PRACTICAL INEFFECTIVENESS OF SANCTIONS IMPOSED ON RUSSIA

Alternative Solutions to Achieve the Desired Political Effect

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ABSTRACT

The economic sanctions imposed on the Russian Federation as a response to the illegal annexation of Crimea and destabilization of Ukraine by the United States of America and the European Union throughout the 2014 did not manage to achieve practical results as the military actions in Eastern Ukraine are still in the active phase and Crimea remains part of Russia. Thus, the ultimate goal of this thesis is to propose the alternative methods for the solution of this problem, which use certain economic measures as the instruments that could influence the decision-making process in regard to the foreign policy.

The deductive approach is used in this thesis and the research method is mostly quantitative for the empirical part, with qualitative method used in the analytical part. The data is collected from the secondary sources such as books, articles, journals, reports and the internet.

The core of this thesis consists of the three main parts. First, Russia’s national economy is analyzed from the structural point of view in order to understand its specifics. Then, the technical results achieved by the imposed sanctions are reviewed and the weaknesses are highlighted. Lastly, several alternative solutions are suggested for the implementation with detailed advantages presented for each one.

As a result, this thesis concludes that the proposed alternative solutions are feasible and effective from the practical perspective as they indeed serve the initial purpose of using the economic measures as an instrument for the influence over the decision making process in the field of politics.

Key words: sanctions, trade, economics, energy, politics, geopolitics, international
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1 INTRODUCTION

1.1 Background information

Shortly afterwards the ousted President Viktor Yanukovich flees Ukraine, Pro-Russian armed men take control of the main administrative buildings in Crimea and the Crimean Parliament sets a date for a referendum that will decide the future and the legal status of the Peninsula (Dearden 2014). On 16 March 2014 96.77% of the electorate voted in favor of secession from Ukraine and the Autonomous Republic of Crimea joined Russia as a federal subject. It is believed that the Crimean Tatars that comprise around 12% of the Peninsula’s Muslim minority were intimidated during the referendum (Adesnik 2014). Moreover, the referendum ballot did not include the option for Crimea retaining its status quo by being autonomy and remaining part of Ukraine. One of the options was the one chosen by the majority of the voters and the other was the restoration of the constitution of 1992 that would allow Crimea to stay independent within Ukraine and have the right to determine its legal status (Balmforth 2014). Five days before the referendum took place, the OSCE stated that it was illegal as it was in contradiction with the constitution of Ukraine and refused to participate in the observation of such referendum (OSCE Chair says Crimean referendum in its current form is illegal and calls for alternative ways to address the Crimean issue 2014). On 18 March President Vladimir Putin signs a document that formally recognizes Crimea as part of Russian Federation (Putin signs Crimea annexation into law 2014).

Russian annexation of Crimea violated the Budapest Memorandum that served as the ultimate guarantee of Ukraine’s sovereignty all these years from 1994 when it was signed until 2014 (Harres 2014). The reaction of the international community was expressed during the General Assembly of the United Nations on 27 March 2014 with 100 countries voting in favor of recognizing Ukrainian sovereignty, political independence and territorial integrity and underscoring the Crimean referendum invalid. 58 countries of total 193 abstained from voting with 11 countries voting against such a resolution (General Assembly Adopts Resolution Calling upon States Not to Recognize Changes in Status of Crimea Region 2014).
As a response for the Crimean annexation, the first round of sanctions was imposed on 17 March 2014 by the USA freezing the assets and introducing travel bans of 11 officials and the EU 21 officials respectively (Myers, Baker 2014). Sanctions also included the suspension of diplomatic cooperation on visa matters between Russia and the EU (Öztürk 2015).

On 28 April the USA imposed further sanctions by expanding the list introduced during the first round of sanctions and banning business transaction with Government officials and 17 Russian companies (U.S. levels new sanctions against Russian officials, companies 2014). The EU expanded the list of total officials whose assets are to be frozen with travel bans implemented to 45 persons (EU strengthens sanctions against actions undermining Ukraine’s territorial integrity 2014).

The military actions in the Eastern Ukrainian region of Donbass between the armed pro-Russian separatist and Ukrainian Armed Forces began in April 2014 (Kirby 2015) and by June 2014 Ukrainian Army did not control a significant part of the border between Russia and Ukraine (Alpert 2014) thus allowing the tanks and other heavy weaponry to be supplied by Russia to separatists as believed by the US Government (Dyeg 2014). The Ukrainian Armed Forces have discovered documents proving the Russian origin of the military equipment in the regions that were liberated from the separatist control (Russia’s Continuing Support for Armed Separatists in Ukraine and Ukraine’s Efforts Toward Peace, Unity, and Stability 2014).

As the military actions continued, on 17 July the third round of sectorial sanctions was issued by the US and it targeted two major Russian banks Vnesheconombank and Gazprombank and two Russia energy giants Rosneft and Novatek (Further US and EU Sanctions on Russian Persons 2014). The EU imposed its own tougher sanctions on 31 July by prohibiting the business transactions between EU and Russian banks such as: Sberbank, VTB Bank, Rosselkhozbank and two more banks already sanctioned by the US. The EU had also banned the exports of specific equipment that may be used in Russia’s energy sector (Stocker, Austin 2014). On 7 August Russia imposed its own retaliatory sanctions in a form of a
food embargo that banned imports of various foods, agricultural products and raw materials that have EU or US origin (Nielsen 2014).

The additional sanctions introduced on 11 September by the US prohibited the domestic banks to issue debts to Sberbank and Rostec and domestic companies to cooperate with Gazprom, Gazpromneft, LukOIL, SurgutNefteGaz and Rosneft in oil industry and to service those (Mohammed, Trott 2014). Nevertheless, regardless of the sanctions imposed and attempts for a ceasefire, the fighting between pro-Russian separatists and Ukrainian Armed Forces continues today (Baczynska 2015).

1.2 Thesis objectives and research question

The main objective of this thesis is to propose practically viable alternative solutions that direct the economic measures to serve as the instruments of influence over the political decision making. Furthermore, this thesis defines the ultimate framework for dealing with the problems arising from the precedents of similar kind within the field of international politics, economics and diplomacy in the near and distant future. Moreover, the thesis responds to the need of finding new ways for the enforcement of the international treaties, agreements and memorandums in order to keep the peace and stability around the globe. Finally, the thesis seeks to create the tools for controlling the military aggression and avoiding the war at any cost.

Research Question: What measures need to be taken in order to influence the decision making in regard to Russia’s foreign policy?

These sub-questions are aimed at clarifying the nature of the research question:

- To what extent is the trade with the Eurasian partners important?
- What is the role of Russia’s private sector from the political and economic perspective?
- What is the influence of the public opinion on the foreign policy?
- What is the importance of Russia’s gas transporting infrastructure from the political perspective?
1.3 Thesis structure

For better understanding the structure of this thesis is divided into six main chapters and is organized as follows:

Figure 1 Thesis structure

The beginning gives an insight to the background of the situation and introduces the whole picture prior to the research. Then, the second chapter tells more
specifically about the examples of economic sanctions imposed on various countries in history having covered the cold war era and trade restrictions on USSR. In addition to that it evaluates the results achieved by those sanctions throughout the history. Chapter 3 reviews Russian national economy in details by discovering the main sources of its GDP, the leading sectors of the economy and current state of the oil and gas infrastructure. The fourth chapter includes the empirical part and involves the analysis of Russia’s economic activity with respect to their performance before and after the sanctions as well as presumes the theoretical projections of Russia’s GDP in the future with respect to international oil prices and fluctuations of Russian Ruble. The next chapter proposes the alternative solutions to this problem and therefore focusing on sanctioning Russia’s private sector and reviewing the potential for trade restrictions within the Eurasian Economic Union as well as highlighting the vital importance of the Turkish Stream gas transportation project. The last chapter summarizes all the findings and assumptions together with facts and finalizes the work.

1.4 Research methodology

Research Approach

The two most commonly known approaches used in the process of building the academic paper are inductive and deductive. Whereas the deductive approach is centered on the idea of generating the theory first and then testing it through empirical observation, the inductive approach, on the contrary, exist in the reversed form of the former and the final theory is being built with respect to the real life empirical observations made. (Lancaster 2005, 22-26.)

Therefore, in this thesis the deductive approach will be used.

Research Method

The collection and the analysis of data in a research paper are conducted either quantitatively or qualitatively. Nevertheless, sometimes the distinction between those two methods is not as clear as it seems. (Lancaster 2005, 159.)
Qualitative method usually involves collection of data through a case study or conduction of interviews where author intends to build his theory based on the information extracted from the participant. Therefore, it is important to mention that the results of such research depend on the researcher and the participant. On the contrary, the quantitative method does not leave a room for any personal experiences or bias of the researcher and the results tend to be more generalized and objective (Harwell 2011, 147-150). In this thesis a combination of both methods will be used. The statistical part involving the numerical data on such matters as economic performance will be organized quantitatively, whereas regards of public opinion and similar matters will be assessed qualitatively.

Data Collection

The nature of data necessary for the research of this thesis will be secondary due to the specific nature of the subject and associated difficulties in the collection of the primary data without visiting Russian Federation. The secondary data from official government sources will be extracted for the analysis of such matters as: Russia’s economic performance, the currency fluctuations, adjustments in federal budget due to the fall of the international oil prices, the movement of financial capital with respect to the foreign direct investments and purchasing power parity.

1.5 Thesis scope, limitations and newness

Key Theoretical Premises

The key theoretical premise of this thesis is to underline the use of economic sanctions as an instrument to achieve political effect. Nevertheless, it is important to emphasize the absolute difference between the mentality of those who crafted the sanctions and those who they were imposed on being the USA, the EU, Japan and other G7 members on the one hand and Russian Federation on the other hand respectively. The various factors that were responsible for the shaping of the national culture and the ability to perceive certain things and react in specific situation will be examined with national history being given the central role. In other words, the collective measures adopted by the Western World on Russia did not succeed because they were not adapted accordingly. Finally, the scope of the
thesis will be further limited to the idea of mobilization of natural forces in a way that would encourage ordinary Russian citizens to participate actively in their country’s political and civil life, bear responsibility for the consequences of their Government’s foreign policy and start being involved in decision making.

Limitations

The main limitation of this study is the nature of its sources as most of them will be internet based due to the newness of the research and unavailability of published ones. Another important limitation will be the origin of statistical sources as a significant number of them will be taken from Russian National statistical agencies and therefore may possibly lack certain level of credibility. Lastly, this thesis lacks any primary data and therefore is based on the data from secondary sources.

Newness

As this study focuses on the events that began in the beginning of 2014 and are still in their active phase, there is a great chance that there are not a large number of similar researches done in this field, if any. However, it is considered new not only from the historical point of view. The conflict between Russia and Ukraine is uniquely new due to the fact that both parties were the founding states of the USSR and CIS consequently.
2 HISTORY OF SANCTIONS

2.1 Examples

The concept of sanctions is not new in our world with the earliest known example being the “Megarian Decree” issued by the Athenian politician Pericles on the merchants from Megara, thus barring them from the domestic market (Lendering 2005). Nevertheless, this chapter will focus on the three famous examples that are the Continental System, International Sanctions on Iran and the Trade Embargo on the Soviet Union.

2.1.1 Continental System

One of the earliest examples is the Continental System imposed by the French Emperor Napoleon Bonaparte on the British Empire in order to damage the British economy and limit its trading potentials. Allies of France and other nations that were neutral during the Napoleonic Wars were ordered to stop trading with Britain although the practical success of such system was undermined by the superiority of British Naval Forces (Continental System). In other words, the implementation of these sanctions and compliance of other nations was not as easy as nowadays partly due to the fact that France at that time was not considered hegemony of the world in terms of economic and military power as according to some suggestions, modern day developed economies were representing only around 20% of the world’s GDP (The new titans 2006). Eventually, it was Russia which refused to follow the orders of the Continental System from 1810 onwards and it resulted in French invasion of Russian Empire in 1812 (The Continental System 2013).

In this example the sanctions imposed were one of the ways to weaken the enemy during the war and were aimed at defeating Great Britain by restricting its commercial might first. The practical result of the Continental System cannot be overestimated as the events that followed later were catastrophic for a number of states, particularly the issuer, target country and the main stakeholders, namely French, British and Russian Empires. The all-European war waged by the
coalition against France had a direct effect on its neighboring countries with number of them being liberated from the French control, as we know from the general history course, and new balance of power emerging in Europe. To be precise, although the Continental system may have affected British trade and commerce, the sanctions imposed by Napoleon did not help him to win the war, and therefore, it can be stated that such sanctions were not successful and the ends did not justify the means. The unemployment and a number of bankruptcies were the result of Continental System for Great Britain, whereas for the French controlled Holland and German states it resulted in high prices as import tariffs were placed on the colonial products (Grant, Temperley & Ramm 1984, 109 – 110).

2.1.2 International Sanctions on Iran

The more recent example could be the sanctions imposed on the Islamic Republic of Iran. In 2007, the USA introduced a set of sanctions that targeted Iranian banks, military entities namely the Islamic Revolutionary Guard Corps and the Quds as well as certain persons that were engaged in the uranium enriching activities (Koch, Labott 2007). It was believed that between the years 2006 and 2007 Iran built a facility that was intended for the uranium enrichment activities (Fordow Fuel Enrichment Plant). The US Department of State had accused Iran of planning to use the enriched uranium for the nuclear weapons and those allegations were the main reason behind the sanctions as such militarization was considered as a threat to peace and stability in the Middle East.

Here, the sanctions were imposed in order to punish the Islamic Republic of Iran for their refusal to comply with the United Nations resolutions and their denial for observations from the International Atomic Energy Agency (Lappin 2007). In other words, economic and diplomatic measures were aimed at changing Iran’s political line in regard to their uranium enrichment program. Six years later, when Hassan Rouhani won the election and became the President of the Islamic Republic of Iran he proposed a new diplomatic approach in dealings with the USA and the EU over the matters of Iran’s nuclear program which many believed would end the political stand-off that escalated during the presidency of Mahmoud
Ahmadinejad (Dawber 2013). As a result, from 7 October 2014 the European sanctions on Iran no longer include the National Iranian Tanker Company, entity responsible for the transportation of oil export to the European Union, and its assets were no longer frozen (Saul 2014).

On 4 April 2015 the negotiations between the USA, the UK, Germany, France, China, Russia and Iran ended on a successful note with the latter agreeing to reduce its enriched uranium volumes by 98% as well as get rid of a significant number of centrifuges used in atomic reactors. In response for that, the economic sanctions imposed by the EU and the US to be lifted. (Labott, Castillo & Shoichet 2015.)

Thus, with the change of leadership from a conservative radical Ahmadinejad to reformist moderate Rouhani the foreign policy of the Islamic Republic of Iran in regards of its nuclear program now appears completely different in the eyes of the international community and both sides are illustrating progress in the dialogue. Once again, it seems difficult to analyze whether or not it was the sanctions that have had an influence on Iran’s nuclear policy, therefore, the clear conclusion of the degree of success cannot be measured as the opinions will differ on that matter.

2.1.3 Sanctions on the USSR

However, the most notable example under the analysis of this thesis will be the economic sanctions and trade embargoes imposed by the United States of America on the Union of Soviet Socialist Republics as a response for the Soviet Invasion of Afghanistan in 1979, the boycott of Moscow Olympics of 1980 and the consequent worldwide condemnation of such an aggressive expansionist move and the resulting international isolation of the USSR (The Soviet Invasion of Afghanistan and the U.S. Response 1978 – 1980). President Carter issued a grain embargo on Soviet Union in 1980 using its economic and commercial might in order to restrict the actions of the aggressor and its hard line in foreign policy towards Afghanistan.
The United States being economically stable after the World War 2 enjoyed the ability to use the power of food product exports as an instrument for the achievement of their political goals at the time when the domestic grain harvest in the USSR had decreased by about 21% in that year and such move, therefore, was considered to be successful as it was believed to be done in the right time (Paarlberg 1980).

Specific economic sanctions included the ban on the American companies to participate in the construction of the 3000 miles long gas pipeline that was intended to connect the Siberian gas to the Western European markets in 1981 and the restriction on the transfer of the related technologies to the USSR. The controversy of this episode were the different diplomatic positions taken by the NATO allies namely the USA and Western European member states in which countries such as France, Great Britain and Germany were trying to reduce their dependency on gas supplies from the OPEC. (Gibney 2014.)

Nowadays, as well as back then, it is hard to draw the parallels between the US led sanctions against the USSR and consequent economic damage made and the collapse of Soviet Union in 1991, however, Soviet troops did eventually withdraw from Afghanistan. The parallels could be drawn between the then participants and current situation as the only country that inherited the Soviet legacy is Russian Federation. Soviet Russia was the leading and central state within the USSR and after the dissolution it retained the nuclear arsenal of the former superpower as well as maintained its role in the eastern hemisphere and remained an important player in European affairs. Ethnic Russians comprised more than 50% of the total population USSR (USA/USSR: Facts and Figures 1991, 14). This fact assumes that the one nation affected by the Cold War era sanctions the most was the Russian nation and today the very same people and their descendants are going through the similar experiences.

Lastly, a relatively short period of time has passed from the early 1980s until modern days and the number of generations that has changed within the last 35 years is not very high. Therefore, in the next chapters the parallels will be drawn between the USSR and the Russian Federation in the context of the mentality of
local residents, their perception of international pressure and their role in the formulation of the foreign policy of the country.

2.2 Application to politics

In general, sanctions are considered as an integral part of international relations and are used as an instrument for influencing the decision making processes of targeted governments. The primary purpose of such approach lies in its essential alternative to the use of military force and very often it has been exercised by an influential large nation which is politically active on the international arena. Nevertheless, it is believed that sometimes sanctions are used for purposes other than interfering into the affairs of other countries, instead, for example, playing an important role in the domestic political struggles or for preparing their own nations for the upcoming austerity measures. As a rule, sanctions illustrate that the sender country will not tolerate or accept certain actions of the targeted country, that the verbal statements of condemnation and criticism is indeed supported by action and that the sender government will do its best in order to protect the national interest of its country.

However, the sanctions sometimes are not successful and the main reason for that is the lack of cooperation between the allies and general inadequacy of the sanctions in the particular situation. Another reason for the failure is the possible unification of the nation under the sanction and mobilization of target country’s resources in support of the position of its government. Sometimes, the political component of sanctions does not bring the desired effect because of the international opposition in the form of the powerful and wealthy allies of the targeted country which compensates the commercial losses to certain level, thus limiting the extent of the imposed sanctions. Finally, the sanctions can become such a heavy burden on the sender country’s allies and the domestic private sector that both parties will express little support if any at all as the interests of the latter can be damaged regardless of the damage done to the target country. (Hufbauer, Schott, Elliott & Oegg 2007, 3 – 9.)
2.3 Results and Achievements

As the scope of this thesis is limited by the drawn parallels between the USSR and Russian Federation, this chapter will present the results and achievements that followed the sanctions imposed on Soviet Union in 1980s. First of all, the term sanctions will be divided into three parts namely the economic sanctions, trade embargoes and diplomatic measures. Then, it will be analyzed if the sanctions were successful and regardless of whether they were or were not, the possible reasons for that will be evaluated.

To begin with, the diplomatic measures taken by the United States and its allies included the boycott of the Moscow Olympics of 1980. As a result, athletes from 65 countries did support the boycott whereas 80 countries participated in the Olympics. Nevertheless, the Afghan Invasion ended only 9 years later in 1989 when Soviet troops were pulled out from Afghanistan. (The Olympic Boycott, 1980 2001 – 2009.)

Economic sanctions on USSR during the last ten years of its existence were imposed in form of a set of various restrictions on the construction of a gas pipeline that would transport Siberian gas to the European markets. The US Government stopped issuing licenses to American companies that planned the sale of the equipment and technology used for the oil and gas transmission and refinery purposes to USSR and prohibited its subsidiary and overseas firms from selling the equipment and technology that may be used for such purposes. The disappointing result was the absolute opposition from the European allies which believed that such American actions would affect their trade. Finally, the United States Government had backed down on its plans of such measures and the said sanctions have eventually failed to stop the construction of the gas pipeline. (Soviet Economic Sanctions 1982.)

Although the Grain Embargo was still in action, on 20 June 1980 President Carter made it clear that the subsidiaries of grain companies were allowed to sell the grain that was not American in its origin to the USSR. Moreover, Soviet Union managed to import the grain from other exporting countries such as Argentina for example. Under the agreement proposed by the Soviet exporting company,
Argentina would redirect the most part of its customary grain exports to their other importing partners and sell almost all of its export oriented corn and grain to the USSR for a favorable 25% higher price than the usual. Nevertheless, it is believed that Soviet Union had to spend the scarce amounts of its foreign currency reserves on that grain bought from other exporters when they were intended for purposes other than that, for example for the purchase of Western products and technologies. Finally, the shortage of meat products, connected directly to the amounts of grain in Soviets reserves, was not perceived so sensitively by the population due the fact that there had always been meet deficit on the consumer market together with the fact that the residents of USSR consumed roughly twice as less than American citizens on average. (The Soviet Grain Embargo 1981.)

Eventually, this combination of sanctions used by the US Government in 1980s although having had its logical damaging effect on Soviet balance of trade, livestock economy and international prestige, did not prove to be advantageous as an immediate foreign policy tool when taking into account the primary purposes of the US which were to stop the Soviet Invasion of Afghanistan. Nowadays, it is difficult to assess the role of the Soviet residents and their feelings towards these events as well as analyzing their standard of living at that time for the following reason. According to Hinckley and Kohut (1993), both practical and cultural difficulties in conducting the research concerning public opinion existed in the region even after the collapse of the USSR (Hinckley & Kohut 1993, 14 – 18).
3 NATIONAL ECONOMY OF RUSSIA

3.1 Oil as the main source of the GDP

This subchapter will concentrate on those parts of the Russian Economy that are vital for its existence. In order to analyze the structure and specifics of their national economy it is important to evaluate its main sources of GDP.

According to the World Bank, rents from natural resources, accounted for 18% of the country’s GDP, whereas the rents from oil and gas were 13.6% and 2% of GDP respectively, in 2013 (World Development Indicators: Contribution of natural resources to gross domestic product 2013).

Moreover, oil and gas alone make up more than half of the federal budget revenues and more than 70% of exports for the same year. Being the world’s 3rd and 2nd largest producer of oil and gas respectively makes Russian national economy heavily dependent on international prices for those commodities as well as to their export potentials and necessary infrastructure. Unsurprisingly, this sector of the economy is considered highly strategic and therefore the production is restricted by the domestic companies. Companies such as Lukoil, Surgutneftegaz and Russneft are privately owned and together represented around one third of total oil productions in the year 2012. The transportation needed for the oil export is conducted solely by Transneft that controls a little less than 90% of the pipeline network within Russian Federation although there has been a noticeable shift to the transportation by sea recently. (Russia 2013.)

In other words, the energy sector within the Russian economy plays a very important role and remains the main reason why their economy is placed among the developing ones. The oil and gas sectors are not diversified in terms of the openness of the sector to free market mechanisms as the government runs it in a way similar to nationalized monopoly and therefore any changes both positive and negative will have an adverse effect on or will be initiated by the Russian Government. The fact that the oil and gas transportation infrastructure is owned and operated by a single state owned company illustrates the simplicity of the pipeline network in respect to its administration and logistical control, which in
turn emphasizes the sole stakeholder in any potential alterations in the sector which is once again the Government of Russian Federation.

There are many other sectors that make their substantial contribution to the Russian economy, however, this sub-chapter will concentrate on the energy sector as the earnings of the federal budget, for which it contributes significantly, is the key tool in the implementation of the country’s domestic policies and plays an important role in the decision making process necessary for the future economic growth. In other words, as the revenues of the federal budget strongly depend on the rents from oil and gas industry, the negative impact on that sector of the economy may result in reduced spending on welfare, education and healthcare, which, in turn, will lower the standard of living of the ordinary citizens.

In order to understand the importance of the energy sector in Russian economy the following chart is given. It illustrates that, for instance, 33% of Russia’s export revenues were generated by the crude oil alone, with gas export responsible for 14% of that in the year 2013. Another 21% of export revenues were earned by the sale of petroleum products with only 32% of export revenues accountable for other exports unrelated to the oil and gas sector. (Metelitsa 2014.)

![Figure 2 Composition of Russian Export Revenues in 2013](U.S. Energy Information Administration 2013)
3.2 Fiscal policy

This subchapter will concentrate on the two arms of Russia’s economic policy, namely fiscal and monetary. Both approaches are relatively new in a sense that neither of them could be considered traditional to Russian national economy as the country’s economic system, although having declared its market orientation in 1991 with the collapse of the Soviet planned system, as the actual transition to the non-planned model took some adaptation time.

Fiscal Policy, which is responsible for the Government spending and taxation across the country, is tightly connected with the Federal Budget of Russia. According to the IMF Country Report, Russia’s federal expenditure is linked to the revenue calculated with respect to the historical oil price (Russian Federation. Fiscal Transparency Evaluation 2014, 30). Therefore, any fluctuations in the international oil prices will affect the budget balance. Reduced spending and increased taxation may have negative effect on the political rating of the Government.

The logical question that might come in mind here is not if but when will the society start wondering: What are the genuine reasons for such stringent measures and why is the burden passed on the fundamental basics of the residents’ standard of living?

On the other side of the fiscal policy tool there are taxes and certain developments of the last year deserve some attention as well. In March 2014, just days after the annexation of Crimea, Russian Ministry of Finance announced that the taxes are not to increase in the upcoming four years. At the same time, the budget expenses are not to decrease as well within the next three years. (Nikolsky 2015.)

In the late 2014 Russian Ministry of Finance had announced that the spending will decrease by 10%. Out of total amount attributed to Government spending, 33% was designated for social obligations, whereas almost the same amount was spent on defense and security. In the upcoming year the defense budget is to grow to substantial 35% which would account for about 12% of the Russian GDP and it is
believed that it might have negative repercussions on other spending areas such as healthcare, superannuation or welfare. (Worstal 2014.)

The drastic difference between the two statements made by the same Ministry within one year illustrates the instability that exists within Russia’s main financial institutions and leaves a room for a broad discussion in regard to the forecasting abilities of Russia’s Ministry of Finance in matters of inflation, economic growth and planning of the federal budget.

In September 2014, Russian Parliament approved the legislation that would increase the property tax rate by threefold. (Russian Parliament Approves Property Tax Hike 2014.)

Thus, the Government will pass the newly introduced property tax burden directly on to the middle class owners of any kind of real estate as their homes and houses are more expensive than those of the poorer residents.

3.3 Monetary policy

Monetary policy, a tool very similar to Fiscal policy, is responsible for the controls on the amount of the national currency in circulation. Since the dissolution of the USSR in 1991, Russia, along with other 14 new independent republics, had to shift to a market economy which meant that the monetary policy will have to play one of the central roles now. If the amount of money in circulation is too low, then the internal investment into the national economy will decrease with consequent slowdown of the economic growth, on the other hand, if the supply of money increases at a rate higher than the internal production within a country, then the prices will rise in order to keep up with the amount of disposable income, thus resulting in inflation. Russia’s monetary policy is an important factor that must be taken into account when analyzing the country’s economy as the Central Bank, although being an independent entity officially, does not take on the responsibility of decision making solitarily, but under the strict control of Russian Government. According to the PONAR analysis, the amendments made to the Law on the Central Bank in July 2002 increased the Governmental control over it as now only one representative of the Central Bank
of Russia will be one of the twelve members of the National Banking Council, an institution that approves the monetary and credit policy, whereas the Government, presidential administration and legislature will have three, three and five members respectively (Johnson 2004).

In 1993 it was the loose nature of the monetary policy which allowed the level of inflation to reach 874% with together with shrinking economy and decreased investment. In order to combat such negative effects of transition to a market economy the Russian Central Bank created a corridor for the ruble’s fluctuations. Although the inflation reduced to 14% by the year 1997, the Central Bank defended the value of their currency despite the dramatic fall in a number of Asian currencies and had therefore lost almost 6 billion USD. As a result, just a year later, the ruble depreciated by about 60% with the inflation levels rising to 85.7% in 1999. (Wiel 2013.)

These two cases are presented in order to give the general view on the extreme levels of inflation in the Russian history. These cases illustrate the vulnerability of Russia’s national currency to the external influences one of which is the international oil price.

TABLE 1. Inflation of Russian Ruble for 1993 and 1998 and International Oil Prices (Inflation in Russia 2015 & Inflation Data 2015)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of Inflation</th>
<th>Average Oil Price</th>
<th>Previous Year Oil Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>840%</td>
<td>USD 16.75</td>
<td>USD 19.25</td>
</tr>
<tr>
<td>1998</td>
<td>84.5%</td>
<td>USD 11.91</td>
<td>USD 18.64</td>
</tr>
</tbody>
</table>
Table 1 illustrates the levels on inflation of Russian Ruble for the year 1993 and compares it with Ruble default of 1998 and contrasts both with the international oil prices at that time as well as giving the oil price change with respect to the previous year. Therefore, the relationship between the international oil prices and the steep devaluation of Ruble exists and Russian national currency is sensitive to the changes in the price of oil.

The current state of affairs in regard to Russia’s monetary policy will be reviewed in more detail in the subchapter 4.2 after the necessary empirical analysis is conducted.

3.4 Reserve Fund

In this subchapter the role of the Stabilization Fund is explained with respect to its insuring nature and the possible scenarios on its fate are analyzed at the midst of recent developments.

The Stabilization Fund of the Russian Federation was created for the purpose of accumulating the country’s revenues, generated by oil exports during the sharp increase in the international prices of crude oil, and preserving them for future references such as oil price drop below the set 27 USD per barrel. In other words, Russian Ministry of Finance, led by liberal Alexei Kudrin made a decision to take the advantage of the favorable market conditions of that time and create a safety net for the self-sufficiency of Russia’s Federal Budget in case of financial crises. As a result of such pre-emptive actions, Russia, as it is believed by experts, was able to pass through the 2008 recession in a better condition. This financial institution was separated into its two successors, namely Reserve Fund and the Fund of National Welfare in 2008. (Kononova 2010.)

Other than that, the Stabilization Fund had one more very important role. It served as an instrument of Russia’s monetary policy as by performing its basic functions it was at the same time diverting the rising oil revenues from the general circulation, thus, reducing the risk of inflation associated with supernatural profits during the periods of sharp increases in the oil prices.
However, even though the Stabilization Fund is believed to be advantageous, there might be a certain level of criticism related to the level of its practical viability due to the fact of the money accumulated there being “dead” by nature, or in other words unusable in the short term. The oil revenues of the Stabilization Fund do not generate any kind of extra profit, nor they are immune to the annual inflation rate and therefore keep depreciating when they could be spent for some other potentially beneficial purposes that could improve the standards of living or the infrastructure of the country.

In February 2015, the very same Ministry of Finance that had once created the Fund proposed the withdrawal of around USD 52 billion from the Reserve Fund in order to cover the insufficiency of Federal Budget that occurred due to falling oil prices and international isolation of Russia’s financial system. This amount is believed to be more than half of fund’s total value and the authorities claim that without such measures the budget deficit could reach 4.7% of GDP. (Ostroukh 2015.)

The fears of Russia’s Finance Ministry were not imaginary in any possible way as according to the ministry’s data the value of the Reserve Fund depleted by USD 5 billion by the beginning of April 2015. According to the forecast from the World Bank Russia’s Reserve Fund is to experience further depletion this year due to the projected economic recession. (Milyavskaya 2015.)

The depletion of Russia’s Reserve Fund may have a wide range of negative consequences in regard to its international obligations and various organizations of which it remains an active participant. First of all, Russia’s commitment to the BRICS will be put on trial with respect to its financial obligations related to their membership in there as the organization itself, being considered a relatively new formation, will need a certain amount of investment for the necessary economic boost as well as for the establishment of its independent financial institutions and funds of any kind. On the other hand, there is Russia’s membership and leading financial and economic position in the new Eurasian Economic Union which will be discussed in more detail in the subchapter 5.2.
TABLE 2. Sovereign Funds of the CIS countries (Sovereign Wealth Funds Institute 2015)

<table>
<thead>
<tr>
<th>Country</th>
<th>Funds</th>
<th>Assets in billions</th>
<th>Year of Inception</th>
<th>Origin of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>State Oil Fund</td>
<td>USD 37.3</td>
<td>1999</td>
<td>Oil</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Samruk-Kazyna JCS</td>
<td>USD 77.5</td>
<td>2008</td>
<td>Oil</td>
</tr>
<tr>
<td></td>
<td>Kazakhstan National Fund</td>
<td>USD 77</td>
<td>2000</td>
<td>Oil</td>
</tr>
<tr>
<td></td>
<td>National Investment Corporation</td>
<td>USD 2</td>
<td>2012</td>
<td>Oil</td>
</tr>
<tr>
<td>Russia</td>
<td>Reserve Fund National Welfare Fund</td>
<td>USD 88.9</td>
<td>2008</td>
<td>Oil</td>
</tr>
<tr>
<td></td>
<td></td>
<td>USD 79.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 illustrates the sovereign wealth funds of the Azerbaijan, Kazakstan and Russia as well as their values and the years of creation together with the origin of funds. There are a number of common features possessed by the chosen countries. First of all, all these countries are from the former USSR. Secondly, each of the listed funds is supported by the oil revenues. The table contrasts the values of the funds in order to highlight the position of Russian financial potential to other members of the CIS.

3.5 Pipeline infrastructure

Although the pipeline network is not an economic term in its nature, it does, however, play a fundamental role in the transporting potential of a wide range of products that originate from Russia’s energy sector and therefore remains one of
the basic engines of its national economy. To begin with, it is important to mention the current condition of the existing network.

First of all, most of the existing network of Russia’s oil and gas pipelines was constructed in Soviet Union between 1960 and 1970 for purposes of transportation of crude oil and natural gas to the refineries for further foreign export (Chernyaev 1996).

Unfortunately, the network has not seen a complete modernization ever since, although the normal lifespan of a pipe last 35 year at the most and in 2013 the independent analyst Anna Annenkova stated that the wearing out of the pipelines had reached almost 70%, of which 20% were in an absolutely critical state. As a result of that, about 5% to 7% of transported oil is being lost due to accidents and consequent leakage. Although Transneft, Russia’s sole owner of the network conducts the modernization works at different parts of the pipeline, the degree of done work is not enough. For instance, the modernization and replacement work that were conducted on Druzhba pipeline between years 2010 and 2013 resulted in only 10% of total length to be renewed. (Annenkova 2013.)

One more thought which comes into mind in regard to pipeline condition is the undeniable fact that any kind of related modernization or replacement requires the investment and given the current state of the federal budget it seems that the task becomes only more difficult as the time goes by while pipeline network does only get older.

Russia, taking into account its vast territories and the distance from oil and gas basins located mainly in Siberia to the two main markets in Europe and China, possesses an extensive length of oil and gas networks. However, this thesis will focus only on those networks that are considered important within the context of sanctions and the possibility of new markets available for the sale of Russia’s energy resources.

First of all, one the most vital pipelines that carry Russian gas is the Nord Stream that lies under the Baltic Sea and connects the supply with German, Dutch, British and French markets without any transit countries. This, in turn, reduces the risks
associated with third party involvement in the gas transporting system and therefore ensures the energy security of Europe on the technical side. Completed in 2011 this pipeline’s potential is considered to be around 55 billion cubic meters per year. (Nord Stream.)

FIGURE 3. The Nord Steam Pipeline (Modified from Gazprom)

Altai Project, although not being fully completed, plays vital role in Russia’s gas transportation network as its main part already exists and only a small part is to be completed soon. The project is intended to connect the already existing pipeline of Russia’s Altai region with China’s Xinjiang Autonomous region with first supplies planned for the late 2015. (Altai.)
However, two the most significant pipeline projects are the Power of Siberia and Turkish Stream, the latter will be reviewed in more detail in subchapter 5.5.

The Power of Siberia pipeline project is planned to connect Russia’s eastern gas fields located in Yakutia and Irkutsk Region to the unified gas transmission system for the future support of Russia’s gas exports to China via the eastern route. The planned capacity of the project is suggested to be at 38 billion cubic meters of gas. (Power of Siberia.)

All of the mentioned pipeline corridors, regardless of their length and complexity of construction, are connecting the supplier with the buyer directly and that condition is advantageous for a number of reasons. Firstly, the political risks associated with the transit of gas have become clearly visible with the beginning and the escalation of Russia Ukraine conflict. On the other hand, the transit of gas via the third countries will always increase the costs taken into account that different countries have their own tariffs and taxes combined with a range of regulations and possible political instability.
3.6 Role of the State and the Business and their relationship

The relationship between business and state is one of the ways to review the Russian economy. Although there have not been too many publications on the nature of such relationship, it is clear that the process of their mutual engagement has its own effect on the society at some level. From the European and American perspective, it is difficult to understand the basic trends within this relationship for the following reason. The model of analysis and the way to look at the relationship between the state and the business is completely different in the western world in contrast with Russia and therefore its use with lack objectivity to some extent. (Fokin 2009, 116 – 121.)

Furthermore, the relationship between those two institutions in the western countries has been generated for the some centuries now, whereas the business was introduced in Russia relatively recently, with the adoption of market oriented economy after the collapse of the Soviet Union. For that reason, these two fundamental differences make this field of study to be one of interest. In order to analyze the structure of the described relationship from inside it is vital to mention the emergence of Russia’s private sector from the very beginning.

After the appropriate regulation was introduced in 1992, a number of oil companies, that were state owned before, were privatized by new entrepreneurs with the creation of vertically-integrated companies that combined the extraction and refinery of crude oil. The distinctive feature of this privatization process was in the fact that the Russian Government, although initiated the process, had retained the monopoly for the transportation and export of crude oil as well as the transportation within the country itself. With the expansionist nature of newly formed oil corporations their share of the oil sector had risen dramatically as a result of mergers and acquisitions, and by 2002 Yukos, LUKoil and Surgutneftegaz were together responsible for more than half of Russia’s production and exports of oil. In regards to the relationship of such oil companies with the State it is important to mention for the reference that if, for example, LUKoil was state-influenced entity, then the Yukos was a corporation free from State influence. (Berkowitz & Semikolenova 2006, 1 – 7.)
During the first years after the dissolution of the USSR a number of influential businessmen, often referred to as oligarchs have emerged on Russia’s political scene. For a more thorough understanding of the situation of that period Russia’s business elite that was in the opposition will be studied and the events that followed the contest between the state and the business will be described in this subchapter.

First of all, it is Boris Berezovsky who had enjoyed the fruit of the privatization process and by mid 1990s becomes a millionaire with shares at a number of Russia’s key corporations in the industries such as media, airlines and the energy and plays a central role in the 1996 presidential campaign. Although being considered as one of Vladimir Putin’s supporters at first, by the year 2000 his relationship with the newly elected president deteriorates and later that year he immigrates to the UK and becomes the main opposition to the state represented by the new president with the latter demanding his extradition on fraud and money laundering charges a year after. Having lived all the subsequent years in the exile, Boris Berezovsky dies in 2013 under unknown circumstances. (Jones 2013.)

The assets of Boris Berezovsky at height of his power before exile to the United Kingdom were diverse in their origin. Stakes at Sibneft, one of the Russia’s very first oil companies; national airline Aeroflot, Rusal aluminum giant and the most watched ORT TV channel were the integral parts of his business empire. Other not less important properties included Kommersant publishing company and LogoVAZ which was at a time one of the earliest car dealership companies in the early 1990s. (Kramer 2006.)

Apart from Berezovsky, Russia’s once richest man Mikhail Khodorkovsky is also considered one of the most prominent members of Russia’s business elite that has also made his fortune during the early years of privatization. After the purchase of state owned Yukos in 1995 transforming it into one of the most well established companies in a country that adopted the principles of transparency in its operations. After his arrest in 2003 he was jailed two years later with charges such as fraud, embezzlement and fraud. His legal defense claimed that all the allegations were fabricated and criminal proceedings were initiated on political
grounds. Taking into account the fact of his financial support to political parties that were in the opposition to Vladimir Putin’s Government, his position towards the state has never been of a secret. During his prison sentence Yukos was declared bankrupt. (Profile: Mikhail Khodorkovsky 2013.)

TABLE 4. Oil production by Yukos (RPI & Carbon Majors)

<table>
<thead>
<tr>
<th>Years</th>
<th>Yukos Oil Production in million tons</th>
<th>Total Oil Production in Russia in million tons</th>
<th>Share of Total Oil Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>47</td>
<td>298</td>
<td>15.77%</td>
</tr>
<tr>
<td>1996</td>
<td>46</td>
<td>292</td>
<td>15.75%</td>
</tr>
<tr>
<td>1997</td>
<td>47</td>
<td>295</td>
<td>16.27%</td>
</tr>
<tr>
<td>1998</td>
<td>45</td>
<td>292</td>
<td>15.41%</td>
</tr>
<tr>
<td>1999</td>
<td>44</td>
<td>305</td>
<td>14.43%</td>
</tr>
<tr>
<td>2000</td>
<td>49</td>
<td>323</td>
<td>15.17%</td>
</tr>
<tr>
<td>2001</td>
<td>58</td>
<td>348</td>
<td>16.67%</td>
</tr>
<tr>
<td>2002</td>
<td>69</td>
<td>380</td>
<td>18.16%</td>
</tr>
<tr>
<td>2003</td>
<td>81</td>
<td>395</td>
<td>20.50%</td>
</tr>
</tbody>
</table>

Table 4 highlights the oil production volumes of Yukos Company in contrast with the total oil production within the Russian Federation starting from the year 1995 when it was acquired by Mikhail Khodorkovsky up until 2003 when legal action against him was started. As shown on the table, the petroleum production volumes have been increasing steadily over the given period of time with the exception during the years 1998 and 1999 with possible explanation being the Ruble default.
at that time which might have had its own adverse effect on Russia’s private sector. Although the table 4 gives us the data on the Yukos’s oil production volumes for a relatively distant period of time, it reflects the trend of the increasing share of total oil production that played an important role in the political influence of its owner, Mikhail Khodorkovsky.

Both the State and Business play an important role in Russian national economy. Moreover, their relationship has not always been uniform and was constantly changing during all these years since the collapse of Soviet Union. The state on the one hand and business on the other represent the two antagonist powers that comprise Russia.

This struggle between the business and the state has ended with their relationship being transformed into a new form. Now, business and state represent one single entity in Russian Federation. Moreover, their operations and agenda together with the long term strategy and the objectives are similar as they work towards a common goal. The very fact that supports such point of view is in the sanctions list, where government officials stand side by side with business entities and their owners. The role of business has not diminished since, as nowadays, it serves as financial safety net for state’s foreign policy and should therefore be always considered one the most vital parts of Russian Economy.
4 ANALYSIS OF THE EMPIRICAL RESEARCH

4.1 Economic performance before and after sanctions

In order to understand whether or not the imposed economic sanctions affected Russian economy it is necessary to analyze their economy from a number of key macroeconomic concepts. For a better understanding, the economic performance factors for the period available before the sanctions were imposed will be compared with the same performance factors for the period a year later. Then, the data will be further compared with the latest available period for a deeper understanding of the situation.

First of all, one of the best performance factors used to measure the level of the economic activity is the Gross Domestic Product. As the very first economic sanctions imposed by the US in 2014 were on 17 March with the very last ones being imposed on 11 September it will not be an accurate reflection of the situation if the GDP value for the year 2014 is taken into account. Sanctions are a complex instrument and therefore need a certain amount of time to have an effect and the national economy of the country is a sophisticated system of variables that also needs time in order for alterations to happen. For that reason, due to the unavailability of data for 2015 GDP, such economic variable will not be analyzed. However, such parameter as quarterly GDP growth rate is already available and therefore will be studied instead. According to the Federal State Statistics Service, Russia’s GDP growth rate for the first quarter of 2014 was at 0.6%, for the second quarter at 0.7%, at 0.9% for the third and at only 0.4% for the last, in contrast with the corresponding values for the previous year that were 0.8%, 1%, 1.3% and 2% respectively. Such difference, although not very significant, points out that the GDP growth is slowing down, which in turn can be one of the signs of the economic recession if such trends were to continue in 2015. (Russia GDP Annual Growth Rate 2015.)

Value of imports and exports plays a very important role in the economic performance and gives a whole picture of country’s foreign trade. According to the Central Bank of Russia, the country’s exports began a steady decline over the
year 2014 with the export values for the beginning of the second quarter 2014 being USD 47.662 billion, for the third quarter USD 46.207 billion and USD 41.137 billion for the last quarter with a dramatic fall to USD 27.510 billion in the first quarter of 2015 (Russia Exports 2015). As for the imports, the values for corresponding quarters were USD 27.681 billion, USD 29.184 billion and USD 26.915 billion with only USD 12.463 billion for the first quarter of 2015 (Russia Imports 2015).

The decline in Russia’s balance of trade is a clear indicator of the decreasing volumes of foreign trade turnover which corresponds clearly to the demand that is made up by the country’s middle class. Such changes in the demand generated by the middle class are very important for the position of the domestic trade that responds to the final value of country’s GDP.

TABLE 5. Russia Consumer Price Index (Trading Economics 2015)

<table>
<thead>
<tr>
<th>Period</th>
<th>CPI Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2014</td>
<td>427.5</td>
</tr>
<tr>
<td>August 2014</td>
<td>429.6</td>
</tr>
<tr>
<td>September 2014</td>
<td>431.4</td>
</tr>
<tr>
<td>October 2014</td>
<td>434.9</td>
</tr>
<tr>
<td>November 2014</td>
<td>440.5</td>
</tr>
<tr>
<td>December 2014</td>
<td>452</td>
</tr>
<tr>
<td>January 2015</td>
<td>469.6</td>
</tr>
<tr>
<td>February 2015</td>
<td>479.9</td>
</tr>
<tr>
<td>March 2015</td>
<td>485.6</td>
</tr>
</tbody>
</table>
Consumer Price Index is also one of the ways to measure the level of economic activity and presents a special interest in this thesis. Based on data from the Federal State Statistics Service, Russian CPI had undergone some significant alterations since the mid-2014. As illustrated on the table the CPI at a value slightly less than 430 points in the beginning of the third quarter of 2014 and around 435 points in the corresponding period of the last quarter of 2014, in the beginning of the first quarter of 2015 it had experienced a sharp increase to about 470 points with the value in the end of the first quarter 2015 rising to a little less than 490 points. (Russia Consumer Price Index 2015.)

Such sharp increases in consumer prices might be the result of the food ban imposed by Russia in August 2014 as a response to the international sanctions. The price increases of for the imported products present a very sensitive issue to the Russian economy due to the fact that their economy is in its developing stage.

4.2 The influence of sanctions on currency fluctuations

Currency stability together with the foreign exchange rate against the world’s most used currencies as well as against the currencies of Russia’s main trade partners is indeed one of the most fundamental factors responsible for the economic development. The fluctuations of national currency will be analyzed with respect to the exchange rate, negative slide of the international oil prices and the interventions from the country’s main financial institution, namely Central Bank of Russian Federation. Moreover, the resulted price hike of the wide range of the imported goods will be under review with respect to the purchasing power of consumers.

Beginning in July 2014 Russian national currency – ruble began its steady decline. According to the XE, the exchange rate between US Dollar and Russian Ruble on 16 October 2014 was at 40.86 Rubles for 1 Dollar, on 16 November the rate was at 47.2 Rubles for 1 Dollar and a month later the exchange rate reached 68.46 Rubles for 1 Dollar with the record value reached on 1 February 2015 being at 69.66 Rubles for 1 Dollar. (XE Currency Charts 2015.)
The international price of oil began its decline in the beginning of July 2014 starting at around USD 115 per barrel and falling to USD 80 per barrel in the early November 2014 and reaching USD 60 per barrel by the mid December 2014 (1 Year Crude Oil Prices and Charts 2015).

As oil plays a significant role in Russia’s revenues, the decrease in the international oil prices force the Ruble to fall. In other words, when the oil price falls, the revenues of Russia’s Federal Budget decrease and in order to cover the losses the Central Bank has no other option but to devaluate the Ruble and therefore, the Ruble’s foreign exchange rate will always be proportional to the fluctuations in the oil prices.

In order to support the national currency, Russia’s Central Bank had used its foreign currency reserves and intervened by purchasing USD 15.7 billion worth of Rubles (Tanas, Kuznetsov 2014).

In simple words, by selling foreign currency in exchange for rubles the Central Bank increased the amount of foreign currency in circulation, thus aiming to reduce its price as the increase in supply is believed to generate decrease in demand. At the same time it was believed to work vice versa for the Ruble as the reduced supply of it was believed to spark up the demand, resulting in rise in its value.

The fall of Ruble’s value had a very negative effect on businesses, particularly those which operate in the industry of the resale and imports. In November 2014, Apple increased the prices for its production by 25% in order to combat the declining exchange rate of Ruble and one month later the price of new iPhone 6 was 35% higher than before in Russian store (Cook 2014). As people concerned with the devaluing Ruble tried to purchase vehicles in order to invest money in luxurious products which could be considered as assets, the world’s famous carmakers such as Audi, General Motors and Jaguar Land Rover have all temporarily stopped sales in response to the fluctuations of Russian currency with Toyota announcing the upcoming price increases and BMW reacting relatively earlier than the others by redirecting their sales to more stable markets already earlier in 2014 (Kresge, Shatalova 2014). Other clothing companies such as
Calvin Klein, Armani Jeans and Michael Kors suspended their exports to Russia and electronics producers Lenovo, Acer and Samsung have followed Apple’s path by increasing their retail prices (Foreign Companies Decrease Exports to Russia, Raise Prices 2014).

To conclude, the decrease in the Ruble’s value against the US Dollar can be viewed from different perspectives. First of all, for the ordinary consumers the devalued Ruble is a negative sign as prices for the imported goods increase in proportion to the exchange rate in addition to the reduced purchasing power when travelling abroad. However, for the exporters, on the other hand, it is a positive sign as their exports become cheap for the foreign importers which in turn tend to have positive effects on the balance of trade and the increases in export revenues. Moreover, Russia’s export oriented businesses; producers of fuel-energy products in particular, receive their income in Dollars or Euros, but pay salaries and taxes in Rubles (Khlebnikov 2014). According to Balakirev, chief analysis at UFS, the substantial weakening of the Ruble might provoke discontent among the Russia’s population (Lossan 2014).

4.3 Performance of the energy sector in relation to sanctions

The primary purpose of the economic sanctions on Russia was to reduce its economic activity and the appearance of both private and state oil and gas companies on the sanctions list means that this very sector of the economy is on the agenda. This subchapter will analyze the performance of the energy sector in the Russian economy after the imposition of sanctions and compare it with the data for previous periods in terms of the overall output of petroleum production, net incomes earned by both state and private companies and the fate of large scale exploration, drilling and extraction projects from the general point of view.

One of the key indicators that demonstrate certain changes in this industry is the output or in other words the oil production. Despite the sanctions and falling oil prices, Russia produced an all-time record amount of crude oil and gas condensate since the 1991 according to the data from the Central Dispatching Department of Fuel Energy Complex. The average output reached 10.58 million barrels oil per
day with exports to China increased by almost 43%. According to the Energy
Ministry, the total output of oil production increased by 0.7% in 2014. (IB Times)

Nevertheless, the production increase does not necessarily result in the increase of
net profits. According to the data from the company’s annual report, the net
income attributable to LUKoil fell from USD 7.846 billion in 2013 to USD 4.764
billion in 2014 (Financial reports 2014).

According to the state oil company Rosneft, their profit fell by 10% in contrast
with the last year and net income of the company in 2014 was USD 5.7 billion
(Golubkova 2015).

The falling profits of LUKoil and Rosneft will also result in the lesser amount of
funds available for the drilling and exploration expenses which in turn will have
consequent negative effect on the production levels which are expected to decline
over the time due to the depletion of oil wells.

The sanctions that prohibited the cooperation and exchange of technologies with
the Russian oil companies exploring the Arctic fields have had a considerable
effect on the energy sector. As a result, a number of strategically important oil and
gas exploration projects agreed between Russia’s state oil companies and
international corporations such as Exxon, Royal Dutch Shell, Eni and Statoil will
need to be halted for the period while sanctions are active. The problem for
Russian energy sector is the decline in the oil production at the Western Siberia
region as Russia wants to keep current output and new exploration projects were
being developed for those very purposes. Moreover, the sanctions left Russian
private and state companies without external financing and now the sole
exploration and oil extraction activities inside and overseas are also put at risk.
(Gotev 2014.)

Keeping the oil production output at current level seem illogical for Russia
because as one of the leading producers of crude oil in the world and therefore
having a considerable weight in the international energy market it could use its
own decrease in the oil production in order to increase the demand and therefore
price for that commodity.
Based on data from the US Energy Information Agency, the annual oil production has increased from 7.464 million barrels per day in 2013 to 8.68 million barrels per day in 2014 (U.S. Field Production of Crude Oil 2015). In December 2014, OPEC made it clear that the cartel will not reduce the oil production regardless to the falling oil prices, thus, defending its market share (Raval 2014). Therefore, it is clear that the price of oil will not rise if its productions output is decreased by Russia alone. Russia’s Federal Budget is supported by the rents from the oil and gas exports from the state controlled companies and from taxes paid by the privately owned companies, therefore, the falling oil prices in combination with the decrease in profitability of both types of companies might result in the budget deficit for the 2015. Russia was well prepared to a global financial crisis of 2008 because its reserve funds were once created for this very reason (Sutela 2010). Now, the country on the one hand is unable to compensate the expenses of the reserve fund due to the falling oil prices; while on the other hand, it has no access to the foreign capital due to sanctions imposed. Therefore, Russia’s abilities to respond to the economic recession are limited.

There are several factors that determine that price of oil. First of all, it is the slowdown of China’s economic growth that has to be taken into account as it is the second largest oil consumer worldwide. The increased output of oil production by the US is also one important factor that affects it. Another factor is the natural concept of the elasticity of demand as low prices for a commodity may increase the demand for it that could result in the price increase. The fourth factor is the policy of OPEC that regulates the output levels of the oil production. The last but not the least, in the short-term, the geopolitical situation affects the oil price to a great extent as any military actions increase fears of the oil supply disruption that force oil prices to rise. (Cunnigham 2015.)

4.4 Capital movement

The movement of capital is a concept that is highly important for a developing economy. This subchapter will review this aspect in regards to the three following variables: the volumes Foreign Direct Investment, the capital outflow and the presence of international companies in Russian Federation.
4.4.1 FDI and capital outflow

According to the Central Bank of Russia, the total outflow of the capital for the year 2014 was USD 151 billion in contrast with only USD 61 billion in the previous year. As believed by the Central Bank, the reason for such record outflow of the capital was the instability in the exchange rate of the national currency that motivated the purchase of foreign currencies in exchange for Ruble. Second reason was a direct effect of the imposed economic sanctions that restricted the possibility of the refinancing of the debt of Russia’s private sector which was left with no other choice but to repay its foreign debt. The economic forecast given by the Central Bank and a number of analysts suggests the capital outflow of the year 2015 to be higher than USD 100 billion. In addition to the capital outflow, the Foreign Direct Investment into Russia had stopped in the beginning of 2014 with the amount of foreign capital outflow for the first three quarters of 2014 totaling USD 21.7 billion. The end result of ceased FDI is believed to have negative consequences on the oil and gas, metallurgy, trade, agriculture and real estate sectors. (Kuchma 2015.)

4.4.2 Exit of foreign companies

For a number of different reasons some worldwide famous companies have exited Russian market while others have expressed concern over the worsening economic situation that resulted from sanctions. Other foreign companies became the target for retaliatory sanctions imposed by Russia as a response.

In August 2014, a number of McDonald’s locations were closed down in Moscow for sanitary violations as it has been claimed by Russia’s Federal Consumer Agency. Beverages producers such as Carlsberg, Coca Cola and Danone have all reported the decline in their sales volumes with the latter having to raise prices in order to combat falling profits sparked by the inflation. The car making industry has suffered considerable losses with Renault expressing worries of forecasted low sales volumes and Volkswagen experiencing 8% decline in its sales for the first two quarters of 2014, while Ford was also affected by the falling sales also resulted from the inflation of Ruble. (Petroff 2014.)
In the oil industry the events followed a similar path. As announced in early October 2014, Exxon Mobil followed the US sanctions and withdrew from 9 large scale industrial projects that were planned to take place in Russia’s Arctic, Western Siberian and Black Sea oil fields with Shell acting in a similar manner by halting all of its operations within Russia. The importance of the cooperation from foreign oil companies lies in the fact that almost 25% of Russia’s recoverable oil is being extracted by the hydraulic fracturing method whereas the specific equipment used for such operations is produced mainly by the US. Therefore, if Russian oil producers do fail to find the substitutes of such equipment the output of oil production will fall. (Lossan 2014.)

One of the potential risks associated with the possible exit of foreign companies from the Russia’s market as well as temporary or permanent suspension of their operations there is the subsequent unemployment that will result as the factories shut and projects are frozen. Another problem could be the outflow of the skilled workforce in a form of experienced specialist, professionals and scientist that might seek better working conditions elsewhere leaving Russia.

4.5 Conclusions

First of all, as the data presented in subchapter 4.1 illustrates, the Russian national economy is more likely to be heading towards an economic recession which is clearly indicated by the slowdown of the GDP growth rate for each quarter of 2014. Declining volumes of imports and exports are also not a positive sign especially when combined with the increasing consumer prices fueled by inflation of national currency. Destabilization of Russian Ruble with its devaluated value together with depleting foreign currency reserves both represents a substantial threat for the country’s economic development. The performance of the energy sector despite the record high output levels is also unsatisfactory due to the crash in the oil prices and the forecasted budget deficit will sooner or later have the effect on the standard of living. Outflow of the foreign and domestic capital from Russia, the zero levels of Foreign Direct Investment together with possible exit of a number of foreign companies and their subsidiaries have all done a considerable damage to the country’s economic position.
Therefore, for these very reasons, it will be correct to assume that the imposed economic sanctions indeed were effective from the technical point of view, as they have achieved their primary purpose of damaging the Russian economy. However, as the Crimea still remains a federal district of Russian Federation and the military actions in Eastern Ukraine still go on, the sanctions are not practically effective. Therefore, the second part of this subchapter will analyze the reasons for it.

Earlier in January, Standard and Poor has also downgraded Russia’s rating from Bbb- to Bb+ with the negative outlook, thus placing it under the investment-grade territory. According to S&P, Russian economy will experience a slow growth of around 0.5% per year in the next three years with the inflation levels rising above 10% in 2015. (Albanese, Armental 2015.)

In February 2015, Moody’s downgraded the sovereign debt rating of the Russian Federation from Baa3 to Ba1 and now the outlook of the rating is considered as negative. According to the Moody’s Investors Service, there are three major reasons for such measures to be taken. First of all, they believe that the ongoing conflict in Ukraine together with the instability in the oil price and the currency exchange rates will continue to affect the Russian economy in a negative way. Secondly, due to the capital outflows and the depletion of Russia’s foreign exchange reserves coupled with fiscal pressures the financial potential of the Government will deteriorate. Lastly, Moody’s believes that the international pressure put on Russia in response to the conflict in Ukraine might result in the untimely payments of their external debt. (Moody’s downgrades Russia’s sovereign rating to Ba1 from Baa3; outlook negative 2015.)
5 ALTERNATIVE SOLUTIONS

After the evaluation of the practical failure of economic sanctions imposed on Russia, the major part of this subchapter concentrates on various alternative solutions that are proposed instead of the economic sanctions which are imposed at the moment with each option analyzed in terms of its practical effectiveness with advantages for each method clearly illustrated.

5.1 Reasons for failure and parallels with the USSR

This subchapter analyzes the possible factors that have influenced the ineffectiveness of the economic sanctions from the practical point of view in regard to some fundamental principles of geopolitics and history. Parallels are drawn between the modern day Russian Federation and the Union of Soviet Socialist Republics in terms of similarities, differences and the inherent features of the successor state. It also explains the negative consequences that resulted from the sanctions from the European perspective.

5.1.1 Practical failure

The main reason for the practical ineffectiveness of economic sanctions against Russia lies in their origin. As it is clearly visible from the timeline of events, these sanctions have been crafted and initiated by the United States of America, whereas European member states have only followed similar path on the basis of NATO alliance. Certainly, the aggressive and expansionist actions of the Russian Federation do not go in accordance with the European principles of democracy, tolerance and liberalism, however, in order for sanctions to be more effective EU should have created their own sanctions independently from their American allies.

One of the reasons for this particular point of view is the historical relationship between Europe and Russia and the geopolitical location of both. Located on two opposite sides of Eurasian continent, these two parts of the world, although being illustrated by some as antagonist, have shared centuries of cooperation, friendship and common history. Before the Socialist Revolution of 1917 and subsequent
creation of the USSR, modern day Russia was a 19 century European Empire and was fully integrated into almost all European affairs. The proof for that could be the alliances created between Russia, France and Britain with such trends existing even after the Socialist Revolution. Soviet Union, among other allies including Great Britain, the United States, France and Australia, had also resisted the spread of fascism in Europe and played an equally important role in allied victory in the World War 2. In the period prior to that war, Soviet Russia was the closest partner of Nazi Germany. Therefore, in order to make sanctions workable, all these factors needed to be taken into account.

Moreover, the imposed sanctions not only damage the Russian economy, but hurt European businesses as well. After the collapse of the Soviet Union, Russia, along with other 14 new independent republics, has adopted the market oriented economic model which attracted a number of western and Asian companies into the country, the level of cooperation had only increased over the years with significant amounts of funds been invested in, therefore, scaling back the production will obviously mean financial losses for the private sector of the EU. The Russian mentality was not taken into account as well during the preparatory stage of the sanction. In other words, the USA together with EU have imposed sanctions that are effective from their point of view or could work in their own countries, but have little effect if any on Russia.

5.1.2 Parallels with the USSR

In order to understand the importance of the public opinion the parallels are drawn between Russia and USSR. First of all, the main differences between the former and the latter were the economic system and ideology. According to the Library of Congress, foreign trade comprised a very small percentage of Soviet foreign trade in terms of contribution to its GNP (Soviet Union 1989). That means that the Soviet economy was not sensitive to the imports and the sanctions of 1980s have had a limited effect therefore, whereas Russia, with the adoption of market oriented economic model and recent membership of the WTO, had opened its market to foreign trade. For instance, for the EU Russia is third largest trade partner according to the European Commission (Countries and Regions. Russia
2015). That means Russians are more sensitive towards the sanctions than the residents of the USSR before as the former have enjoyed more than two decades of increasing foreign trade. In other words, if the sanctions remain in place for longer period of time and foreign companies follow the recent trend of exiting Russian market, the ordinary consumers will sooner or later feel the deficit of imported cars, clothes and other luxurious goods.

Another important difference between the two is the current level of the integration between independent countries and increasing role of globalization. For example, when Russian Empire was transformed into the USSR, the level of mutual cultural exchange between the West and the East was limited by the means of communications, in contrast, nowadays, with the creation of internet and advances in media technologies the societies in different countries become more interconnected with each other, share more common features and tend to become even closer and more homogeneous. For that reason alone, the international isolation of the Russian Federation will leave a considerable impact on its society in cultural aspect that could have negative effect on the process of its democratization.

Lastly, the all-pervasive ideology of the Communist Party played a vital role in the formation of the public opinion in the USSR whereas today, the ruling United Russia Party does not have a clear official ideology. Nevertheless, as the most people of legal age that lived in the USSR in 1980s still live today in modern Russia, it is correct to presume that the mentality of people does not change immediately with the fall of one regime and appearance of a new regime lead by the very same individuals. In simple words, the Government uses similar principles of mass control that are based on the confrontation to the USA and Europe and the results of public opinion surveys only confirm such assumption.

Levada Centre that conducts research of public opinion in Russian Federation presented some interesting results in 2015. According to their surveys, in March 2015, 84% to 88% of the participants expressed their support of the accession of Crimea to Russia with 70% believing that it has brought more good than bad. More than 50% of the respondents did not believe in the presence of the Russian
troops in Ukraine and more than 70% believed that Russia was not taking any military action against Ukraine with about 24% thinking that the military actions in Donbass region will last for many years in a survey conducted on 15 March 2015. In a separate survey conducted on the same date, 64% of the respondents answered that the EU is going to extend sanctions against Russia with 72% believing that Russia should continue its own policies disregarding the sanctions, however, little less than 50% felt positive about the end of retaliatory sanctions that were imposed by Russia in a form of a food import embargo, while 64% still felt positive in general that a food ban was an appropriate response for the sanctions imposed on Russia. Interestingly, 20% of the respondents experienced serious problems purchasing food since the food ban came into action. (Ukraine, Crimea, and the Sanctions 2015.)

In other words, the overwhelming majority of ordinary Russian citizens support the position of their Government in respect to its foreign policy which means that the political rating of the Russia’s policy makers is not anywhere near low. Hence, although on the surface Russia seems a different state, the processes that happen inside the country share a number of essential similarities with the USSR which once again proves the practical ineffectiveness of the economic sanctions.

5.1.3 Negative outcomes

Although Russia was the target of international sanctions it was not the only country damages by their imposition. According to Finnish Customs, Russia was Finland’s largest trade partner in 2013, whereas in 2014 it was replaced by Germany (Country Statistics 2014). Finnish economy experienced a considerable impact of economic sanctions that affected its trade balance as it shares common border with Russia. Apart from the economic hardships experienced by a number of European states that have had close economic ties with Russia, the mutual intercultural exchange is now reducing to the Cold War era levels as Russia becomes more isolated from the rest of the world. Cultural exchange is a highly important factor as it determines the progress of the human development and plays an essential role in the democratization process in any country, particularly in Russia and the CIS.
In addition to the cooperation in cultural sphere, Russia was a very important member of the international resistance to the terrorism and now the security threat in a number of countries might rise as a result of a loss of such partner. Moreover, as Europe and the US distance themselves from Russia in terms of cooperation and international relations, the latter tends to find substitutes for them and therefore the role of China and India is believed to increase in Russia’s affairs. Lastly, recent statement of Greek Prime Minister that calls Europe to end its sanctions against Russia is believed to be an early sign of different position within the European Union in regard to economic sanctions (Walker 2015). For those very reasons it is necessary to propose alternative solutions for the problem.

5.2 Trade restrictions within the Eurasian Economic Union

On 29 May 2014 the presidents of Russia, Belarus and Kazakstan signed the Treaty on the Eurasian Economic Union. EEU serves for the purposes of regional economic integration between the former members of the USSR. Its fundamental principles are based on the free movement of goods, services, capital and labor whereas the primary purpose is the cooperation between the national economies of its member states. In the sense, it is the enhancement of the already existing Customs Union and Single Economic Space. Within the year 2014 Armenia and Kyrgyzstan have also become full members of the EEU. (About the Union 2014.)

The structure of the Eurasian Economic Union is similar to the structure of the European Union and is centered on same principles. Therefore, as the Russian national economy is one of the integral parts of the EEU, other members’ economies also need to be taken into consideration. In other words, if, for example, France banned the import of Mexican apples, they could still enter the markets of other EU member states such as Germany where after certain operations they could be transported to France disguised as German apples which would undermine the effect on the fruit ban. Both Belarus and Kazakstan made it clear that the agricultural products ban is initiated by Russian Federation solely and will not affect either of them (Voronina, Lyutova 2014). Although there have been no official statements in regard to the re-export of the banned products to
Russia via Belarus and Kazakhstan, such possibility remains open due to the existence of Customs Union between the three partners.

Alternative solution number one is the imposition of similar sanctions and trade restrictions on all members of the EEU. Whereas the other member states of the Eurasian Economic Union are not responsible for Russia’s foreign policy in any possible way, this alternative has got its own advantages. First of all, any sanctions imposed on Belarus, Kazakhstan, Armenia or Kyrgyzstan will eventually result in the increasing political pressure on Russia from these independent republics within the framework of the EEU. Since the sanctions on Russia have been imposed the trade turnover with its Eurasian partners was expected to grow as Russia had to switch to alternative markets now, therefore, any changes in the composition of EEU, meaning the exit of one or more member states, could leave considerable impact on Russia’s trade. Secondly, the reduced economic growth together will possible inflation of the EEU member states will affect Russia’s economy as Belarus, Kazakhstan, Armenia and Kyrgyzstan, cut from the access to European and American financing will now request Russia for financial aid necessary for monetary intervention and stimulus of their national economies. Kazakhstan in particular, where oil comprises 25% of country’s GDP and 60% of its exports (Blaauw 2011), will react more sensitively to the imposed sanctions.

5.3 Sanctions on Russia’s private sector

Second alternative proposes the addition of the following Russian companies to the existing sanctions list. In the metallurgy sector these are: the world’s largest aluminum producer Rusal (Sousa 2012), Norilsk Nickel which is the world’s leading producer of nickel and palladium (About Norilsk Nickel ), steel producer Severstal and the mining company Mechel. In the oil and gas industry these are the Tatneft and Bashneft.

The importance of this second alternative is in the difference of its approach when compared with the sanctions that are already in action. In other words, although the EU and the US have already imposed sanctions on a number of large private businesses in Russia, this alternative does not only target the economic activity
alone, but is believed to have direct influence on the political decision making as well.

First of all, as described in the subchapter 3.5, the relationship between the State and the Business plays an important role in both Russian politics and the economy. Moreover, due to the complexity of that relationship, it could be assumed that businessmen have a certain degree of influence on the political scene and the presence of certain names associated with large scale enterprises on the sanctions list only supports that assumption. Therefore, if direct economic sanctions are imposed on certain companies in Russian business world, their position towards the foreign policy of the Government might change with the decrease in the level of loyalty to the policy makers. As a result, there are solid chances that the certain degree of political pressure will appear leading to the political instability and reduced confidence in general.

Secondly, the decision to sanction Russia’s private sector directly, might foster certain negative sentiments in the country’s business circle that could, in turn, make a decision to move their assets abroad in order to avoid financial losses in the medium term. Such move will definitely result in the increase outflow of capital that is believed to affect economy and its growth in the most negative way, taking into account the current situation and figures for the last year. Moreover, the companies of Russia’s private sector not only supply the Federal Budget with taxes, but also produce specific output such as gasoline, steel, aluminum and other materials essential for the country’s industrial growth and developments in the infrastructure. Therefore, the reduced output could affect the structure of the national economy and further diminish its performance in the long term.

Lastly, imposition of direct sanctions on the two oil companies could be effective from the political rationale. According to Veles Capital the Government of the Autonomous Republic of Tatarstan owns the majority 34% stake in the Tatneft oil company (Analytics 2013). The Government of the Autonomous Republic of Bashkortostan, on the other hand, is believed to receive the 25% stake at the Bashneft oil company (Transfer of Bashneft to Bashkortostan to be completed no earlier than July 2015). Thus, taking into account the autonomous nature of the
two national republics, economic sanctions on them will first result in the reduced budget revenues and then could fuel certain moods within the two republics that pose a significant threat to the territorial integrity of Russian Federation.

5.4 Visa restrictions for Russia’s middle class

The 1st clause of the Article 3 of the Constitution of the Russian Federation states: “The bearer of sovereignty and the only source of power in the Russian Federation shall be its multinational people” (First Section. Main Provisions). For that logical reason, it is completely correct to consider that the ordinary citizens of Russia bear in fact certain degree of responsibility for the actions of their Government. While most of the modern societies consist of the lower, middle and upper classes it is also correct to assume that targeting the lower classes is less humane in regard to their economic and social condition, whereas the middle class could be a suitable target for this third alternative.

According to the European Commission, out of the total 33.8 million Russian tourists, 79% visited Europe in 2012 and Russia remains the fastest growing tourism market for Europe (Emerging markets 2014). In other words, Europe is the most popular destination for Russian travelers. Although for the world’s leading touristic locations, simplification of the visa application process and removal of administrative barriers seems customary, the introduction of new bureaucratic regulations with consequent denial of visit permits for the Russian residents seems practical from the political perspective. Such measure is humane to a great extent as tourism and travelling abroad is a luxurious good, however, it influences the public opinion towards the Government policies if the reason for such measures is explained clearly. One of the possible results will be the mounting public discontent among Russia’s middle class residents that might result in public protests and demonstrations that could influence the change of the Government’s foreign policy vector.
5.5 Alternatives for the Turkish Stream

Turkish Stream pipeline project is expected to transport natural gas from Russia’s shore to Turkey passing under the Black Sea and is believed to satisfy Russia’s desire of using transportation route alternative to the one via Ukraine to its European markets (Tinas 2015). One of the negative implications for the Turkish side could the increased dependence on Russian gas; however, it seems unclear what instruments could the EU and the US use in order to influence the fate of the project. This thesis does not offer a clear algorithm for the implementation of the fourth alternative solution. Nevertheless, if, for any possible reason, the project is shut or suspended for an uncertain period of time it can be advantageous from the political perspective for the following reasons.

First of all, in the light of a USD 400 billion gas deal between Russia and China on the supply of 30 billion cubic meters of gas annually signed in November 2014 (Paton, Guo 2014), limiting Russia’s access to European market could result in the increasing dependence of its gas industry on the Chinese market. Hence, Chinese political and financial influence over the Russian Federation is believed to increase as well. With the Chinese economy growing and its weight on the global political arena increasing, for Russia it will for sure pose certain threats both demographically and geopolitically as the immigration levels together with the potential Chinese investment into the country could rise as well. Secondly, the end of the Turkish Stream project could result in the shift of the attention to another pipeline project named TANAP. Trans Anatolian Pipeline will bring Azerbaijani natural gas extracted in the Caspian Sea via Georgia to Turkey where after reaching its European territories it transport is further to European markets via Trans Adriatic Pipeline (Trans Anatolian Natural Gas Pipeline Project 2015). Moreover, the strengthening position of Azerbaijan as a supplier on the global gas market could result in the entrance of new players to the TANAP system. Kazakstan, that shares its Caspian maritime border with Azerbaijan, might be interested in the cooperation in this project by offering its own gas supplies originating in the very same sea. Thus, two of the former Soviet states that are located in the region of Russia’s geopolitical interest become more independent in terms of gas sale and Georgia becomes a transit country. For the Russian
Federation such developments mean decreasing influence in the region and limited opportunities in the pursuit of their own gas transport agenda.
6 CONCLUSIONS

This last chapter of the thesis is based on the results that answer the research question. In contrast with the subchapters of the previous chapter this part lists potential disadvantages of the proposed alternative solutions.

6.1 Answers for research questions

In general, the thesis tends to evaluate factors both internally and externally that influence the decision making that shapes the foreign policy of Russian Federation. The scope of this thesis is limited to the predominant use of internet sources due the fact that this issue is relatively new, as the events have begun in the spring 2014, and, therefore, there is lack of related published literature. Nevertheless, all the proposed alternatives are practical and implementable for the reason that they follow the general line of the already imposed economic sanctions and do not neglect the principles of humanity and peace. Moreover, this thesis succeeded in answering the research question properly with a certain degree of validity.

Table 6 summarizes the main findings in regard to the main research question as well as the answers to the sub-questions.

TABLE 6. Answers on research questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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<tbody>
<tr>
<td>Main Research Question: What measures need to be taken in order to influence the decision making in regard to Russia’s foreign policy?</td>
<td>The measures that influence the factors that are responsible for such vital parameters as national security, territorial integrity, political rating, public support, volume of money in circulation in the economic cycle and the infrastructure of energy complex.</td>
</tr>
<tr>
<td>Sub-question 1:</td>
<td>The high degree of historical</td>
</tr>
</tbody>
</table>
To what extent is the trade with the Eurasian partners important? cooperation and interconnectedness of national economies together with political cooperation in the security sphere.

**Sub-question 2:** What is the role of Russia’s private sector from the political and economic perspective? The importance of private sector in respect to the relationship between State and Business, combined with the political and economic power associated with the business elite.

**Sub-question 3:** What is the importance of the middle class in the formation of public opinion Absolute degree of dependence of the public opinion and Government support from the middle class in regards to the political rating of the ruling party.

**Sub-question 4:** What is the importance of Russia’s gas transporting infrastructure from the political perspective? Extent of the capacity of the existing gas transporting network infrastructure and its contribution to the balance of political power in Eurasia.

### 6.2 Suggestions for further research

Based on the conclusion of this thesis, one suggestion for further research is given. As the main objective of this study was in proposing the alternative solutions that could influence the vector of Russia’s foreign policy, the role of its citizens is therefore an important factor that needs to be taken into consideration. While this study lacks any primary data and qualitative research method represents only a small portion of it, it is suggested that the further research could be done in field of the exploration of public opinion towards the economic condition of the country and their standards of living in Russia in the end of 2015, given that sanctions stay active and political situation doesn’t change. The related
data is to be collected by the author in person via the interviews and surveys. The subsequent analysis is to be conducted qualitatively.
7 SUMMARY

The economic sanctions by the US and the EU were imposed on Russia in response to the annexation of Crimea and the continuing destabilization of Ukraine. However, the situation has not changed ever since as Crimea remains a federal district of Russian Federation and military actions in the Eastern Ukraine still continue. Therefore, the goal of this thesis was to generate alternative solutions for this problem.

The deductive approach, together with the combination of both quantitative and qualitative methods, with clear prevalence of the former research method, has been used throughout the thesis. The data was collected solely from secondary sources, particularly: books, articles, reports and the internet. The research lacked primary data due to the newness of the subject and difficulties in conducting surveys and interviews.

The essential framework that was used for the research in this thesis consisted of the three key parts one of which were the analysis of Russia’s national economy with emphasis on its structural composition and its establishment within the last 24 years after the dissolution of the USSR and the adoption of market based economic system. It was followed by the empirical analysis of Russia’s economic performance, exchange rate, and oil industry and capital movement after the sanctions were imposed.

After the empirical analysis, it was concluded that the already imposed sanctions were not practically effective as, regardless of the technical success achieved, the initial purpose that was behind their imposition was not fulfilled. Therefore, the several alternative solutions were suggested for the implementation, with focus in such areas as the relationship with the trade partners within Eurasian Economic Union and the political influence of Russia’s private sector. Other alternatives were the certain changes in EU’s immigration policy and political pressure on Russia’s gas transport infrastructural project.

The main objectives of this thesis were reached as the research question was answered correctly and in a proper manner. One of the limitations of this thesis
was the lack of primary data and the other was the unavailability of the academic books in regard to this problem. Finally, the author suggests a further study to be done in the sphere of the public opinion in regard to the economic performance of the country and their standards of living.
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