substitution and Technology Sovereignty, 10
69 Ibid.
of the drilling rig market through deals with China. Drilling Yantai Jereh Oilfield Services Group and Shaanxi Aipu Machinery delivered technologies and equipment for drilling wells and China Oilfield Services committed to drilling in the Kara Sea.\footnote{Global Risk Insights, \textit{Russia’s Energy Sector: A GRI Special Report Evaluating Progress on Import Substitution and Technology Sovereignty}, 20. The Chinese company did not drill in the Kara Sea until 1 August, 2017 but it was confirmed that the field was called Leningradskoye and its license holder was Gazprom Neft. (see \url{https://thebarentsobserver.com/en/industry-and-energy/2017/08/chinese-rig-proceeds-drilling-kara-sea})} Unfortunately, in comparison to the Western equipment and delivering technologies, the quality of the Chinese services did not meet the same standards as it was more expensive and it took longer to commence. Offshore drilling platforms located in the Russian Arctic and Eastern Siberia meant hazardous environmental conditions and posed a challenge to the inferior Chinese goods and services.

Russian equipment producers and service providers also worked to substitute low and medium technology solutions for energy industries. The currency devaluation of the ruble discouraged imports and made domestic production cheaper. The Russian state capitalized off of this logic and invested in developing the production of Russian pipes for offshore projects.\footnote{Roscongress, \textit{The Strategy of Import Substitution in the Oil and Gas Industry: National Projects and Digital Technology}.} One of the most successful Russian firms to tackle import substitution was Gazprom. A July 2018 article on World Pipelines praised the success of Gazprom achieving the use of 100 percent Russian-produced pipes and fittings in 2017.\footnote{World Pipelines, \textit{Gazprom Following Comprehensive Import Substitution Strategy}.} Although this was a unique case because Gazprom began their import substitution efforts in 2012— before the sanctions, it emphasizes the efforts made by Russia as a whole to...
protect the energy sector. However, it is important to note that import substitution did not work as fast as the Russian state had predicted.

The Russian strategy was overoptimistic and oversimplified. Many risks were taken with this strategy. As previously mentioned, many Russian businessmen were reluctant to buy Chinese goods and services due to their poor quality. Additionally, there were many cultural challenges due to the complexities of Chinese politics and culture in doing business with Chinese firms. Domestic equipment producers and service providers did not have the technology to produce the majority of the necessary components in production, although the Russian goal was never to substitute 100 percent of imports with Russian products.

The third point worth noting, stated by Putin in his opening speech, was the imperative diversification of exports of Russian energy resources to enter new markets and become more flexible to changes in trends. Russian officials had to substitute who and how they received financing because access to capital was blocked for many firms beyond those officially sanctioned — Rosneft, Gazprom Neft, Novatek, and Transneft. This was due to the fear of the international community that the existing sanctions could be expanded to a wider range of companies. Rosneft was a direct victim of the sanctions. Because of the lack of access to capital, the Russian firm was not capable of replenishing its existing stocks of external debt financing. The sanctions had banned long-term financing to Russian firms but allowed short-term financing for a period of up to 30 days.

73 Richard Connolly, Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia, 32.
In efforts to substitute foreign capital, Rosneft began to explore alternative options including short-term financing. The Russian state used public funds to support the energy funds with high need, but it was not a long-term solution. In December 2014, Rosnoft had to pay a $7 billion loan to Western banks. To do so, the firm, “sold bonds to commercial banks in domestic currency and then immediately exchanged the ruble-denominated bonds for dollars in a closed auction in the Bank of Russia,” (Connolly, 104). By February 2015, Rosneft was raising money from Swiss traders to be able to pay a second $7 billion loan to Western banks. They did so by committing to sell around 500,000 metric tons of oil a month to Trafigura, the Swiss trading house. Although Rosneft provides a specific example of a short-term solution of diversification of foreign capital from external sources, many similar deals worked around the sanctions to relieve Russian energy firms from financial troubles at least momentarily. Companies like Novatek and Sibur were lucky and able to attract Chinese funds, but these later proved to be the exception not the norm.

An argument could be made that the then-existing Russian energy system and economic mechanisms that came with it failed to protect the Russian economy and left it sensitive to international disputes, such as the Western sanctions. This leads to Putin’s fourth argument as to what the import substitution programme should encompass. He expressed the need for improvements to the stock exchange mechanisms in trading oil, oil products and natural gas in addition to the creation of an independent national price

---

74 Gleb Gorodyankin, *Exclusive: Rosneft Raising Money from Swiss Trader as Debt Payment Looms.*
75 Ibid.
indicator for fuel and energy products. To protect sanctioned companies and future deals, the Ministry of Energy supported classifying information about the finances of oil and gas companies. More importantly, Putin also wanted to stop using foreign currencies, especially dollars, in domestic settlements, which would help strengthen the ruble. With the new strength, Putin imagined the strengthened national currency to be used more widely in transactions with nations that have active trade with Russian. In 2015, Putin sought to ensure the transition to rubles would benefit Russian economic actors. Due to the volatility of the ruble to hydrocarbons, the negative relationship with the U.S. dollar and the logistical nightmare that transitioning to ruble payments would entail, it is highly unlikely that the Russian energy industry would make this transition in the near or distant future.

Overall, the plan by the Russian state was satisfactory and it was executed proficiently. Where it fell short was the reality that the goals made in 2014/15 were not feasible. The Russian state was too optimistic about finding reliable candidates for import substitution and the government did not have the resources available to substitute these goods and services domestically. Additionally, the diversification of exports was not successful because the demand for these products was already placed in markets that needed them. Even the securitization methods were too unrealistic for the Russian state to undertake. Therefore, the Russian response in the energy was not unsuccessful, but it did

---


77 President Vladimir Putin, *Meeting of the Commission for Strategic Development of the Fuel and Energy Sector and Environmental Safety*.
fall short of the high standards set by the Russian state. However, Putin did not let the intimidations from the West alter his foreign policy agenda and continued to do as he pleased in Ukraine. Yes, the sanctions negatively impacted the oil and gas entities significantly and a handful of energy firms suffered the loss of billions of rubles, even billions of dollars. In the long run, however, the energy industry persevered.

**Russian Response in Defense Industry**

Securitization, import substitutions, and the diversification of Russia’s foreign economic relations were all aimed at salvaging the Russian economy in the present and providing the necessary tools to protect the Russian economy in the future. Similar to the energy industry, the defense industry relied on foreign goods and services to function at its maximum capacity. Therefore when it came to responding to the Western sanctions that had targeted the defense industry, securitization of the Russian defense sector was achieved through import substitution. However, given the entire nation's defense mechanism’s reliance on the success of the defense industry’s market and economy, import substitution was approached from a different angle. The Russian state replaced import substitution with Russification, which meant the industry was to substitute its imports with its own goods and services to secure the protection and perseverance of Russia’s national defense system and develop a new market reliant on domestic production.

Until 2014, Russia limitedly benefited from NATO. With the invasion of Crimea and aggressions to the ex-Soviet state, Russia’s relationship with Ukraine, the West and
NATO changed. This made the sanctions toward the defense industry very deliberate in injuring the production and utilization of defense-imports to Russia. As soon as the sanctions began, the Russian defense industry panicked and responded to the sanctions by increasing the purchase of prohibited items.\(^78\) Russian firms decided to stockpile the goods banned by the sanctions as a short-term solution, but this was not going to hold them over for long. Similar to substitution in the energy industry, the Chinese goods offered were of poor quality in comparison to its Western counterparts. Additionally, the services necessary for the technically demanding procedures of the defense industry required trained personnel and equipment that had been banned by the restrictions on technology transfers.\(^79\)

The short term-solution of Chinese substitution provided a serious problem due to the inferiority of the goods and lack of services available. As a long-term solution, the Russian state publicly stated its commitment to Russifying all imports of goods and services indispensable to the defense industry. In a 16 July 2015 video conference between President Vladimir Putin and the National Center for State Defense Management, Putin engaged in conversation with Yuri Borisov—at the time he served as the Deputy Minister of Defence.\(^80\) Borisov stated that, “in the period from 2014 to 2025,

---


Connolly thanks Maxim Shapovalenko of the Moscow-based Centre for Analysis of Strategic Technologies for explaining the problems encountered by the defense-industrial firms due to the Western sanctions.

\(^79\) Ibid.

\(^80\) President Vladimir Putin, *Single Day of Acceptance of Military Products*. 
826 samples of weapons and military equipment were planned for import substitution.\textsuperscript{81} For the first half of 2015, Ukrainian CRP was replaced in 57 samples out of 102 planned. [Which was] more than 55 percent of the annual plan.\textsuperscript{82} This means that by 2025 Russia will have reached 85 percent of domestic production for military components and equipment.\textsuperscript{83} Although the Russian efforts seemed promising in the first half of 2015, a 2018 article by \textit{The National Interest} revealed that the fulfillment of this proposal has been pushed back several times already.\textsuperscript{84}

This long-term solution of Russification can be seen in two efforts: the substitution of Ukrainian goods and the substitution of Western suppliers of goods and services. Prior to the sanctions, in February 2012, then Prime Minister Vladimir Putin announced his candidacy for a fourth term he pledged to enact a 10-year and $772 billion rearmament program in order to modernize all branches of the Russian military.\textsuperscript{85} Part of Putin’s efforts in this program specifically involved Ukrainian firms because Russia and Ukraine have had positive and intertwined military relations since Soviet times. They both rely on each other for imports and exports. When the Ukrainian sanctions targeted the Russian defense industry, Putin allocated 50 billion rubles to fund a program to substitute Ukrainian military products.

\begin{flushleft}
\textsuperscript{81} This exact data may not be precise because different sources state different numbers, usually ranging from 80 percent to 95 percent.
\textsuperscript{82} Ibid.
\textsuperscript{83} Mathieu Boulegue, \textit{Here Is How Russia's Military Industry Is Responding to Sanctions}.
\textsuperscript{84} Ibid.
\textsuperscript{85} Fred Weir, \textit{Fearing West, Putin Pledges Biggest Military Buildup since Cold War}.
\end{flushleft}
On 17 July 2014, the Ukrainian President Petro Poroshenko froze all arms sales and contracts to Russia. This deeply injured Russia and as short-terms solutions continued to prove unsuccessful, Russian officials were forced to find another solution. Klimov Enterprises, a St. Petersburg-based company, was tasked with producing key helicopter engines previously produced by Ukrainian firm Motor Sich, while the Russian company NPO Saturn JSC was assigned the accelerated manufacture of gas-turbine engines. The same, NPO Saturn became the first Russian company equipped with a full set of competences for series production, maintenance and repair of the civil aircraft engines to be certified in Russia and Europe. Additionally, they built a new ‘plant’ to improve the competencies of engine-building where they actively developed manufacturing infrastructures. Unfortunately for the defense industry, the high demand for domestic production led to cost control, and coinciding quality issues for the Russian companies. They usually lacked high-skilled talent and were limited in their technological capabilities. The companies were forced to undertake new tasks and the development of a new market is difficult for any company in any economy.

The substitution of Western suppliers of goods and services targeted defense-industrial and dual-use items. The Russian state demanded large-scale Russification for most products supplied by E.U., and NATO countries. A program to

---


88 UEC-Saturn, *History. PJSC.*

89 Ibid.

90 Ibid.
substitute these products was enforced shortly after the program replacing Ukranian products was enacted. However, similar to Ukranian product-substitution, domestic companies struggled to fulfill the role left behind by the E.U. and some members of NATO. In the same video conference that took place between President Putin and the National Center for State Defense Management, specific details about the Russification of NATO and E.U. goods and services. The Deputy Minister of Defense shared that, “For completing products of NATO and E.U. countries, import substitution was carried out in a full cycle in seven samples out of 127 planned. Work started in 2015 and requires time to develop, adapt and test. Therefore, this low figure at the [then-moment] is clear to us. All import substitution schedules were taken under control; an insurance stock was created in the most problematic areas.”

After the iron curtain fell, the USSR began to re-engage with the outside world and information and products began to be shared between Russia and the West. By 2014, Russia was benefiting from its position as a major global arms importer and exporter. This left the defense industry completely vulnerable to foreign imports and thus the industry heavily felt the effects of Western and Ukranian sanctions. Although import substitution and Russification efforts were made, budget constraints, competition of higher-quality products, and lack of technology and innovation meant that most of the state’s ostentatious new projects have not made it very far. The Russian defense industry has not made serious changes to the mechanisms that failed in 2014, as a result

91 President Vladimir Putin, Single Day of Acceptance of Military Products.
92 Stratfor Worldview, Russia’s Defense Industry Finds Itself in a Tailspin.
the future of the Russian military and its economy can still be impacted by future sanctions.

**Russian Response in Financial Sector**

The Russian financial sector encompasses entities such as banks, investment funds, insurance companies, and organizations that can allocate and manage capital across different sectors of the economy. It includes Sectors A, B and C, with some receiving more capital than others depending on the benefits the Russian state will receive from social and political activities they are engaging in — like the rest of the entities in the Russian economy. In comparison to the rest of the world, the Russian financial system is relatively young; capitalism and free commerce were not introduced in Russian until early 1990s. Even then, it would take years for any efficient financial system to be implemented in a country. On top of it being small in size, the financial system is state controlled, meaning the state commands who receives access to capital and how much. The system is also bank-centric and state controlled because the state controls which banks receive capital. Given the size and importance of Sector A—responsible for natural resource exports of oil and gas— the price of oil is one of the two main indicators of economic prosperity in Russia. The other indicator of economic prosperity is foreign capital. Scholars even argue that foreign capital in the Russian
financial system is not just an indicator, but the single most important determinant of successful economic performance of the Russian economy.93

As discussed previously, the Russian state used three main tools to respond to the Western sanctions. In the financial system, securitization was the main objective, and it was achieved through Russification and diversification. Russification was aimed at erasing the financial flows and services dependent on foreign capital—to help ease the immediate effects of the sanctions and lack of capital caused. Diversification of foreign sources of capital and financial services were implemented to ensure the long-term security of the financial system. Overall, the state prioritized the securitization of Russian domestic and international finances to ensure the protection of the Russian economy as a whole.

When analyzing the Russian response to the 2014 Western sanctions, it is key to note that within weeks of the sectoral sanctions being imposed, oil prices dropped globally and independently of the sanctions. The price of oil plunged from around $100 per barrel in the summer of 2014 to under $50 per barrel by January 2015.94 This is vital because there is a distinction between the economic reforms enacted in response to the drop of oil prices and in response to Western sanctions. However, due to the negative impact of both the sanctions and oil devaluation, there exists substantial overlap in the state’s response to these challenges.

94 InflationData.com, *Historical Crude Oil Prices (Table).*
Per usual, the Russian state began its response through Russification of foreign goods and services. In the case of the financial system, it was essential for the Russian state to find ways to substitute foreign capital. The domestic financial system was entirely reliant on the international economy and its entities. With the combination of the sanctions and falling oil prices, there was an aggravated effect. The state was faced with a stop of capital flows to Russia, which the state considered an issue of national security.95 The banking sector panicked, companies hoarded foreign exchange in order to pay off their future debts, and a credit squeeze spread through the sector due to the pressure on the ruble and foreign investors pulling out of deals and entire companies.96

By November 2014 the Central Bank of the Russian Federation was using reserves to deter the fall of the ruble, which amounted to over 90 billion rubles.97 Additionally, in order to increase the demand and value of the ruble, the CBR raised interest rates from 5 percent to 10.5 percent by early December 2014.98 On 15 December, the interest rate increased again to a high of 17 percent, the sixth increase by the CBR in attempt to slow down the depreciation of the ruble.99 On 22 December, the first loan was made to bailout a bank due to the crisis. The CBR lent Trust Bank 30 billion rubles to help it pay its foreign debt.100 Throughout 2014 and 2015, the Russian state and the CBR

95 Richard Connolly, Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia, 172.
96 Juliet Johnson and David Woodruff, Currency Crises in Post-Soviet Russia, 628.
97 Juliet Johnson and David Woodruff, Currency Crises in Post-Soviet Russia, 629.
98 Ibid.
99 Olga Tanas and Anna Andrianova, Russia Defends Ruble With Biggest Rate Rise Since 1998.
100 Larry Elliott, IMF Raises Fears of Global Crisis as Russian Bank Forced into Bailout.
were coerced into selling bonds and lending money to avoid the bailout of other banks and firms.

As previously mentioned, Rosneft was a high-profile case because it suffered heavy consequences from the sanctions. As Russia’s largest petroleum company, its success greatly impacted the entire Russian economy. The speculated reason as to why the CBR was forced to increase the interest rate to 17 percent on 15 December was due to the sale of bonds to Rosneft. The CBR helped Rosneft raise $15 billion to meet its foreign debt repayment, at the same time the ruble dropped around 20 percent of its value in just one day.\(^\text{101}\) On 26 January, Rosneft was given permission to purchase $6.2 billion (625 billion rubles at the time) worth of bonds to finance projects and production plans for the controlled company.\(^\text{102}\) It was not until 3 February 2015 that the CBR admitted the massive Rosneft bond sale not just helped, but fueled the ruble crash in December.\(^\text{103}\)

Despite taking emergency measures, the ruble was still not recovered. Throughout 2015, the CBR decreased interest rates multiple times. On 30 January, the Bank unexpectedly cut the interest rate from 17 percent to 15 percent.\(^\text{104}\) On 13 March, the CBR cut the interest rate for the second time in 2015, down to 14 percent.\(^\text{105}\) And again

\(^{102}\) Thomas Hirst, *Russian Oil Giant Rosneft To Issue $6.1 Billion Of Bonds Amid Fears Of Another Ruble Rout.*
\(^{103}\) Thomas Hirst, *Russian Central Bank Admits Massive Rosneft Bond Sale Fuelled the Ruble Crash.*
\(^{104}\) Kim Hjelmgaard, *Russia Unexpectedly Cuts Interest Rates to 15%.*
\(^{105}\) Andrey Ostroukh, *Russia Cuts Interest Rates.*
on 30 April, to 12.5 percent. The role of the Russian state was clearly crucial to the performance of the Russian economy in 2014 and 2015.

Along with interest rate policies and targeted intervention, the Russian state aimed at fortifying the domestic financial system. According to political economist Richard Connolly, in early 2015 the Russian government developed an anticrisis package, which was focused on recapitalizing the most important state-owned banks with the supply of around $22 billion (1.4 trillion rubles at the time). Throughout the year, the capital available for state-owned or state-connected banks grew by nearly 900 billion rubles, in comparison with less than 100 billion rubles for independent banks. The goal was for these banks to provide access to credit Russia’s most important enterprises— from Sectors A and B— that had been affected by the capital outflows, sanctions, and the increasing economic uncertainty.

Prior to the sanctions, the Central Bank engaged in the process of cleaning up, or as Connolly states, “sanitizing” the domestic banking system. “Sanitizing” ensured that smaller banks that were engaging in excessively risky activities or that were close to bankruptcy would not fail by merging with larger banks. These larger banks received capital injections from the central bank and were more stable. This process was aggravated by the economic crisis of 2014-2015, and it caused the state to strengthen regulatory and macroprudential requirements. In total, around 350 banks closed or were

---

106 Ibid.
108 Ibid.
forced to close between 2013 and 2017, increasing the share of state-owned banks in the banking sector to around 80 percent. The design was to expand capital controls in order to grow the domestic financial system and isolate it from foreign threats. Overall, the Russian state was able to achieve the Russification of the financial system through the implementation of state funding and macroeconomic policies.

Diversification of foreign capital in the financial system was significantly more difficult than diversification in the other two industries. The Russian economy was so attached to the price of oil that it did not make the Russian market a secure investment for foreign capital holders. A 13 October 2014 headline on the online publication of Independent read, “Investors abandon Russia as Putin risks economy for Crimea.” The article communicates that even with the mounting economic pressure of the sanctions, President Vladimir Putin showed no signs of softening Russia’s foreign policy toward Ukraine. This left Putin with one solution: Russia would have to find new foreign investors. This proved to be no small challenge because the ruble had already lost one-third of its value in only three weeks in December 2014.

In the first six months of 2015, investors pulled almost $75bn out of Russia. This primarily included investors from the U.S., the E.U., and their allies. The sanctions were meant to deter Putin, but he was not going to change his foreign policy, thereby creating a cycle in which neither side was going to cave. The Russian financial system still needed

---

109 Richard Connolly, Russia's Response to Sanctions: How Western Economic Statecraft Is Reshaping Political Economy in Russia, 176
110 Sergey Aleksashenko, The Ruble Currency Storm Is over, but Is the Russian Economy Ready for the next One?
foreign capital to operate; so in order to regain foreign investors, the state pushed for expanding foreign relations with non-Western markets.

In 2008 Russia fell into a recession, since then, China became a significant trading partner for Russia even with its fragile economic system.111 With limited access to Western markets or capital, the Russians accelerated their relationship with China in 2014. The Chinese were willing to help, with the goal of echoing Putin’s call for Russia’s economic sovereignty as an attainable national objective against the application of Western sanctions. To help the energy sector, on 21 May 2014 Chinese state-owned gas company CNPC signed a $400 billion contact with Russian Gazprom.112 The deal committed Gazprom to deliver Russian gas to China for 30 years. This deal exemplifies Russia’s economic shift toward Asia.113 The Russian government continued to make efforts, and they proved successful. On 13 October 2014, the Chinese Premier Li Keqiang visited Moscow and signed 38 deals to allow for deeper cooperation between Russia and China, and a currency swap worth 150 billion yuan ($25 billion).114 The deals involved energy, trade and finance agreements and they demonstrated the willingness of China to help Russia against the West.

To further develop their access to foreign capital, Russia invested their resources in expanding their involvement in markets with non-Western players. By 2010, five major emerging national economies: Brazil, Russia, India, China and South Africa, had

112 Alec Luhn, *Russia Signs 30-Year Deal Worth $400bn to Deliver Gas to China.*
113 Ibid.
114 Vladimir Soldatkin, *Russia Signs Deals with China to Help Weather Sanctions.*
coined the acronym BRICS. In 2009, the BRICS nations began to meet annually in the form of summits. During the 15 July 2014 BRICS summit held in Fortaleza, Brazil, BRICS leaders signed an agreement to create the New Development Bank.  

According to the New Development Bank’s website, “leaders stressed that the NDB will strengthen cooperation among BRICS and will supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth.”

**Conclusion**

In 2014, Russia was faced with the reality that the Russian economic system relied heavily on foreign actors in order for it to prosper. The energy sector was completely dependant on the price of oil, the defense sector relied on Western technology and innovation, and the financial system was left in shambles without foreign capital. Through the use of securitization, Russification, and diversification, the Russian state was able to remedy some of the short-term damage caused by Western sanctions. However, the most important long-term effect caused by the sanctions was that the Russian Federation was forced to re-examine their relationship with the West.

---

IV. INTERNATIONAL RELATIONS PERSPECTIVE

After addressing Russia’s political economy, reporting on the Western sanctions and analyzing the Russian response to the sanctions, one has to wonder: what was the purpose of the Western sanctions in 2014, and how did the sanctions impact Russia long-term? In 2014, the sanctions carried more weight than the economic repercussions they cost Russia. They were used as a symbol to deter Russia’s foreign policy agenda. Today, the impact of the sanction is still felt in Russia’s political economy and has helped shaped the route of Russia’s current foreign policy. Through an exploration of the 2014 Western sanctions against Russia, this chapter will provide an analysis of the effects to Russia's domestic, economic, and political climate and how that affects how they engage as an international actor.

Purpose of the Sanctions

It is important to understand the purpose of the sanctions because besides the negative economic impact on Russia, the sanctions signified that the Russian Federation was strong enough as an international actor for the United States and the West to feel threatened. Since the fall of the Societ Union in 1991, the emerging democratic federal republic had a long way to go before it could be considered a potential superpower. To answer the question of what was the purpose of the Western sanctions in 2014, we will examine the significance of the sanctions in the first two years that followed the Annexation of Crimea.
As analyzed in Chapter III, the sanctions had a considerably negative effect on the Russian economy. In combination with the drop of oil price in 2014, the sanctions brought about a recession to Russia that lasted until 2015. Chapter II, provides more specific effects of the sanctions, but Figure 7 displays a broader effect on the economy. The graph presents the annual percentage of GDP growth in the Russian Federation from 1990 to 2018.\textsuperscript{116} After a slow recovery from the Great Recession of 2008-2009 that Russia endured due to falling oil prices,\textsuperscript{117} by 2013 the annual GDP growth was at 1.8 percent. The consequences of the 2014 sanctions led GDP growth to drop to .7 percent in 2014 and -2.308 in 2015. By 2016 GDP growth recovered to .329 percent. Therefore, there is no argument that the intended negative impact of the Western sanctions on the Russian economy was effective.

The clear purpose of the Western sanctions was to deter Russia from its foreign intervention in Ukraine through the damages caused to the Russian economy. In 1947, the Truman Doctrine promised assistance to all anticommunist allies, which helped coin the term of global policeman as a descriptor for the United States. After the Soviet Union fell, the U.S. truly embodied its role as the police of the world when it involved itself in Somalia (1993), Afghanistan (2001), and Iraq (2003), to name some examples. In 2014, the U.S. made it its goal to notify Russia—though economic sanctions—that their intervention in Ukraine was unacceptable. This why the underlying purpose of the

\begin{itemize}
\item \textsuperscript{116} The World Bank, \textit{GDP Growth (Annual %) - Russian Federation.}
\item \textsuperscript{117} Zeljko Bogetic, \textit{Russia: Reform After the Great Recession.}
\end{itemize}
sanctions was for the United States to assert its superiority in the world and take a public stand against Russia, its communist archenemy.

On 6 March 2014, former President Barack Obama issued a statement at the Office of the Press Secretary. For the first time, he addressed the crisis in Ukraine to the people of the United States and the international community. Within the first minute of his speech, Obama states:

Since the Russian intervention, we’ve been mobilizing the international community to condemn this violation of international law and to support the people and government of Ukraine. This morning I signed an executive order that authorizes sanctions on individuals and entities responsible for violating the sovereignty and territorial integrity of Ukraine, or for stealing the assets of the Ukrainian people. According to my guidance, the State Department has also put in place restrictions on the travel of certain individuals and officials. These decisions continue our efforts to impose a cost on Russia and those responsible for the situation in Crimea. And they also give us the flexibility to adjust our response going forward based on Russia’s actions.118

Immediately, he voices the measures the U.S. took in response to Russia’s “violation of international law,” stating that they were meant to “impose a cost on Russia and those responsible for the situation in Crimea.” President Obama also leaves the door open for negotiations with Russia in the future, only if their actions change. Next, he highlights that the U.S. has full support from its European allies in the implementation of Western economic sanctions, which helps deliver a bigger threat to Russia.

Through the use of economic sanctions, Obama and the United States ‘saved face’ in order to fulfill their role as a global policeman. In foreign policy, ‘saving face’ signifies a desire to avoid humiliation or embarrassment in order to maintain dignity and

118 Barack Obama, Statement by the President on Ukraine.
influence or preserve reputation. The U.S. wanted to keep its image as the most powerful superpower and thus was forced to act, but had no desire to enter into another Cold War with Russia. In a 26 March speech delivered to the European Union and NATO allies in Brussels, President Obama stated that the U.S. had no intentions of deterring Russia through the use of military force. This further confirms that the U.S. was forced to acknowledge Russia’s unlawful actions in Ukraine and do something in response only to preserve its reputation. Therefore, the United States ‘saved face’ as a world power to the international community, through the use of Western sanctions.

Five months after the U.S. announced there was no military solution to the Crimea crisis, the Russian government increased its military presence in the region. In an August visit to the Black Sea peninsula, Putin said, “The Defence Ministry prepared ... a separate programme for the creation and development of military forces in Crimea. I approved this programme. It will not be excessive, it will not be expensive.” Meaning, the Russian state was unphased by the cost generated by the Western sanctions and did not care about negotiating with the U.S., even with the number of sanctions increasing. Given Russia could not be bothered to remove military intervention in Crimea, the U.S. was left with ‘tied hands’. Political economist James D. Fearon wrote in his article, Signaling Foreign Policy Interests: Tying Hands versus Sinking Costs, that state leaders trying to credibly communicate their foreign policy interests to other states will often use

119 Alisa Brill, Saving Face.
121 ITV News, Putin: Russia to Set up Military Force in Crimea.
‘tying hands’ as a costly signal.\textsuperscript{122} The term is named as such because a state ‘ties the hands’ of another state by creating audience costs that they will suffer ex post if they do not follow through on their threat or commitment. The U.S. fell victim to ‘tying hands’ because although it was imposing a plethora of economic sanctions on Russia, President Obama had sworn no military intervention, and the only tool available to deter Russia’s foreign policy in Ukraine was not working.

Additionally, the audience cost created by the ineffective measures taken by the U.S. involved the international community. In the 6 March 2014 statement previously mentioned, President Obama had declared the West’s support to the people and government of Ukraine to ensure their sovereignty and territorial integrity.\textsuperscript{123} Given this public statement, the U.S. was faced with international audience costs in that it was not effectively providing this protection. Domestically, dozens of articles were published questioning the legitimacy of Obama as an international figure. A 26 Marc CBS News article titled, “Americans disapprove of Obama's handling of Ukraine crisis,” provides polling information on Americans' opinions on the Ukraine crisis. The article states that while 56 percent of Americans supported U.S. sanctions against Russia, only 38 percent approved of President Obama’s handling of the situation between Russia and Ukraine, and 46 percent actually disapproved of how Obama handled the situation.\textsuperscript{124} Although the sanctions were meant to signify America’s power and superiority, since they were not

\begin{flushright}
\textsuperscript{122} James Fearon, \textit{Signaling Foreign Policy Interests: Tying Hands versus Sinking Costs}. \\
\textsuperscript{123} Barack Obama, \textit{Statement by the President on Ukraine}. \\
\textsuperscript{124} Sarah Dutton, et al, \textit{Americans Disapprove of Obama's Handling of Ukraine Crisis}. 
\end{flushright}
as effective as the U.S. had hoped, it created domestic audience costs. Additionally, the U.S. presented itself as weak to international politics because the sanctions did not persuade Russia to exit Crimea, and thus created audience costs abroad.

The Russian military program created in August exemplified Russia’s determination to stick to its predetermined foreign policy agenda and not let the West coerce them into changing their course of action. In a statement made by President Obama on 11 September 2014 at the Office of the Press Secretary, he announced the intensification of the sanctions in partnership with the European Union. More specifically, Obama said that with G-7, European partners, and other allies, “[They] will deepen and broaden sanctions in Russia’s financial, energy, and defense sectors. [And that the] measures will increase Russia’s political isolation as well as the economic costs to Russia, especially in areas of importance to President Putin and those close to him.”

In other words, the West was targeting individual sectors of the economy to further aggravate the mounting costs on Russia. Lastly, Obama expressed the international community’s desire to “negotiate a political solution that respects Ukraine’s sovereignty and territorial integrity,” and he “encourage[s] President Putin to work with Ukraine and other international partners [...] without setting unreasonable conditions, to reach a lasting resolution to the conflict.”

In the statement, the three most important sectors of the economy were specifically targeted and President Putin and his inner circle were singled out. Highlighting how the sanctions were at least partially issued because of the growing

---

125 Barack Obama, *Statement by the President on New Sanctions Related to Russia.*
126 Ibid.
127 Ibid.
confidence of Russia in the Eastern Hemisphere and Putin’s expanding power to the international community.

During the Annexation of Crimea, President Putin excused his illicit actions by saying that his troops entered Crimea to ensure proper conditions for the people living there, which included ethnic Russians and ethnic Ukranians. However, Putin had a predetermined foreign policy agenda that was aimed at strengthening the energy sector and Russia’s economy. In acquiring Crimea, Putin gained Ukranian territory, “but also a maritime zone more than three times the size with the rights to underwater resources potentially worth trillions of dollars.”^{128} Since the Russian economic system was so dependent on oil prices and hydrocarbons, taking Crimea and the resourceful territory that came with it strengthened Russia’s economic power in the global economy.

Nevertheless, in politics — especially international politics — the true purpose for a course of action is never revealed, but can be speculated. The back and forth interactions between Russia and the U.S. model the game of chicken. According to game theory, the principle of the game of chicken is that although the ideal outcome is for one player to yield (to avoid the worst outcome if neither yield), the players try to avoid it out of pride for not wanting to look like a 'chicken'. The risk of shame in yielding can also be increased with taunting, and after much taunting between President Obama and President Putin, neither the U.S. or Russia wanted to admit defeat. This leads to the conclusion that President Putin put his economy under copious amounts of pressure for what he believes

^{128} William J. Broad, *In Taking Crimea, Putin Gains a Sea of Fuel Reserves.*
are future economic gains, not for the protection of citizens in Crimea. Similarly, President Obama issued the sanctions to stop Russia from gaining political power and influence over surrounding regions, not to protect the citizens of Crimea either.

As a whole, the perpetual implementation of Western sanctions on Russia and Putin’s refusal to acknowledge their negative effects combined to create a standoff between the United States and the Russian Federation. The sanctions are best known as ‘Western’ sanctions because the European Union and allies took part in taxing Russia for their aggressions, but the initial efforts were made by the United States. By implementing economic sanctions but restricting the use military force, it is clear that the U.S. was ‘saving face’ and needed to appear as the strong superpower and global policeman it was supposed to be. The support of the European Union and allies worked to exacerbate the threat and effects of the sanctions. The United States needed to ensure its superiority in the world, but especially to Russia, who was in the midst of expanding its sphere of influence. This supports the theory the underlying purpose in imposing the sanctions was to inhibit Russia from using its newly acquired resources to expand as a world power.

**Long Term Impacts**

Before leaving office, on 29 December 2016, President Obama ordered new sanctions that included the expulsion of thirty-five Russian “intelligence operatives” from the country.\(^{129}\) The sanctions were issued in retaliation for Russian efforts to interfere

with the U.S. electoral process. As we can see, the American government continued to use economic sanctions to threaten Russia in 2016. However, the 2014 efforts had proven economic sanctions to be inadequate means of deterrence given that Russian troops are present today in the Russian-annexed Crimean Peninsula. Why did the sanctions fail to deter? The sanctions failed to deter Russia because Putin never truly felt threatened by the 2014 sanctions. In 2016, Russia still did not feel threatened by the U.S. and was willing to assume risks. Risks that became present in response to Russia’s intervention in the presidential election of one of the most democratic countries in the world, the United States. If a nation is intimidated by another country, it will do as the ‘superior’ nation says, but clearly Russia was not intimidated. Therefore, the Western sanctions actually worked backwards and instead of frightening Putin, they opened the door for Russia to involve itself in international issues given they realized the U.S. was making empty threats.

Russia’s Annexation of Crimea and consequently its meddling in the 2016 presidential election signify a key long-term effect of the sanctions, Russia as a more confident international actor. Not only did Russia gain power over the U.S., given its failed attempt at scaring Russia out of Ukraine under the game of chicken, but Russia kept control of Ukraine and today annexed as a part of the Russian Federation—although not recognized by the international community. This means that Putin got what he wanted: Ukraine’s natural resources. Today, Russia is getting closer and closer to accessing those resources. A 28 February 2019 article said that Ukraine had lost 80
percent of their oil and gas deposits in the Black Sea.\textsuperscript{130} Essentially, Russia completed its public foreign policy agenda in that it annexed Crimea to ‘protect’ native Russians. In actuality, Putin completed its secrets agenda of obtaining Crimea’s natural resources, which has resulted in a heightened superiority complex for Russia.

With entitlement and power fueling Russia after the failed Western sanctions, Russia felt comfortable involving itself in the domestic matters of a country in the Western hemisphere, the U.S. Consequently, Russia has a new and more aggressive foreign policy, “[there] is a growing consensus among Russian analysts, scholars, and officials that Russia should play a larger role in the world, one where Moscow is free to act according to its own interests without being beholden to others and where no issue of global significance can be resolved without Russian participation.”\textsuperscript{131} We saw the beginnings of this after the Annexation of Crimea with the deployment of Russian forces in Syria in 2015. This time, Russia traveled beyond its ex-Soviet neighbors and into the Middle East, no longer staying within its ‘comfort zone’. Given Russia succeeded in challenging the U.S. in 2014, Russia turned against the U.S. and provided indirect support to President Bashar al-Assad when it deployed troops and bombed Syria in 2015.\textsuperscript{132} In an article in the online publication of \textit{The New York Times}, diplomatic correspondents Gardiner Harris and Somini Sengupta described President Obama and President Putin as playing diplomatic poker over the crisis in Syria.\textsuperscript{133} Again, Russia

\textsuperscript{130} Ariel Cohen, \textit{As Russia Closes In On Crimea's Energy Resources, What Is Next For Ukraine?}

\textsuperscript{131} Center for Strategic and International Studies, Russian Foreign Policy.

\textsuperscript{132} David Ignatius, \textit{Obama All but Invited Putin's Bombing of Syria}.

\textsuperscript{133} Gardiner Harris and Somini Sengupta, \textit{Obama and Putin Play Diplomatic Poker Over Syria}. 
committed to military intervention while the United States argued over a peaceful resolution. If viewed from a game theory perspective, the U.S. was again the chicken.

Other long-term effects of the Western sanctions include the diversification of international allies and business partners. Although calling Russia and China allies is a reach, the relationship between the two countries was expedited with the Russian response to the sanctions. Public displays of friendship have been recorded since 2014 that support the idea of Russia and China as business partners. Chinese President Xi Jinping described President Putin as his “best friend” during a three day state-visit to Russia in June 2019. In his visit, President Xi publicly stated, “In the past six years, we have met nearly 30 times. Russia is the country I have visited the most times, and President Putin is my best friend and colleague.” Although there is not enough data to support that Russia and China are in fact allies, they continue to publicize their friendship to the world. This can be considered a foreign policy strategy that is aimed at broadcasting their friendship to the international community in an attempt to appear superior and legitimate. Additionally, it means that because the sanctions accelerated their friendship, it was the U.S. who as a repercussion of the sanctions pushed Russia toward the powerful People's Republic of China.

Domestically speaking, Russia’s efforts to salvage the economy in 2014 led to the implementation of securitization, Russification, and the diversification of Russia’s

134 Holly Ellyatt, *China's Xi Calls Putin His 'Best Friend' against a Backdrop of Souring US Relations.*

135 After thorough research, I have found little evidence on actual business deals or economic collaboration between the two nations but found enough statements by Putin and Xi stating that their relationship is founded upon collaboration and friendship.
foreign economic relations. Russia suffered serious economic repercussions due to the sanctions but has managed to stay afloat with little struggle — or so Putin says. This means that the emergency measures taken in 2014 had to have been successful if despite the sanctions, Russia’s economic fundamentals have remained stable. In Figure 8, we see a positive growth in Russia’s international reserves since 2013, meaning Russia will now be less susceptible to pressure from international actors. Additionally, Russia’s inflation has consistently dropped since 2015— the peak of Russia enduring the sanctions— from 17 percent in March 2015 to 2.3 percent in June 2018. Both of these numbers exemplify that although the sanctions hurt Russia, the injury was not permanent.

Since the 2014 sanctions, President Putin has promised economic prosperity for Russia alongside ambitious economic goals for the nation. However, Putin has released little to no specifics on what the course of action will be in order to achieve these goals. In a 2 June 2017 meeting with the St. Petersburg International Economic Forum (SPIEF), Putin stated that with the combined economic efforts, Russia, “will we be able to overcome current imbalances, move towards sustainable global economic development, formulate rules for fair trade and honest competition, [and] reduce poverty.” Yet, no information on how Russia is going to achieve these goals is specified. Part of Russia’s response mechanism was the securitization of the Russian economy. The lack of theories provided by Russian officials on their strategies leads to the conclusion that the lack of information on Russia’s economic strategy is deliberate. If that is the case, Russians are

---

136 Anton Troianovski, *Russia Keeps Getting Hit with Sanctions. Do They Make a Difference?*
left wondering how Russia is dealing with current pressures on the economy, which is a cost willing to take in order to leave foreign entities wondering how to attack the newly reformed Russian economy.

**Conclusion**

After the United States rallied the European Union and allies to help make the Russian Federation pay economic costs for their illicit annexation of Crimea, the international community became more cautious of Russia. The obvious purpose of the sanctions was to publicly inform Russia that its aggressions are not acceptable behaviors while the United States is the global policeman. More importantly, for the U.S. to assert its superiority in the world and deny the expansion of Russia’s sphere of influence. Long-term, we can see the underlying purpose of the sanctions did not deter Russia from shifting its foreign policy agenda to a more passive one. On the contrary, Russia has gained confidence and allies to support its superiority complex, which has altered how Putin engages with other countries as an international actor. Demonstrating to the U.S. that the Russian state is resilient and capable of protecting its economy against coercive action.
V. FINAL OVERVIEW AND CONCLUDING THOUGHTS

The 2014 Annexation of Crimea drew the attention of the international community because it signified the emergence of the Russian Federation as a potential superpower. Encouraged by the United States, the West targeted Russia’s energy industry, defense industry, and the financial system. These sectoral sanctions worked to dismantle Russia’s hybrid economic system dependent on a rent redistribution system. With the federal state in charge and President Vladimir Putin at its head, the Russian state was solely responsible for ensuring the survival and prosperity of its economic system. Therefore, the Russian response to the sanctions focused on securitization, import substitution or Russification, and the diversification of Russia’s foreign allies and business partners.

After analyzing both the Western sanctions and the Russian response, it is evident that the sanctions meant to discourage Russia’s aggression had an underlying purpose. With the perpetual sanctions and Russia’s refusal to leave Ukraine, a supremacy contest broke out between the United States and Russia, in which both powers were attempting to appear superior to each other and the international community. Moreover, the sanctions proved to be a failed method of coercion that as a result left the U.S. seeming weaker than it was. The sanctions also drove Russia to make changes to its economy in order to ensure security and long-term success in the Russian markets. This was seen as Russia accelerated its shift away from the West and toward Asia, while in search of new economic and business partners.
Overall, it is vital to understand that the sanctions in response to Crimea failed to persuade Russia partially due to the absence of military intervention from the U.S..

Today, military aggressions are highly discouraged by the West, which is why when it is faced against a violent enemy, like Russia, it will fail to deter. Sanction after sanction, it appears that the U.S. continues to believe that is is its duty to police the world and that it will accomplish it through passive means. This morning, the World Anti-Doping Agency (Wada) issued a four-year ban on Russia from participating in all major sporting events, including the 2020 Olympics, and 2022 World Cup. As we can see, the current use of sanctions continues to be used to undermine Russia and create negative costs to its economy. However, this ban represents the West’s willingness to extend sanctions beyond the economic scope and into the social fabric of Russia.

---

139 Ben Church and Ben Morse, *Russia banned from 2020 Olympics and 2022 World Cup over doping scandal.*
APPENDIX

Figure 1. Terms mentioned in Russian national and regional newspapers (number of mentions / year) Source: Integrum, www.integrum.ru

Figure 2. Crude oil and production and esports, 2013-2017 (million tons per month; production, left axis; exports, right axis)
Figure 3. The simple spread of the five year sovereign CDS (“5-year CDS”) over their U.S. Treasury counterparts are the dependent variables in the regression because they are widely followed by the press and investors.


Figure 4. Share of imported equipment in the oil and gas sector in Russia.

Figure 5. Share of imported equipment in the oil extraction sector in Russia.  
*Source*: Global Risk Insights (2018),

Figure 6. Technical resilience of Russia's energy projects.
Figure 7. GDP growth (annual %) - Russian Federation.
Source: World Bank national accounts data, and OECD National Accounts data files,

Figure 8. Russia’s international reserves from July 2013 to July 2018.
REFERENCES


Ellyatt, Holly. “China's Xi Calls Putin His 'Best Friend' against a Backdrop of Souring US Relations.” *CNBC*, CNBC, 6 June 2019,


Hirst, Tomas. “Russian Central Bank Admits Massive Rosneft Bond Sale Fuelled the Ruble Crash.” Business Insider, Business Insider, 3 Feb. 2015,


Obama, Barack. “Statement by the President on New Sanctions Related to Russia.” *The White House, President Barack Obama*, National Archives and Records Administration, 9 Sept. 2014,


