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# The Impact of Sanctions on Russia's Domestic and Foreign Policy

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24 March 2015

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On 24 March 2015, the Chatham House Russia and Eurasia Programme hosted Tatiana Romanova for a discussion of the impact of EU and US economic sanctions on Russia. The meeting examined the extent to which such sanctions have affected Russia's economy and society, and shaped Moscow's policy choices.

The event formed part of the 'New Faces from Russia' series, which aimed to give a platform to speakers with little or no previous exposure in the United Kingdom.

### Economic impact

Romanova explained that the current state of the Russian economy is not entirely a result of sanctions. Other factors, including the fall in global oil prices since mid-2014, are also significant. Despite domestic economic difficulties, Russia's trade with the United States increased last year. The impact of sanctions on Russia is possibly being mitigated by the fraudulent rebranding and re-export of sanctioned goods – as when shellfish supposedly from landlocked Belarus (which has a free trade agreement with Russia and Kazakhstan) appeared on the Russian market in the summer. In general, however, sanctions have had a negative effect on the Russian economy. Unemployment is growing, but 88 per cent of the population still supports the government.

Relations between Russia and the European Union are almost completely suspended. One expert expressed surprise at Germany's abandonment of diplomatic relations with Russia, but Romanova responded that Russia had miscalculated the extent of solidarity within the EU. Russia is now seeking to engage with Europe through state visits (such as recent trips by President Vladimir Putin to Cyprus and Hungary). How relations will change if and when sanctions are lifted remains unclear. Discussion also touched on the negative effect sanctions could have on Western economies; France's steel industry, for example, is struggling.

### Social impact

Initially, many Russians were proud to have been blacklisted. This is still the case among some of the Russian elite. Attitudes have evolved, however, with attention now having shifted to the negative economic effects of sanctions. Fewer Russian people want to emigrate, partly due to economic uncertainties. There is more control by the leadership over the political elite.

Sanctions have contributed to negative attitudes towards the West: Romanova quoted a recent poll in which 13 per cent of Russians – a record low – claimed to have a good or relatively good attitude towards the West. This is perhaps a short-term and reactionary response, but for now Russians are showing a marked preference for China.

### Effectiveness

In order to assess the effectiveness of sanctions, it is essential to look beyond their direct impact. Instead, it is necessary to analyse the extent to which they have a significant bearing on public policy or on the attitudes of Russians towards government. In both respects, sanctions are limited in their impact.

According to a recent Levada poll, 69 per cent of Russians agree that their government should continue its current policy regardless of sanctions – despite the fact that such measures had caused 'serious problems'

for 34 per cent of respondents.<sup>1</sup> Liberal opposition parties have limited scope to challenge such mentalities.

Despite sanctions, Russia continues to propagate the idea that intervention in Crimea is a matter of historical justice (retrieving lost territory), and that current Russian policy is about confronting fascist tendencies and reconstituting Russia's status as a global power. Russians' negative feelings about Ukrainians generally focus on the Kyiv elite. But opinions are disconnected from the actual situation in Ukraine, as well as from the problems in Russia's domestic economy. Romanova observed that students in her university are, however, more critical of and informed about the situation in Crimea than they were a year ago.

Sanctions are forcing Russia to search for different markets and trade partners, at least in the short term. Russia is turning to China; Rosneft is already dependent on this economic relationship. Several Asian companies refuse to have dealings with Russia, however, citing Western sanctions as the main reason.

Russia is also developing the Turkish Stream natural gas pipeline as a means of diversifying its export partners, and giving a higher profile to plans for the Eurasian Economic Union (EEU). Romanova noted Kazakhstan's misgivings about the EEU, as the political landscape has evolved significantly since the country's initial involvement.

Russia is using import substitution as a means of adapting to economic sanctions. Yet according to Romanova, there will always be some products and technologies for which this approach is unfeasible: Western investment, for example, is still required for the development of the Arctic region. Moreover, as Romanova noted, import substitution requires huge investment at a time when resources are scarce.

Russia is examining possibilities for reciprocal sanctions against the United States and the EU. It has considered measures such as confiscating property, non-payment of foreign debt and not returning leased equipment. Such measures are not, however, publicly supported and were deemed inappropriate and damaging to Russia's reputation.

Romanova warned of the need for careful timing if sanctions are lifted, and that such moves should be linked to the achievement of specific objectives (the Minsk II agreements). If sanctions are withdrawn without sufficient explanation, Russian propaganda would capitalize on the opportunity to continue its depiction of the West as unprincipled and weak.

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<sup>1</sup> <http://www.levada.ru/eng/sanctions-o>.