



THE EFFECTIVENESS OF THE WEST SANCTIONS AGAINST THE RUSSIAN FEDERATION

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ABSTRACT

In March 2014, the West sanctions against Russian Federation went into effect due to the annexation of Crimea to its territory and interference in territorial integrity and independence of Ukraine. The sanctions were applied in the fields of trade, finance, technology and industry, companies and individuals. The synchronization of the sanctions with oil shock challenged the Russian economy. So the question arises whether the intensity, duration and strength of sanctions imposed by the West against Russian Federation have had the necessary effectiveness in line with the western political objectives? In response to the question, the assumption was that the West sanctions had been able to do well with the Western objectives by challenging the Russian economy. In this regard, by investigating the effects of sanctions on the variables and macroeconomic indicators of Russian Federation and consequently the performance of sanctions, we have tried to analyze the effects and effectiveness of these sanctions. In this study using the static comparative method, years after the sanctions were analyzed in comparison with the years before, in order to clarify the effectiveness of sanctions on the economic performance of Russian Federation in an almost good level. In the end, we came to this conclusion that the sanctions failed to put a negative impact on the Russian economy and they hadn't necessary effectiveness in line with the western political objectives; it was also clarified that the Russian economy was more likely to fall due to the decline in the price of oil rather than the West sanctions.

Keywords: *The West Sanctions, Economy, Effectiveness, Russian Federation*

INTRODUCTION

Nowadays, economic sanctions are used as one of the most important means of driving foreign policy goals. In general, sanctions are imposed by a country, a coalition of countries or international entities using forcible measures and imposing different trade or financial constraints, assuming that they can punish the sanctioned state seeking to change the status quo. Economic sanctions, depending on the objectives of the country or the coalition of countries imposing sanctions, can negatively affect the country's economy, and this negative effect will make the country's policy shift toward alignment with their objectives and conditions. The use of sanctions has been institutionalized due to consensus on the level of US government officials and the elites, and American presidents have taken the doctrine over the years, and also have shown blatant signs of this strategy by appealing to Europe and restricting the multinational companies in economic relations with the sanctioned. In the same context, both the former Soviet Union and the Russian Federation have been affecting economic sanctions, due to their contrary on foreign policies, especially with the US. In 2014-2015, the Russian Federation's economy was

in a state of financial crisis and also under high international pressure of 2014. The drop in oil prices, on one side, and Russia's actions in Ukraine on the other side, led many members of the United Nations, the United States, the European Union, and many of their allies to disagree and shown their displeasure over the Russian policy in Ukraine. In February-March 2014, Russia's refusal to accept the West's position and request in relation to the events of Crimea and Eastern Ukraine resulted in imposing sanctions by the US with the goal of Russia's international isolation. Under the intense pressure of the United States and the risk of economic losses, the EU countries, the G7 (Britain, Germany, Italy, Canada, the United States, France and Japan) and some other countries joined the sanctions.

What is sanction?

Sanction is a punitive mean used in foreign policy. The purpose of sanction is imposing pressure on the target country intended to change its behavior. This change of behavior can be a change of political behavior or change of economic policies. The country imposing sanctions has different options ahead to achieve its goal, but what makes a country deciding the section option is typically prevention from a war disaster, prevention from people being killed, and reducing the cost of defense budgets. According to international political economy, economic sanctions are a means of serving countries foreign policy. Henry Benin and Robert Gilpin describe sanctions as "manipulation of economic relations in order to achieve political goals", a threatening or punishment for a state or society to change its policy or government. In fact, economic sanctions are a foreign policy means that enable a country or countries to apply their political intentions to the target country in case of a conflict (Broek et al., 2008).

Sanctions Objectives

Among the goals that sanctioning countries follow, sanctions for punishment, sanctions for political goals, sanctions for infiltration, sanctions for containment, sanctions for communication and sanctioning as an alternative to military intervention can be included. Sanctions are usually imposed on both reciprocal and multilateral forms by governments against rival or hostile states to achieve their political goals through it. Economic sanctions are often used as a mean in pursuit of foreign policy. It is argued that the goal of the economic sanction is to damage the enemy's economy as much as possible. From a more detailed point of view, economic sanctions are divided into two main categories: first, sanctions aimed at changing behavior and second, sanctions aimed at destabilization.

Historical Backgrounds of the Crisis between Russian Federation and the West

By the end of cold war there was a structural change in the international system, which was complex but manageable, and Russian Federation, EU and the US collaborated with each other in that structure to manage common problems. Unfortunately Ukraine's related issues dreading long term relationship between these two countries. In spite of the attempts made by the West in order to unite Ukraine, some parts of Ukraine joined Russian Federation. US and EU brought conflict to Russia's economic sphere and this was the beginning of the conflict (Einisman, 2000).

Western Sanctions Imposed against Russian Federation



The general trend of imposed sanctions by the West (the EU, the US and their allies like Canada, Japan and Australia) against Russian Federation, started in four phases from March 2014. The sanctions were relatively limited and included the following items in general:

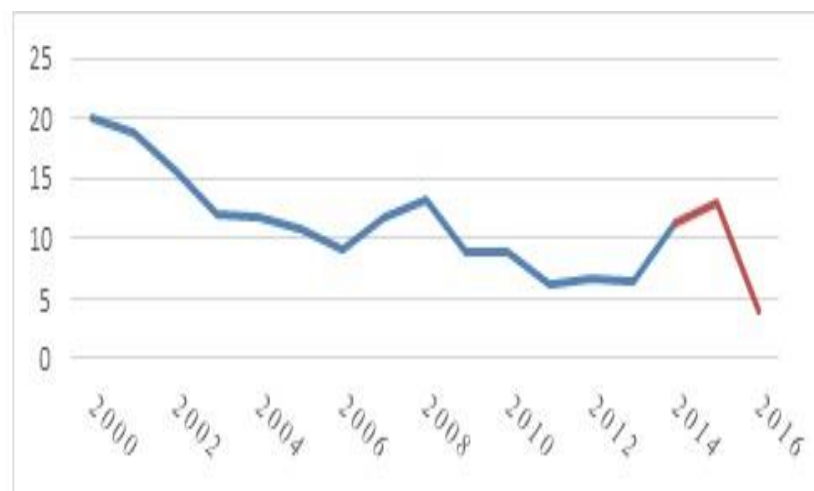
1. Economic sanctions, which include several groups of bank sanctions, according to which Russian state banks are deprived of long and medium term loans.
2. Diplomatic sanctions, which include the suspension of Russian Federation's presence at the G7 (May 28, 2014) and the suspension of the Russia-EU negotiations on visas, as well as the suspension of negotiations between Russian Federation and NATO (April 2014).
3. Bans on individuals, which include preventing people who agreed on joining the Crimea to the European Union, blocking assets of people close to Putin and some state entities.

The Effects of West sanctions on Russian Federation's Economic Indicators

These sanctions include a range of prohibition and limitation on a number of large Russian financial institutes and banks, and some big corporations such as NovaTek and Rosneft. Russian Federation's banks have also been deprived of accessing to long and medium term loans. The impacts of these sanctions on the indicators of the Russian economy can also be studied (Aris, B.2014).

A) Impact of Sanctions on Inflation Rate

The West's sanctions against Russian Federation, due to the tensions of the Crimea and Ukraine, caused the limitation of import of some basic goods, and consequently, inflation appeared in the Russian food industry. However, the share of these sanctions in the total annual inflation was about 1 to 1.5 percent. As shown in Chart 1, the inflation rate, which was 6.5% in 2013, reached to 11.36% in 2014, rising to 12.91% in 2015 (Yong and Zhou, 1999).



Graph 1 - Russian Annual Inflation Rate 2000 – 2016

Source: World Bank

B) Impact of Sanctions on Ruble Value

According to graph 2, in 2013, each dollar was equal to 31.83 rubles, and in 2014, it reached to 56.26 rubles. In 2015, twice as much as it was before the sanctions affected, it reached to 72.88. Dropping in 2016, the ruble grew up made each dollar about 60 rubles.



Graph 2 - Russian Ruble Annual Rate Changes against the US Dollar, from 2000 to 2016

Source: Ibid

C) Impact of Sanctions on Russian Imports

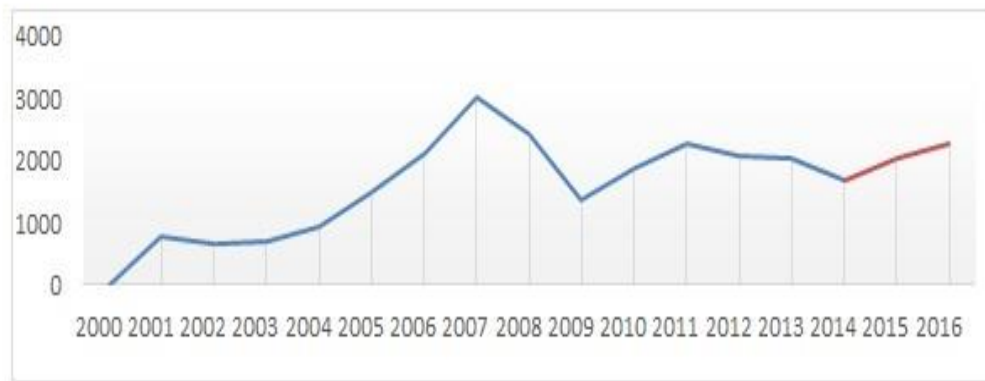
Russian Federation imported about \$ 295 billion in 2014, putting it among the top 10 countries in the world. In the past five years, it has imported about \$ 175 billion, meaning an annual growth rate of 11.5%, through an import growth to 295 billion dollar, from 2009 to 2014. Russia's most recent imports are first the newest machinery, counting about 29% of Russian imports, and the second, packaging drugs, growing by 5.32% and 3.44% respectively (Elliott, and Hufbauer, 1999).

D) Impact of Sanctions on Trade Balance

Russian Federation's trade balance in 2014 was \$ 154 billion. Its exports are about 57% to Europe, 34% to Asia, and 9% to other parts, counts for \$ 258 and \$153 billion to Europe and Asia, respectively. Also, its imports are about 55% from Europe and 35% from Asia, counts for \$163 and \$102 billion respectively. The remaining is about 10% from the rest of the world counts for \$30 billion.

E) Impact of Sanctions on Foreign Investment

The impact of sanctions on Russian Federation's foreign investment can be examined in two parts. First, the direct prohibition and limitation of companies to invest in Russia, and the second, the uncertainty of investors and their pessimism over the Russian market and the rise of the investment risk factor in Russian Federation, which resulted in a decrease in Russian business revenues, a reduction in domestic investment and foreign investment, and consequently a decline in capital flow and production growth.



Graph 3 –Annual Changes in Russian Foreign Direct Investment 2000-2016

Source: Ibid

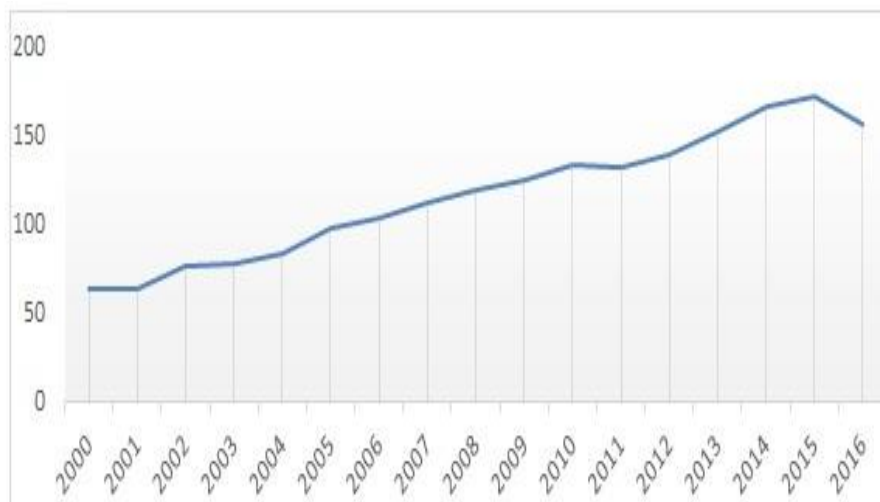
F) Impact of Sanctions on Energy and Oil & Gas Technologies

In the field of energy and oil & gas technologies, sanctions include a ban on the export of services and technologies to Russian Federation to achieve oil from the Arctic regions, deep sea and the underground layers, and in general, salty water extraction system. Also, giant oil companies such as Shell and Total were banned from new contracts and taking the responsibility for carrying out the existing projects (Bazhenov, 2011).



G) Impact of Sanctions on Crude Oil Production

In the crude oil sector, we witness a drop in supply (see Graph 8), from 165.3 million to 156.4 million barrels. It should be noted that this reduction in crude oil production and the drop are not the results of sanctions, but are due to OPEC's oil companies' agreement on crude oil supply (Ibid).



Graph 4 - Changes in Russian Crude Oil Production Volume 2000-2016

Source: Ibid

H) Impact of Sanctions on Military Industry and Applied Technologies

In the field of military industries and applied technologies, sanctions include a ban on deals with Russian Federation for the export and import of military weapons, as well as the sanctions on companies and banks associated with Russian military companies.

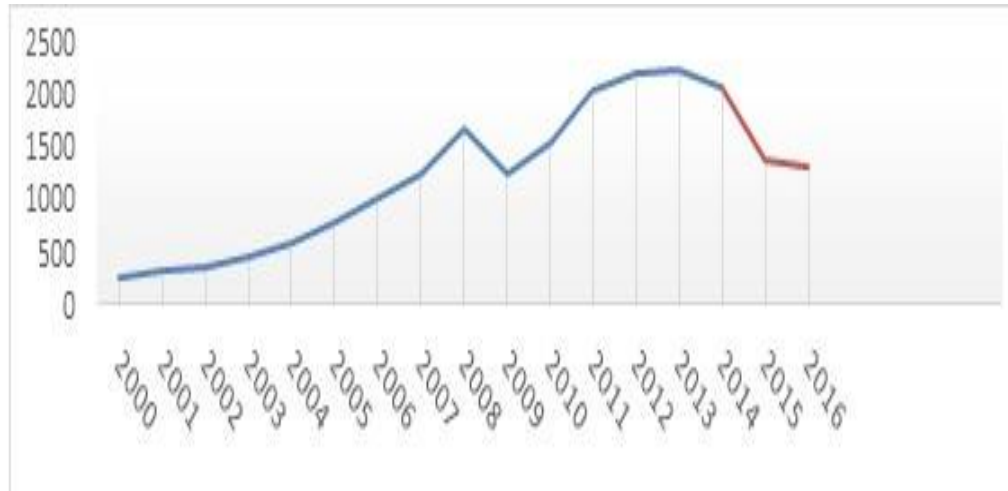
I) Impact of Sanctions on Active Companies in Crimea

In the case of the embargo imposed in Crimea, the sanctions included a ban on trade and bank interactions with active companies in Crimea, even though there are no big companies in the region (Aris, B, 2014).

J) Impact of Sanctions on GDP

GDP in Russia shows a 94% increase over the 15 years, from 2000 to 2014, increasing from 22536 billion in 2000 to 43723 billion rubles to 2014. Russia's GDP in 2013 was 235.2 million US dollars. With the beginning of the drop in oil prices and sanctions affected by the West in 2014, GDP was reduced to \$1365.9 million in 2015. This trend continued in 2016 and Russia's GDP reached 1283.2.

According to the Ministry of Economic Development of Russia, the decline in GDP in September 2016 compared to September 2015 was 0.7 percent, which was reduced by 0.2 from August 2016 (Bazhenov, 2011).

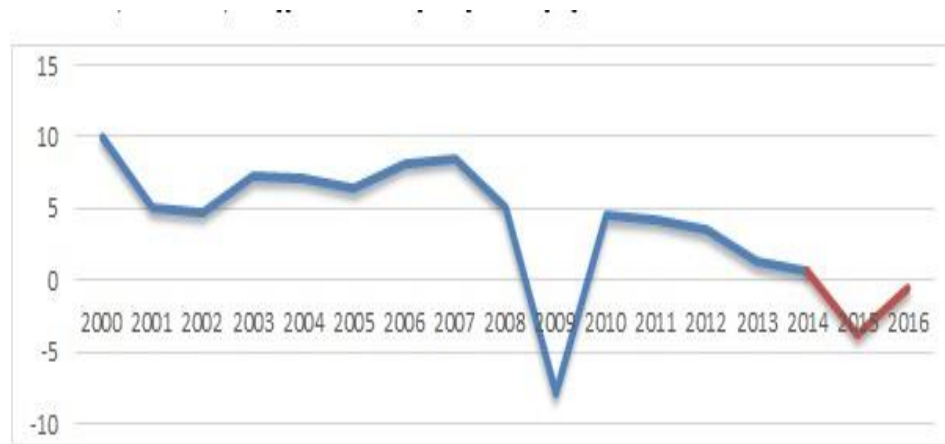


Graph.5. Russian GDP Based on US Billion-Dollar 2000-2016

Source: World Bank

K) Impact of Sanctions on Economic Growth

Russian Federation's economic growth has been growing since 2012 but declined in 2015.



Graph 6 - Russian Economic Growth Rate (2000-2016)

Source: World Bank

Impact of Sanctions on Russian Domestic Politics (Opposition Parties, Public Opinion)

The most important effect of sanctions is on Russian Federation's domestic policy. In December 2011, Moscow witnessed its first street protests in the recent decades. Voters were angered by what happened in the parliamentary elections. Opposition leaders challenged Putin for the first time since he was given the power in 2000 through their slogans (Aris, 2014, p.4). Crimean annexation in May was a sensitive momentous date. The opposition, include both liberals and conservatives, welcomed the return of Crimea to their motherland then (Einisman, 2000).



The Impact of Sanctions on Diplomatic Area

In the area of diplomatic sanctions, Russia's participation and presence at the G7 was suspended, as well as Russian's negotiations with NATO on Eastern European anti-missile defense and Russian-EU negotiations on visas. In the sanctions area of individuals and authorities, entrance of individuals and authorities who had agreed on annexation of Crimea to Russia was banned.

The Effectiveness of Sanctions in Line with West Foreign Policy Objectives

The big question about sanctions is whether sanctions work or not. There is no need to broach the question, as it is clear that the capital will be out of Russia, they lose the rubles, Russian companies will gain less foreign capital and the country's GDP drops. But all of these measures will only measure the effects, and say nothing about how such sanctions cause changes in Russian behavior. That is, they don't determine where the effectiveness of the sanctions is.

The effectiveness of sanctions on Russian Federation can be considered in different political, financial, business and energy dimensions. Russia plays a multi-dimensional role in the performance of sanctions: Russia is producing and exporting the main energy and raw material of Europe, but it is also a major consumer of European goods. More importantly, Russia is the main supplier of energy as a neighbor of Europe and supplies 30 % of the continent's gas and oil, thus contributing an important role in the supply chain of European companies. Russian officials have repeatedly said that the Russian economy has been hit by sanctions. Inflation has also increased in Russia. The current conditions destroyed the partnership regime, which the

Russian and European politicians had created after the Cold War, and awakened "fear Russia of" once again in the minds of European nations (4: 2014, Bedder).

Prospects and Future of Sanctions

These sanctions have had a variety of effects on the Russian economy, and most importantly, the evasion of foreign investment, which has been the greatest damage to the Russian economy. More than \$200 billion evasion of capital has taken place in Russian's investment, followed by a lack of investment from large international companies, which has caused a lot of blow to the Russian economy. The value of the ruble fell too. Similarly, the drop in the value of the stock market, the economic recession, the decline of revenues from the tourism industry, and the pressure on the public life were the clear consequences of sanctions on the Russian economy. Of course, we should not ignore the decline in oil revenues and even the declining trend from 2012 to 2013. Many analysts believe that economic sanctions have weakened the Russian economy and tightened the challenges Russia has faced in recent years. The combined effect of sanctions and a rapid decline in oil prices in 2014, with the devaluation of the ruble and the evasion of capital from Russia have caused more economic pressures on the public. At the same time, the ban on the access to financial resources forced Russia to use part of its foreign exchange reserves to keep the economy running. Russia's ban on western imports as a mutual boycott led to an increase in food prices and higher inflation. The sanctions, however, did not only affect the Russian economy, but also affected the Russian allies' economy, such as Belarus, Kazakhstan, and even those that are not part of the Eurasian Economic Community. These countries have also suffered losses and damages, since the Russian economy is a huge economy to them, and naturally any development in the Russian economy is also observable in the economy of those countries heavily dependent on the Russian economy (Yong and Zhou, 1999).

CONCLUSION

Although after the Western boycott in 2014, the Russian economy was experiencing difficulties, but in the second half of 2016 the declining rate of economic indicators has been reduced; it could be viewed from one side as overcoming the problems and relative economic recovery, and on the other side, the increase in oil prices in the second half of 2016 is the result of the growth of Russian economic indicators. But what is certain is that the Russian economy has been affected by the drop in its oil prices previously and more than those imposed by Western sanctions. The decline in oil prices seems to have had a more negative effect on Russian economy than the West sanctions, and at the end of 2016, when the price of oil increased again, their economy empowered once again. However, the negative impact of sanctions cannot be ignored in the long run. In particular, in the field of technology and oil & gas extraction industries, and in view of the burnout of the Russian extraction industries and the impossibility of investing by Western countries, as well as the import limitation of these industries, they could have negative effects on Russian oil and gas and consequently, reduction of income in the long term. Therefore, given the current indicators of the Russian economy and their positive growth trend, and despite the imposition of new sanctions in 2017, as well as Russia's no withdrawal action regarding its political positions in the Ukrainian crisis and the Crimea, it can be said that these sanctions have not been effective in line of predefined objectives. Also, in this study we noted the speed of adaptation of the Russian economy to the negative effects of external shocks. As Western



sanctions and oil shocks have been considered as two external shocks, from 2014, and at first had negative impacts on the big economy indicators, the Russian economy coordinated with such shocks over time, and the negative effects on macroeconomic variables have been resolved and eliminated.

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