

Sanctions on Russia:

Impacts and economic costs on the United States



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Executive Summary

United States sanctions, imposed on Russia since 2014 in response to Moscow's role in the conflict in south-east Ukraine, have now entered their third year. They appear to have been effective on several fronts, despite the ongoing nature of the crisis. Along with measures imposed by the European Union and other international partners, they have been instrumental in signalling the consequences of violating international norms on territorial integrity, and raising the costs of Russian actions in the conflict. Nevertheless, sanctioning a target the size and might of Russia remains a challenge and, unsurprisingly, debate over the sanctions' future sometimes represents a source of tension. Most recently, the future of the US' sanctions on Russia have been mired in uncertainty under the new presidency of Donald Trump, where economic impacts on US businesses have been cited as a key concern.¹

This report seeks to contribute to the wider debate on the future trajectory of the US' sanctions on Russia, by exploring: (i) mechanics and legal underpinnings; (ii) effectiveness and impact; (iii) economic costs to the US at the national, sectoral, state and firm levels, as well as in relation to US investments, and (iv) strategic implications of lifting US sanctions without meeting the terms of the Minsk Agreements.² In making use of analysis of trade statistics, interviews with officials involved in sanctions implementation, and consultation of the specialist literature, this report highlights four key findings:

1. The U.S. economy is not dependent on, or sensitive to, the situation in Russia, or sanctions in place. The annual rate of GDP growth rose steadily in the US since sanctions were imposed. In 2014, Russia ranked 22nd among the US' main trade partners. Trade volume in goods and services with Russia represented less than 1% of the US' total trade with the world, equal to under half the US' trade with Belgium. Interesting diversity exists in aggregate figures, whereby US trade with Russia has increased in a small number of areas since 2014, including among certain sectors, states and firms. The number of US Foreign Direct Investment projects in Russia have also risen, and the trade deficit between the two countries has decreased by 42% between 2013-15. Main exporting states to Russia (Texas, Washington and California) lost less than other states in relative terms since sanctions imposition.

2. US trade with Russia is likely to have contracted regardless of sanctions, as the Russian economy began to slow three years before measures were imposed. During this time, Russia's global imports of goods declined sharply in light of the fall in the global oil price, the Russian recession and depreciation of the rouble. A decline in trade with Russia among the US' Rust and Corn Belt states began prior to the advent of sanctions. A fall in US trade with Russia in agricultural and machinery sectors reflects a more generalised contraction of US trade with the world.

3. Economic costs incurred have been substantially larger for the EU than for the US, heightening the need for ongoing close coordination. The EU had a tenfold trade volume in goods and a fivefold trade in services with Russia compared to that of the US in 2014. The US suffered a decline of 0.24% in its export share to Russia relative to total exports outside the US between 2013-15. This figure sits below any EU country, where the average is a 2.8% decline, with the highest sufferer, Estonia, at 12.7%, and the lowest, the UK, at 0.6%.

4. Isolating direct impacts of sanctions on areas such as employment and lost business opportunities is extremely difficult. Proving causality is a major challenge. Figures circulated by business lobbies and the Russian media often fail to put them into context or account for successful trade redirection. US sanctions on Russia have had a targeted or "smart" impact, rather than imposing costs on the entire Russian economy. In addition, some element of economic costs must always be borne by those imposing sanctions. Nevertheless, US unemployment rates fell to their lowest levels since 2008 in the year US sanctions were imposed, and the IMF projected a higher growth rate for the US compared to other advanced economies in the two following years.

This report suggests that a change in US policy on Russia sanctions, taken in the absence of a political settlement based on the Minsk Agreements, could have far-reaching strategic implications. It could include a loss of leverage over Moscow and reduced efficacy of US sanctions against new and future adversaries. It could also call into question the US' commitment to the inviolability of territorial integrity and sovereignty, the laws of war and conflict resolution. It could also place pressure on relations with the EU, and elsewhere in Eastern Europe, not least Ukraine. Accordingly, next steps on US sanctions should be taken with care given potential long-term ramifications for Russia-West relations, the transatlantic partnership, and global peace and stability. ■

International sanctions against Russia – imposed in response to Moscow’s illegal annexation of Crimea and involvement in the armed conflict in south-east Ukraine – have been expanded and tightened in various rounds since their imposition in 2014. With the objective of ceasing hostilities, negotiating and enforcing a peace agreement, and maintaining the territorial integrity of Ukraine, the United States and European Union have occupied a leadership role in the complex sanctions regime, alongside many of their traditional sanctions partners.³ The sanctions have also been a source of friction at various times, however, particularly in the EU. Opposition has never been marked enough to prevent successful renewal of the measures at each six-month round, however (where unanimity is required among the 28 member states). Most recently, their future has faced uncertainty in the US under the new presidency of Donald Trump, where debate has questioned whether the sanctions will be eased by the new administration.⁴

A change in US policy on Russia sanctions, particularly if taken in the absence of a political settlement with Moscow based on the Minsk Accords, could have far-reaching security, political, economic and legal implications. This is particularly the case given the EU, along with other allied states, historically follows the US’ lead in this field, albeit sometimes less extensively or enthusiastically. In turn, a range of the EU’s neighbours – including EU accession candidate countries and members of the European Free Trade Area (EFTA) – tend to mirror many of the EU’s sanctions, particularly when imposed unilaterally, or outside the UN framework. In the case of Russia sanctions, partners (offering varying levels of support) have included Canada, Japan, Australia, New Zealand, Switzerland, Iceland, Liechtenstein, Norway, Ukraine, Moldova, Georgia, Montenegro and Albania.⁵

This report is a follow-on to *The New Deterrent? International Sanctions Against Russia Over the Ukraine Crisis: Impacts, Costs and Further Action*, written by a multi-disciplinary, international team of sanctions scholars and published in October 2016 by the Graduate Institute, Geneva.⁶ The report sought to contribute to the debate on the renewal of the EU’s Russia sanctions, through exploring the impact and effectiveness of (cumulative) measures imposed to date; costs to EU member states; scope for improvement, and future scenarios. This study, in turn, makes use of analysis of trade statistics (from Eurostat, US Census Bureau, Bank for International Settlements [BIS] and Bank of Russia, unless cited otherwise); detailed consultation of the specialist literature, and interviews with officials involved in sanctions

implementation. Marking the three year point since sanctions were first imposed, it seeks to fill a gap in the literature on the economic costs of sanctions to states implementing the measures,⁷ and to offer non-partisan, informed, evidence-based analysis in four key areas, outlined below.

Part 1 provides a brief overview of the sanctions imposed as a response to the Russia-Ukraine crisis, before describing how US sanctions are formulated. It provides detail on the mechanics and legal underpinnings of measures passed by the Executive and Legislative branches, and goes on to outline US-EU coordination through a common Russia policy. **Part 2** summarises findings on the sanctions’ effectiveness and impacts. **Part 3** analyses trade data to identify discernible economic costs incurred by the US (and various sectors and states therein) in relation to its Russia sanctions. It explores how these losses compare to those suffered by the EU and proceeds to analyse financial and micro-economic costs. The conclusion includes an overview of potential strategic ramifications implicit in the lifting of US sanctions in the absence of an agreement based on the Minsk Accords. ■

Part 1: Overview of the US' Russia sanctions

US sanctions against Russia are one of two main unilateral (or autonomous) sanctions regimes, imposed along with those of the EU. They are put in place against targets in Russia, Ukraine and the occupied Ukrainian territory of Crimea and include measures imposed against individuals and entities (asset freezes, travel bans) and curbs on financial transactions with Russian companies operating in specific sectors (finance, defence and energy). This includes restrictions on dealings in certain forms of new debt and equity with a handful of major Russian firms, including energy companies, Rosneft and Novatek; the country's largest bank, Sberbank, and one of the largest defence conglomerates, Rostec.

Russia has also imposed its own retaliatory sanctions, which it terms "countermeasures", in the form of diplomatic and economic measures (visa and agricultural ban) against targets that include the US, the EU, Australia, Canada and Norway.⁸

One of the most notable consequences of the financial sanctions has been to curb the ability of debt-laden Russian banks to borrow money from US financial institutions, curtail Russia's access to foreign exchange reserves and slow down the ambitious, capital-hungry investments in the Russian energy sector through a technology and long-term financing ban (highly dependent on new Western technology).⁹ The cumulative regime of international sanctions is intended to target elites around Russian President Vladimir Putin, without impacting on ordinary Russians. It seeks to send a powerful signal regarding the US and partners' collective opposition to serious breaches of international law.

US sanctions formation

US sanctions typically represent a complex legislative web, with different conditions for waiving, suspending or repealing them, particularly in cases when they are combined with measures imposed by the EU and other actors.¹⁰ Most US sanctions are based on Executive Orders (EOs), which are passed on the basis of Presidential Authority, though Congress can also pass bills to issue its own sanctions. EOs are legally-binding orders, passed to Federal Administrative Agencies by the US president, who serves as the head of the Executive Branch.¹¹ EOs are typically used to guide and direct Executive Branch agencies, departments and officials in carrying out duties associated with laws or policies established by Congress. All government agencies are instructed to take appropriate measures within their authority to enact provisions of EOs that authorise new sanctions.

The typical process in formulating US sanctions policy is for the president to issue an EO declaring a national emergency in light of an "unusual and extraordinary" foreign threat. This gives the president wartime and "national emergency" powers (pursuant to the International Emergency Economic Powers Act, IEEPA)¹² to regulate commerce with regard to a given threat for a period of 12 months, unless extended or terminated.¹³ EOs carry the same legal weight as laws passed by Congress when it comes to instructing the federal apparatus to enact specific rules and do not require Congressional approval.

The US Secretary of the Treasury determines sanctions targets, in consultation with the Secretary of State.¹⁴ They are administered and implemented by the Treasury's Office of Foreign Assets Control (OFAC). OFAC also acts under authority granted by specific congressional legislation, where applicable. Sanctions can also be implemented by the Commerce Department's Bureau of Industry and Security (BIS) and the State Department's Directorate of Defense Trade Controls (DDTC). Other departments, including Homeland Security and Justice, are also afforded a significant role, sometimes alongside state and local authorities.¹⁵

While measures imposed by the US in relation to the Russia-Ukraine crisis represent the implementation of multiple legal authorities, including public laws (statutes) passed by Congress,¹⁶ they are primarily based on four Executive Orders (13660, 13661, 13662, 13685). This sits in contrast to US sanctions imposed by Congress on targets such as Iran and Cuba, or even US measures against Russia for human rights


abuses and weapons sales to states that include North Korea (DPRK) and Syria. Several acts of Congress exist on the Russia-Ukraine crisis that relate to sanctions but do not include binding requests that require the President to impose specific measures, with the exception of some limited areas. Instead, such legislation offers the president a framework of potential actions, including sanctions that *may* be adopted against a range of targets. Legislative measures currently in place cannot prevent the president from lifting or suspending the main body of sanctions, but do require him to notify Congress of the intention of doing so within 30 days.

The first Legislative Effort on the Russia-Ukraine crisis on 01 April 2014 was H.R.4152/S.2124 - Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014. This act includes a financial package for Ukraine and authorises the president to impose sanctions involved in human rights abuses and undermining Ukrainian territorial integrity (consistent with EOs in place), and to apply measures against individuals involved in corruption in Russia (additional to EOs).¹⁷ In a second Legislative Effort on 18 December of the same year, the Ukraine Freedom Support Act of 2014 (H.R. 5859/S. 2828) was passed by both Houses. This act targets Russian energy and defence sectors, and allows for secondary sanctions on non-US financial institutions; permits funding for a range of soft power, military and non-military activities, and facilitates (but does not require) additional sanctions. Former President Barack Obama, in referring to the Ukraine Freedom Support Act, stated that while the law did not require sanctions to be imposed, "the Act gives the Administration additional authorities that could be utilized, if circumstances warranted".¹⁸ The Ukraine Freedom Support Act codifies elements of the first three EOs, but does not codify the trade embargo on Crimea. It does require the president to impose sanctions on Rosoboronexport, a Russian state-owned defence company, however (albeit under the authority of EO 13660).¹⁹ Other related legislation on the Russia-Ukraine crisis includes the Ukraine Support Act (H.R. 4278) and the United States International Programming to Ukraine and Neighbouring Regions Bill (S. 2183).²⁰

The US' sanctions against Russia have been renewed and broadened in various rounds since their inception in March 2014. The measures have been set to expire in the event that the president does not renew the national emergency

first announced in March 2014 in response to Russian actions in Ukraine.²¹ Former president Obama extended the measures in January 2017;²² now due to remain in place until March 2018. For its part, the EU unanimously voted in December 2016 to renew its sectoral (or Tier III) sanctions until 31 July 2017.

Prior to these sanctions, the US has also adopted measures against Russian targets (as mentioned above) concerning arms sales to states including DPRK, Iran and Syria, as well in light of human rights violations, including in relation to the Magnitsky Act and alleged abuses in Chechnya.²³ Both were passed by Congress, signifying that congressional approval is required before they are lifted.²⁴ The US also imposed sanctions against Russian targets for distinct purposes on 29 December 2016 (in an amendment to Cybersecurity EO 13964), in the form of an asset freeze and other measures imposed against the main Russian civilian and military intelligence agencies and some of their officials. This was in light of Russia's alleged interference in the 2016 US presidential election process, including malicious cyber activity and harassment.²⁵ Shortly after assuming office, the Trump administration modified some of the measures in place against the Russian security service, the FSB,²⁶ a move reportedly planned under the Obama administration.²⁷ This took the form of a new General Licence published by the US Treasury Department, authorising some transactions between US firms and the FSB, which had been prohibited under the measures first imposed in April 2015. Such moves are not uncommon, and are typically intended to help US companies overcome negative economic consequences of sanctions.

Graph 1  provides a timeline detailing key dates concerning the US' measures against Russia and other notable forms of diplomacy and mediation, alongside some of the major ceasefires and escalations in fighting in south-east Ukraine.

Graph 1

Timeline of US sanctions in response to the Russia-Ukraine crisis



Source: Adapted from Monet et al. (2016), which also includes dates of key EU sanctions.

Executive Orders vs congressional legislation

A long-standing criticism of EOs is that they allow the president to make (and lift) certain types of law without passing through the normal legislative process,²⁸ risking, according to one legally-focused US website, the president “becoming a virtual dictator, capable of making major policy decisions without any congressional or judicial input”.²⁹ As such, additional congressional measures could be potentially helpful to US policy-makers in ensuring continuity in US policy on the Russia-Ukraine crisis at a time of wavering support in the Executive Branch. At the same time, congressionally-approved sanctions risk becoming excessively hard to amend and lift, often remaining in place for many years after an agreement has been forged or perceived misdeeds addressed. Such is the challenge currently hindering efforts to lift Cuba and Iran sanctions, and was also the case in relation to the Jackson-Vanik amendment.³⁰

Should the Trump administration wish to unravel current US sanctions against Russia relating to the Russia-Ukraine crisis, the president would not be restrained in any practical way by congressional legislation in place.³¹ A number of avenues exist for doing so. The first would be to instruct OFAC to remove targets from the current lists, which would lead to most sanctions being lifted, with the exception of those on Crimea and Rosoboronexport.³² The second would be to lift all four EOs issued by President Obama and end the declaration of national emergency detailed in the orders. This would lead to the easing of measures (other than Rosoboronexport), as well as the cessation of the trade embargo on Crimea.³³ Smaller steps could also be taken by the president, including making changes to the EOs, delisting some (not necessarily all) targets, ending the sectoral measures while retaining other sanctions in place, or failing to issue a Presidential Notice to extend the national emergency at the next round. The mandatory sanctions on Rosoboronexport could also be waived on the basis of national security.³⁴

Should Congress not agree with the actions of the president regarding an EO, it could seek to amend or rewrite a previous law, or provide greater guidance on how the Executive Branch should act.³⁵ Thus, if President Trump were to attempt to lift US sanctions against Russia, or allow them to expire, Congress could seek to put together legislation that would reinstate some or all of the measures that may be removed.³⁶ Such a scenario presents itself in Washington at the current

time, where the US Senate has put forward draft legislation, “Countering Russian Hostilities Act of 2017”, unveiled by ten senators and led by Republicans John McCain and Lindsay Graham, and Democrat Ben Cardin.³⁷

Such tensions are not uncommon in Washington, where sanctions have represented a long-standing source of friction between Congress and the White House, particularly regarding the president’s ability to circumvent the legislative process on questions of foreign and security policy.³⁸ In the case of Iran, close cooperation between the White House and Capitol Hill was deemed a crucial factor if they were to stand a chance of succeeding, particularly in relation to the Executive Branch’s wish to convince the Senate not to pass additional measures so as not to compromise progress in diplomatic talks with Tehran.³⁹ The proposed legislation under question would seek to strengthen and supplement sanctions in place,⁴⁰ including those relating to cyber-hacking and the Russia-Ukraine crisis, as well as codifying them as federal law.⁴¹ A similar scenario took place in relation to the passing of the Magnitsky Act in 2012, at a time when Congress feared that the end of Cold War trade sanctions relating to the USSR’s restrictions on free emigration would equate to a loss of leverage over Moscow.⁴² A 2016 report published in the international affairs journal, *The National Interest*, argues:

*“if Congress locks in new sanctions on Russia, declines to give the President either the ability to waive them on national security grounds or to determine when the conditions for lifting them has been met, and requires that lifting sanctions will occur only on the basis of a new Congressional vote, then it doesn’t really matter what Donald Trump, Rex Tillerson, Michael Flynn [who resigned a few weeks into post] or anyone else thinks about the utility of sanctions or even using the prospect of lifting them as a bargaining chip in future dealings with the Kremlin—because the power to do so will not be in their hands but in that of Congress. The Trump administration would then be fighting a two-front struggle: trying to negotiate deals with Russia (say, on the future of Ukraine) while at the same time seeing whether such bargains would be supported by Congress for sanctions to be lifted or at least modified”.*⁴³

Even if the bipartisan House-passed sanctions bill were to gain Senate support in the future, the current administration could still circumvent it via a number of potential avenues, however. Firstly, a bill that has been signed by both Houses still needs to be signed by the president before becoming law. As the president retains the right to veto a bill, a 2/3 majority is typically required to override an EO.⁴⁴ Second,

the president could resort to the aforementioned “national security waiver”, which is not uncommon in bills relating to sanctions and other areas of national security. The waiver empowers the president (and Secretaries of State and the Treasury) to ignore provisions of law if the waiver is deemed to be in the national interest of the US, with only the requirement that they report to Congress explaining their decision.⁴⁵ One newspaper article claims that, in response to this challenge, “Democrats are exploring how to tighten that waiver authority for Russia sanctions”, adding that “Congress could craft a bill without a waiver but that it could be difficult to pick up bipartisan support”.⁴⁶ Third (and if an EO were to be issued by the president to nullify earlier EOs on the sanctions), Congress could challenge the EO in the US courts, “usually on the grounds that the Order deviates from ‘congressional intent’ or exceeds the President’s constitutional powers”.⁴⁷ Congress does not typically challenge EOs concerned with defence or foreign policy, however, given that they are understood to be powers afforded to the president by the US Constitution.⁴⁸

US & EU sanctions implementation & coordination

International sanctions against Russia are characterised by regular coordination between the US and EU and guided by an informal common Russia policy. It makes use of a trans-governmental network, which meets frequently and is typically composed of the chief regulatory officials responsible for sanctions. From the US perspective, close working with the EU has been vital given the minimal trade ties between the US and Russia prior to (and during) sanctions. Although the ban on Russian energy companies on borrowing from US financial institutions had a more notable impact, US measures would have had a more minor effect if implemented alone, as compared to combining them with those of the EU (one of Russia’s most important commercial partners). As such, the US’ sanctions appear to play a vital political role in helping maintain EU consensus on its own measures against Russia. According to a report compiled for Washington’s Center for Strategic and International Studies, “resorting to sanctions

against Russia reflected, first and foremost, the need and desire to build internal unity both within the EU and between the EU and the US to reject Russia’s initiatives in Ukraine”.⁴⁹

The US has traditionally adopted a harder-line on Russia than the EU over the Russia-Ukraine crisis, both in rhetoric and in terms of its sanctions policy. While the EU imposed sanctions against Russia only targeting individuals at the start, the US also included firm-level targets from an early stage.⁵⁰ NATO defence economist, Edward H. Christie, argues:

*“[a]s negative impacts would be higher on most EU countries than on the US, it was clear that the EU’s own ‘internal’ compromise position, which requires unanimous decision-making, would likely be less ambitious than the position the US would adopt if acting alone. However, as the sanctions regime would only prove effective with both the US and the EU on board, it could be argued that the European Commission was the main driver in the process of designing sanctions that could gain the broad acceptance that was required, with US colleagues refraining from trying to impose more ambitious ideas”.*⁵¹

Indeed, in recent phases, the US has sometimes taken the unusual decision to follow the EU’s lead in imposing measures, at least in terms of sequencing.⁵² Accordingly, former President Obama expressed caution regarding the tightening of additional unilateral US measures against Russia unless the EU were to take similar steps. In December 2014, for example, he said that the US has “been successful with sanctions because we’ve been systematic about making sure there is not a lot of daylight between us and the Europeans... [s]ometimes it’s tempting to say we can go even further, but that won’t do us any good if suddenly the Europeans peel off”.⁵³

The following section proceeds to outline the key discernible impacts that US (and other) sanctions have had on the Russian economy and describes how effective they may have been for the purposes of *coercing*, *constraining* and *signalling*. ■

Part 2: Impacts and effectiveness

International sanctions imposed against Russia over the Ukraine crisis represents one of the first times in recent history that such a powerful and strategically-important country has been targeted so comprehensively. Indeed, past cases show that larger, better-resourced and more authoritarian targets are more difficult to coerce through sanctions.⁵⁴ As such, Russia, as the world's 13th largest economy (in terms of GDP at market exchange rates, or 5th largest in purchasing power parity or PPP)⁵⁵ and major producer and exporter of oil and natural gas, represents a formidable target. In its capacity as a nuclear power and permanent member of the United Nations Security Council (UNSC), sanctioning Russia thus presents an unprecedented challenge to policy-makers. The country's high degree of integration with the global economy and strong industrial base has allowed it to secure new trade partners since 2014 – particularly in the defence and energy industries – and to introduce domestic alternatives to circumvent some of the sanctions' worst impacts. Russia's ability to retaliate with counter-sanctions are also unusual and perceived as damaging by some sectors, particularly in Europe.

Sanctions never operate in isolation and must always be coordinated carefully with other policy instruments if they are to succeed.⁵⁶ This is especially the case when sanctions policy can be slower and harder to adapt than the faster-paced world of mediation in conflict scenarios.⁵⁷ Like many sanctions regimes imposed in relation to ongoing conflicts, this represents an area of possible weakness in the current regime.⁵⁸ In the context of the Russia-Ukraine crisis, the US and its allies have made use of a combination of Russia's G8 suspension, diplomatic pressure, OSCE negotiations and monitoring, the European Commission plan of assistance to Ukraine, NATO, IMF and World Bank support to Ukraine, talks under the auspices of the Normandy Format (Russia, Ukraine, France and Germany), support for Ukrainian military operations, and opposition to European Bank for Reconstruction and Development (EBRD) and World Bank projects in Russia. While sanctions have been successful in sending a strong signal to Russia, our earlier analysis suggests that they were rendered less effective by poor coordination with other policy and diplomatic activities; suggesting an area for potential improvement.⁵⁹ It is also possible the panoply of sanctions and other measures have not yet imposed a significant enough cost on the target when balanced against perceived risks in Moscow of a coup in Kyiv and possible Ukrainian moves towards NATO.

Furthermore, sanctions should only be measured against their stated foreign policy aims, rather than against unrelated, more dramatic, outcomes (such as regime change). In our main report, we conducted a detailed case study on sanctions efficacy and impacts along these lines, splitting the sanctions into distinct episodes, and categorising their purposes as

coercion, constraint and signalling.⁶⁰ We concluded that sanctions have been most effective in "signalling to Russia and the world the consequences of violating norms about territorial integrity, the laws of war, and the resolution of conflict through internationally convened and supervised negotiations".⁶¹ Our findings suggested some evidence of improvement over time in coercion, or the scope for the measures to raise the costs of Russia's actions in Ukraine and to force a change in strategy. In addition, the application of individual and sectoral measures produced some evidence of constraint over Moscow's actions. Linking of the sanctions' potential lifting to progress in the implementation of key areas of the Minsk II negotiations outcome, also proved effective. The maintenance of sanctions from March 2015 continued to send a strong signal, though was weakened through poor coordination with other policy and diplomatic activities.⁶²

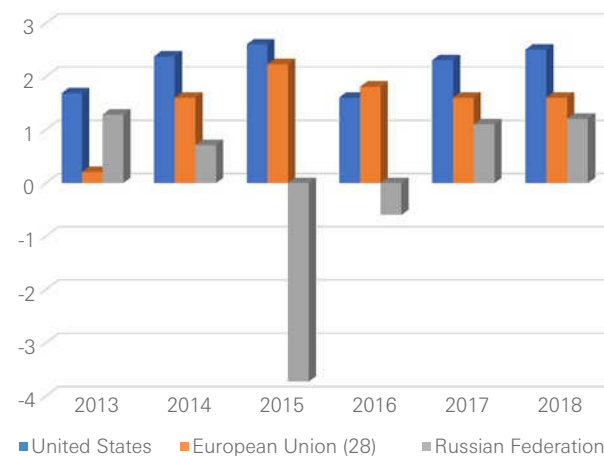
Other reports suggest that cumulative sanctions appear to have been successful in influencing Russian strategic decision-making on several fronts (though this remains difficult to prove, as in any sanctions regime), as well as signalling Western support to Ukraine, and helping the country to become more resilient and better organised on a security and military front.⁶³ Impacts on the Russian economy are equally hard to demonstrate.⁶⁴ The IMF reports that sanctions (with an estimated 1.5% reduction in Russian output due to combined US and EU sanctions and Russian countersanctions, according to the IMF in 2015) have contributed to a worsening economic situation in Russia, at least in the early stages.⁶⁵ Others agree that a fall in the global oil price, a difficult business environment, and investor unease had a greater impact on the economic slowdown in Russia than sanctions.⁶⁶ In any case, they were not intended to have a macro impact on the Russian economy and were, instead, designed to targeted isolated sectors and individuals. Indeed, a 2016 US State Department working paper found that sanctions impacted on the financial health of targeted companies as well as firms linked to individuals and entities under sanctions in Russia, suggesting that the measures could thus be considered "targeted" or "smart", in that they are inflicting costs on intended targets, while causing "minimal collateral damage" more widely in Russia.⁶⁷ This is an important finding at a time when the ever-broader scope of international sanctions risks causing unintended negative consequences for ordinary citizens living under sanctions regimes.

The next section proceeds to explore economic impacts on the US of its sanctions against Russia, including at the state and sectoral level, and compares these cost to those incurred by the EU. ■

Part 3: Costs to the US

Analysis of trade data, outlined below (Graph 2), shows that direct trade and investment between the US and Russia is marginal to the US economy, and suggests that costs incurred by the US regarding its sanctions on Russia have been insignificant and manageable. This, according to Carnegie’s Andrew Weiss, is “in part due to the design of the sanctions and in part due to the limited degree of U.S. exposure to the Russian economy”.⁶⁸ Indeed, the annual rate of GDP growth in the US has risen steadily since the imposition of sanctions, from 1.7% in 2013, to 2.6% in 2015.⁶⁹ The annual rate of GDP growth in the EU also rose during this time, from 0.2% in 2013 to 2.2% in 2015.⁷⁰ In contrast, that of the Russian Federation dropped from 1.3% in 2013, to -3.7% in 2015.⁷¹

Graph 2: Actual and Projected GDP Growth*



*annual %. Sources: World Bank,⁷² Bureau for Economic Analysis,⁷³ Trading Economics,⁷⁴ European Commission⁷⁵ and projection figures (Eurozone area only) for 2017/18 from the IMF⁷⁶

US/Russia trade volume in goods and services represents less than 1% of the US’ total trade with the world. In contrast, the EU had a tenfold trade volume in goods and a fivefold trade in services compared to that of the US with Russia. Table 1 shows that the total trade volume in goods for the US in 2015 was USD 3.75 trillion. The top trade partners for the US were China, Canada and Mexico, with a trade volume of over USD 500 billion in 2015. In contrast, the US’ trade volume with Russia was around USD 25 billion in the same year. In comparative terms, the EU’s total trade with Russia in 2015 was equal to EUR 210 billion; again, nearly tenfold the US/Russia trade figures. In 2015, Russia’s trade with the US was equal to 0.63% of total US trade with the world, less than half of the US trade occurring with Belgium.

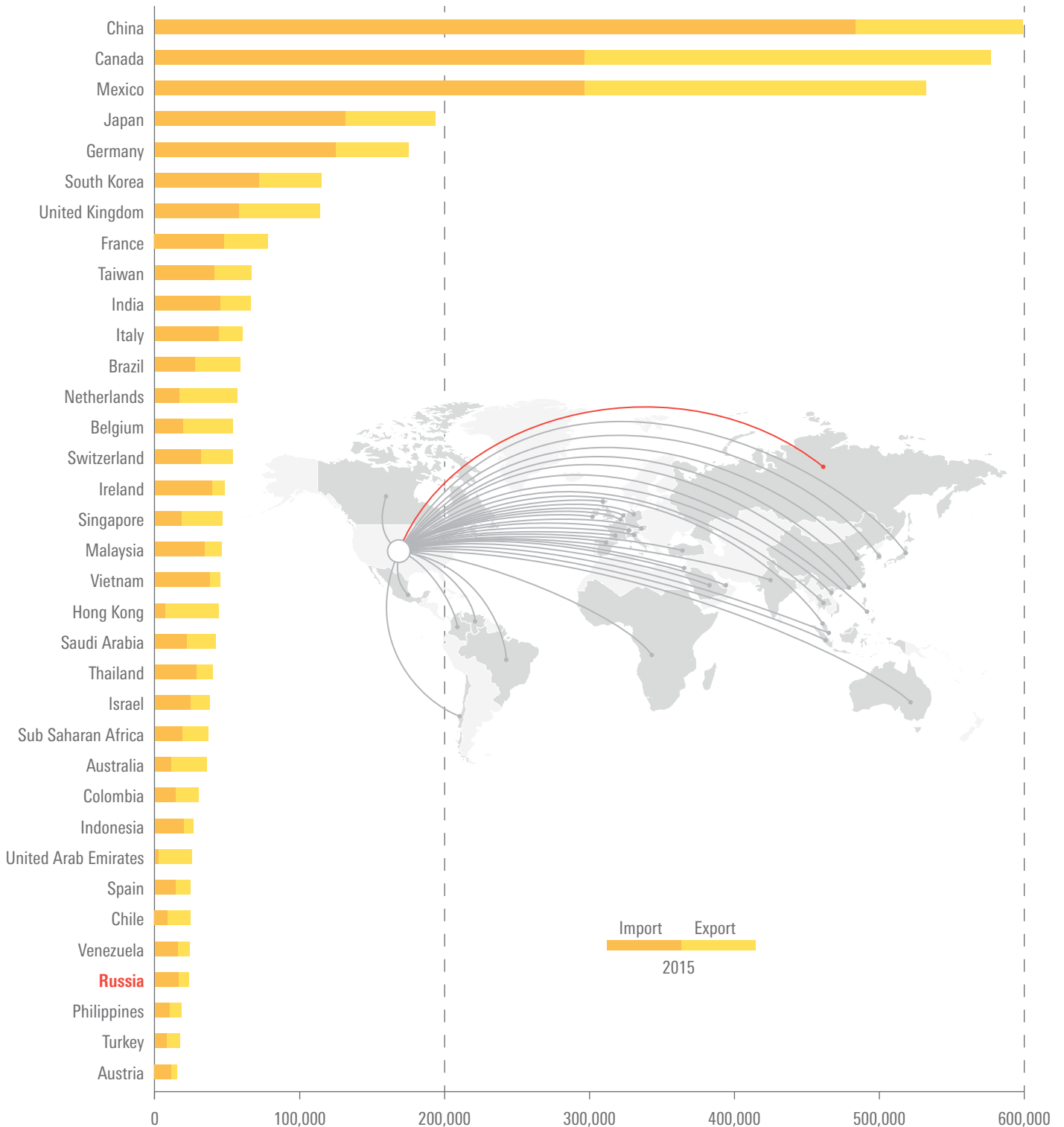
Table 1: Top US Trading Partners in 2015

Rank	Country	Exports*	Imports*	Total Trade*	Percent of Total Trade
—	Total, All Countries	1,504.90	2,241.10	3,746.00	100.00%
—	Total, Top 15 Countries	1,067.70	1,728.70	2,796.40	74.70%
1	China	116.2	481.9	598.1	16.00%
2	Canada	280.3	295.2	575.5	15.40%
3	Mexico	236.4	294.7	531.1	14.20%
4	Japan	62.5	131.1	193.6	5.20%
5	Germany	49.9	124.1	174.1	4.60%
6	Korea, South	43.5	71.8	115.3	3.10%
7	UK	56.4	57.8	114.2	3.00%
8	France	30.1	47.6	77.7	2.10%
9	Taiwan	25.9	40.7	66.6	1.80%
10	India	21.5	44.7	66.3	1.80%
11	Italy	16.2	44	60.3	1.60%
12	Brazil	31.7	27.4	59.1	1.60%
13	Netherlands	40.7	16.8	57.5	1.50%
14	Belgium	34.1	19.5	53.6	1.40%
15	Switzerland	22.3	31.2	53.5	1.40%
32	Russia	7.1	16.4	23.5	0.63%

*in billion USD. Source: US Census Bureau

The relative position of the Russian market for the US decreased substantially from 2013 to 2015. In 2013, the total trade volume in goods between the two countries was equal to USD 38 billion, which ranked Russia as the 22nd most important trade partner for the US (Graph 3 ↓). In 2015, the trade volume in goods decreased to USD 24 billion, whereby Russia became the 32nd most important trade partner.

Graph 3: US trading partners 2015*



*in million USD. Source: US Census Bureau, taken from International Trade Administration, US Department of Commerce

In 2013, US trade with Russia was under 1% of its total trade with the world, signifying that the importance of the Russian market for the US economy decreased by 0.36% in the year after the imposition of sanctions, as compared to the year before (Table 2 ↓). It should be remembered, however, that the Russian economy began to experience a slowdown in 2011 (three years before the advent of sanctions) which signifies that US and allied trade with Russia is highly likely to have contracted from 2014 onwards, regardless of sanctions in place.⁷⁷

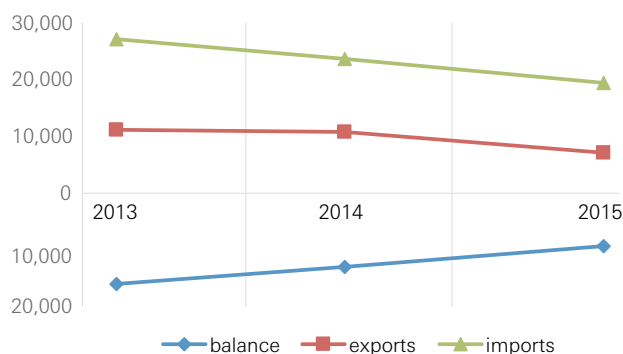
Table 2: Trade volume in goods US-Russia compared to total US trade with the world in 2013 and in 2015

Year	Country	Exports*	Imports*	Total Trade*	Percent of Total Trade
2013	Total, All Countries	1,578.90	2,267.60	3,846.40	100.00%
	Russia	11.1	27.1	38.2	0.99%
2015	Total, All Countries	1,504.90	2,241.10	3,746.00	100.00%
	Russia	7.1	16.4	23.5	0.63%

*in billion USD. Source: US Census Bureau

The US runs a trade deficit with Russia today, as it did it before the Ukrainian crisis. The volume of trade decreased from USD 38 billion in 2013 to USD 24 billion in 2015. Most notably, US imports of Russian goods fell from USD 27 in 2013 to USD 16 billion in 2015. Exports contracted from USD 11 in 2013 to USD 7 billion in 2015. The trade deficit also decreased by 42%, from USD 16 billion in 2013 to USD 9.3 billion in 2015 (Graph 4 →). A smaller trade deficit suggests that the US-Russia trade relations have become more balanced and the US economy is either producing more internally in comparison to what it formerly imported from Russia, or that it is acquiring imports from other countries.

Graph 4: US trade volume in goods with Russia - decreasing trade deficit*



*in billion USD. Source: US Census Bureau

Assuming that this variation is also influenced by other factors – including depreciation of the rouble, a drop in the oil price and Russian economic structural problems – the impact of sanctions on the overall US position in the world can be deemed negligible, especially when compared to the burden shouldered by EU member states.

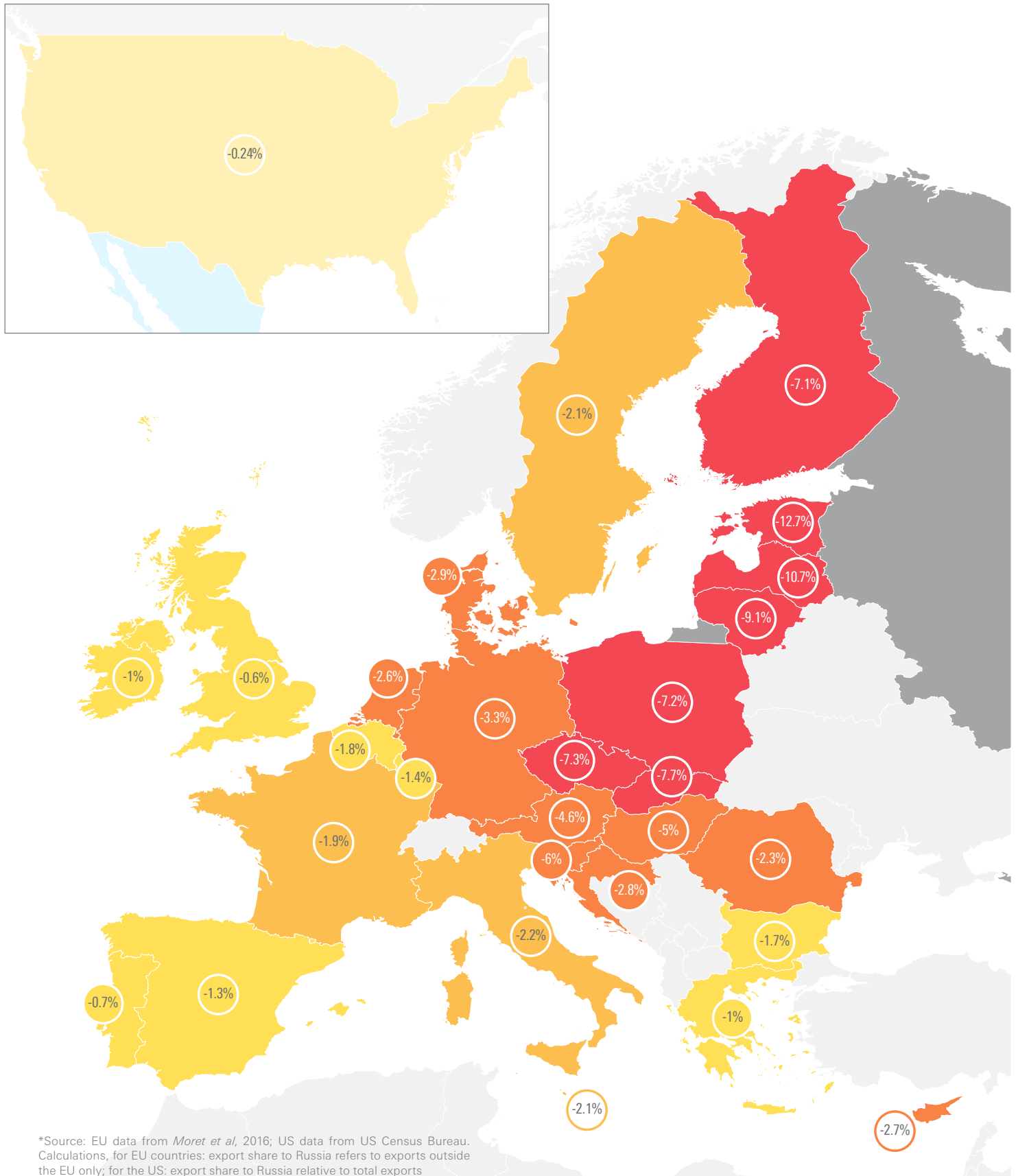
Economic costs incurred have been substantially larger for the EU than for the US, unsurprising given the far higher level of interdependence between the EU and Russia at the onset of the crisis. The EU’s trade in goods with Russia in 2013 (EURO 326 billion or USD 365 billion, including EURO 119 billion of exports) was some 10 times larger than the US’ trade with Russia (USD 38 billion). In early 2014, Russia was ranked as the EU’s third biggest trading partner (8.4% of total trade) and the EU was Russia’s biggest trading partner (at around 48% of total Russian foreign trade).⁷⁸ In 2013, over half of Russia’s exports were destined for the EU, and it imported just under half (46%) from the EU.

Graph 5 ↓ illustrates the decline in relative importance of Russia in export terms for EU member states and the US between 2013-2015. The countries that have incurred the largest losses are Estonia, Latvia, Lithuania, Slovakia and Czech Republic, and those that have lost the least are the UK, Portugal, Greece, Ireland and Spain. The US is the country that has suffered the lowest costs of all, and by some margin, at 0.24%.

Graph 5

Decline in export share to Russia for the US and the EU (2013-2015)*

Decline (EU average: -2.8%)



*Source: EU data from *Moret et al*, 2016; US data from US Census Bureau. Calculations, for EU countries: export share to Russia refers to exports outside the EU only; for the US: export share to Russia relative to total exports

To further put US-Russia trade relations into context, US trade in goods with Russia is comparable to that of the Netherlands (EUR 24 billion in 2015 and EUR 37 billion in 2013); its loss in absolute terms between 2013-2015 is comparable to the trade that Italy lost with Russia in the same period (USD 4 billion). Further, US exports to Russia in 2015 were comparable to those of Poland in the same year (EUR 5.2 billion). In addition, the combined trade volume of the US with the seven countries targeted by the recent immigration ban put forward by the Trump administration, was equal to USD 7.3 billion in 2015, which is comparable to the exports to Russia in the same period of USD 7.1 billion (Table 3 ↴).

Table 3: US Balance of trade with seven countries targeted by immigration ban*

Country	Exports (USD)	Imports (USD)	Total (USD)
Iran	281.5	10.8	292.3
Iraq	1,971.5	4,353.5	6,325
Libya	243	155.1	398.1
Somalia	45	0.9	45.9
Sudan	59.5	9	68.5
Syria	3.1	6.5	9.6
Yemen	158	48.3	206.3
Total	2,761.6	4,584.1	7,345.7

*in USD million. Source: US Census Bureau

Disaggregated data provides an overview of where the cost of sanctions may be higher. In 2013, key US commodities exported to Russia were nuclear reactors/ boilers/ machinery/ parts (USD 2,313 million); vehicles/ parts (except railway or tramway) (USD 1,999 million); aircraft/ spacecraft/ parts (USD 1,961 million); electric machinery/ sound and TV equipment/ parts (USD 675 million), and optic/ photo/ medical/ surgical instruments (USD 659 million). In turn, the top US imports from Russia were mineral fuel/ oil (USD 19,458 million); iron/ steel (USD 1,640 million); inorganic chemicals/ precious and rare-earth metals/ radioactive compounds (USD 1,354 million); precious metals (USD 814 million) and fertilisers (USD 796 million).⁷⁹ The agricultural sector was specifically targeted by Russian countersanctions, and in 2013, the US export in food to Russia was around USD 1 billion, which equalled 0.93% of total US food and agricultural exports to the world.

A comparison with the situation in 2015 enables the identification of how relations are changing more broadly. US exports to Russia decreased by USD 4 billion in 2015 as compared to 2013, with the decline concentrated in SICT sectors 7 (Machinery and Transport Equipment) and 0 (Food and Live Animals), now 0.14% and 0.7% of total country exports. Nevertheless, variation in volume between 2015 and 2013 suggests that the sectors that have suffered the most in relative terms are SITC 0 (Food and Live Animals), 9 (Commodities & Transactions Not Classified Elsewhere) and 3 (Mineral Fuels; Lubricants and Related Materials) (respectively at minus 86%, 58% and 56%). However, SITC 7, 0 and 8 registered the highest level of decline in nominal terms with a decrease of USD 2.5 billion, USD 862 million and USD 174 million respectively. At the same time, US exports in SITC 4 (Animal and Vegetable Oils; Fats and Waxes) increased over time, despite the presence of sanctions and other negative pressures on the economy. In 2015, the US exported USD 3.3 million more to Russia in SITC 4, which equals an increase of over 700%, compared to the 2013 level (Table 4 ↴).

Table 4: Yearly variation of US Export to Russia per SITC sector⁸⁰

Item	Diff 2015 & 2013 (%)	Diff 2015 & 2013 (nominal)*
TOTAL	-36.41%	-4,057.6
7-Machinery and Transport Equipment	-35.90%	-2,544.1
5-Chemicals and Related Products	-14.58%	-160.2
8-Miscellaneous Manufactured Articles	-20.28%	-174.2
6-Manufactured Goods Classified Chiefly by Material	-23.61%	-111.8
2-Crude Materials; Inedible; Except Fuels	-25.16%	-104.0
0-Food and Live Animals	-86.21%	-862.5
1-Beverages and Tobacco	-41.08%	-42.1
9-Commodities & Transactions Not Classified Elsewhere	-57.62%	-35.8
3-Mineral Fuels; Lubricants and Related Materials	-56.00%	-26.2
4-Animal and Vegetable Oils; Fats and Waxes	709.25%	3.3

*in million USD. Source: US Census Bureau, taken from International Trade Administration, US Department of Commerce

These figures are unsurprising given that the key two affected sectors, food and machinery, were directly targeted by sanctions, either through Western or Russian measures. However, if placed in the wider trend of US exports, the decline in exports to Russia can also reflect a more general pattern in the US economy, namely a generalised contraction of trade with the world. Indeed, since 2013, the US' trade volume contracted by USD 200 billion, from USD 3.85 down to 3.64 trillion in 2016 (Table 5 →). It is not possible to ascertain with any certainty how these contractions may have translated into impacts on employment in the US, however, given the near-impossible task of proving causality (covered in more detail below).

US trade in services with Russia

A similar pattern can be identified in the analysis of trade in services from the US to Russia; though it should be remembered that the Russian market for US service exporters is not, by any stretch, an important one. In 2015, the US' overall trade volume in services was USD 1.24 trillion, with Russia constituting only 0.57% (USD 7 billion). This figure declined since 2013, when Russian trade with the US was 0.76% of its world trade volume. Regarding exports only, the share of the total trade in services with Russia decreased from 0.87% in 2013 to 0.62% in 2015 (-0.25%) (Table 6 →).

While trade in goods from the US towards the world has decreased in 2015 compared to 2013, the trade in services has increased by 6.6%; from USD 1,162 billion in 2013, to USD 1,239 billion in 2015 (Table 7 →).

Table 5: US trade volume in goods*

US total trade	Exports	Imports	Total	Balance
2013	1,578,516.90	2,267,986.70	3,846,503.60	-689,469.80
2014	1,621,171.60	2,356,365.50	3,977,537.10	-735,193.90
2015	1,502,572.20	2,248,232.40	3,750,804.60	-745,660.20
2016	1,454,624.20	2,188,940.50	3,643,564.70	-734,316.30

*in USD million. Source: US Census Bureau

Table 6: Share of US trade in services with Russia compared to total trade in services*

	2013	2014	2015	Diff 2013/2015
Export	0.87%	0.90%	0.62%	-0.25%
Import	0.59%	0.54%	0.49%	-0.10%
Total	0.76%	0.76%	0.57%	-0.19%

*Source: US Census Bureau

Table 7: US trade in Services with the world*

	2013*	2014*	2015*	Diff 2013/2015 (%)	Diff 2013/2015 (nominal)**
Export	701,455	743,257	750,860	7.04%	49,405
Import	461,087	481,264	488,657	5.98%	27,570
Total	1,162,542	1,224,521	1,239,517	6.62%	76,975

*Source: US Census Bureau
**in USD million.

A decrease in service trade volume of 20% occurred between Russia and the US between 2015 and 2013. US exports were affected even more with a decline of 23.7%, which constitutes a contraction of USD 1.46 billion as compared to 2013 (Table 8 ↴).

Table 8: US Trade in services with Russia

Russia	2013*	2014*	2015*	2015 on 2013 (%)	2015 on 2013 (nominal)*
Export	6,137	6,661	4,682	-23.71%	-1,455
Import	2,725	2,586	2,400	-11.93%	-325
Total	8,862	9,247	7,082	-20.09%	-1,780

*in USD million. Source: US Census Bureau

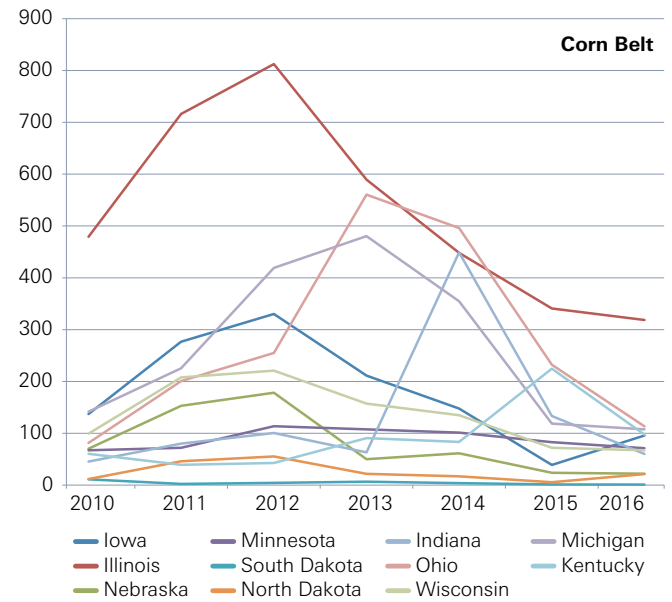
Impacts at the state-level

Certain US states have a higher interdependency with Russia, suggesting that the cost of sanctions varies across the country. The states that had the highest export volume to Russia in 2013, just before sanctions were imposed, were Texas, Washington and California, making up around 38% of total US export to Russia. In 2016, these three states constituted 44% of the total exports to Russia, which suggests that other states have taken a higher toll in relative terms, even if these three states have scored the highest loss in absolute values (USD 1 billion combined).

What have been the possible impacts of sanctions on some of the states that have formed the focus of the Trump presidential campaign, in relation to concerns over job losses such as the industrial Midwest and Northeast Rust Belt and the cereal-producing Midwestern Corn Belt? Analysis of export trends to Russia from these states show two interesting aspects (Graphs 6 and 7 ↴). First, the negative trend began before the imposition of sanctions, which strongly suggests the main reason for a fall in trade was the slowdown in the Russian economy (since 2011) rather than sanctions. States such as Iowa, New York, Wisconsin and Illinois started to decrease their exports to Russia in 2013, for example. Second, the impact has been diverse. For instance, while certain states lost substantially more, such as Ohio, South Dakota and Michigan, others have remained relatively indifferent to the crisis, as their interdependence with Russia was small, such as North

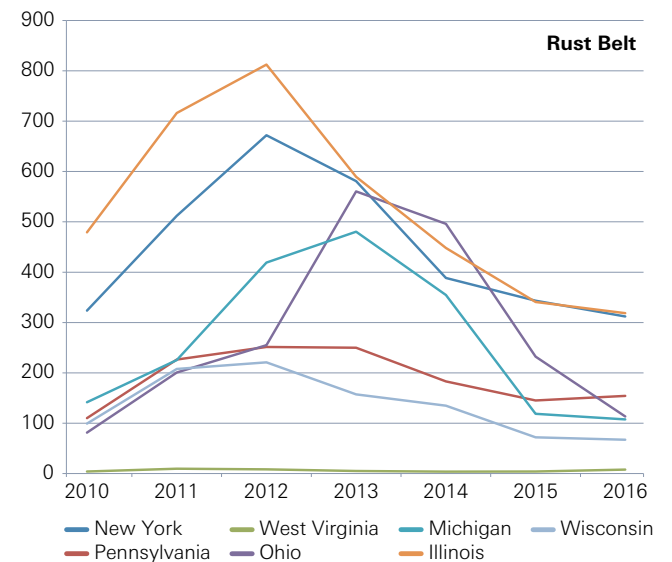
Dakota and Indiana. The interesting outlier is Kentucky, in the Corn Belt, which increased its exports in 2016 compared to the years 2010-2014, with a one-time fivefold increase in 2015 (USD 224 million compared to USD 98 million in 2016).

Graph 6: Exports of NAICS* Total All Merchandise to Russia*



*in million USD. Source: US Census Bureau, taken from International Trade Administration, US Department of Commerce

Graph 7: Exports of NAICS Total All Merchandise to Russia*



*in million USD. Source: US Census Bureau, taken from International Trade Administration, US Department of Commerce

In conclusion, trade interdependence between the US and Russia is very low, which suggests that the economic consequences of sanctions on US actors should not represent a major consideration in the decision-making of the US government as to whether to lift/maintain the measures on Russia. More significant links appear to exist at the firm-level, however, which is explored further in the next section. In moving away from trade and looking at ways in which the US and the EU are invested in the Russian economy, this section proceeds to focus on potential impacts of sanctions on individual US companies' interests, US financial markets and Foreign Direct Investments (FDI).

Company-level costs and job losses

Numerous non-energy related corporations are invested in the Russian market, particularly those of European origin. These include Raiffeisen Bank, Carlsberg, Siemens, ThyssenKrupp and Danone.⁸¹ US corporations operating in Russia include Caterpillar, Citi, Boeing, General Electric, Ford, General Motors, PepsiCo, Procter & Gamble, Pfizer and Disney.⁸² News reports have cited various corporations that have stated losses in relation to Russia sanctions. German sports firm, Adidas, reportedly considered closing some of its shops in Russia, and German car manufacturer, Volkswagen, reported an 8% decline in sales in Russia in the first half of 2014.⁸³ The US company, Visa, also reportedly experienced lower volumes of trans-border transactions in Russia.⁸⁴ Despite initial nervousness and increased volatility on the equity markets, there is minimal proof that these companies have been directly negatively affected by sanctions in the long-run, however. Russia is in an economic trough marked by recession and falling incomes, which has had a decisive impact on the financial performance of these corporations.

The most notable impact on Western firms can be expected among major energy giants, as sanctions were mainly designed to prevent Russia from following through with ambitious shale, offshore and Arctic projects. Many of these projects were dependent on Western financing, technology and experience. Along with Rosneft, ExxonMobil⁸⁵ (whose former CEO, Rex Tillerson, is Secretary of State in the Trump administration) put on hold a multibillion dollar investment project in the Kara Sea due to sanctions, which resulted potential losses of some USD 1 billion to the company, according to a company spokesperson.⁸⁶

In the case of Europe, UK's BP is the most prominent energy investor in Russia, owning just under 20% of Russia's Rosneft.⁸⁸ A third of BP's global oil production comes from Russia and the company announced a temporary reduction in its exposure to Russia due to sanctions.⁸⁹ Royal Dutch Shell also temporarily suspended its cooperation with Gazprom Neft in developing Russia's tight oil formation reserves⁹⁰ and France's Total put on hold its joint-venture with Russia's Lukoil.⁹¹ Italy's ENI and Norway's Statoil have also scaled back operations and many Scandinavian businesses that formerly depended heavily on Russian contracts have also been affected by sanctions targeting the offshore oil industry.⁹²

The EU's regime only imposed bans on new projects, which allowed companies to apply for governments' permission to continue work on ongoing projects. Companies such as ENI and Statoil have been successful in doing so, and Shell has restarted its cooperation with Gazprom Neft.⁹³ Furthermore, it is worth remembering that a number of oil majors have shelved some (but not all) Arctic projects indefinitely, even those unrelated to Russia, given extremely high exploration costs in the region,⁸⁷ and a decline in the global oil price. Showing direct causality between sanctions and postponed projects is complicated, therefore.

Business lobbies in both the US and EU have been vocal in highlighting the possible negative impacts of sanctions on Russia to their interests. In the US case, debate has focused largely on manufacturing and lost business opportunities. An Alaskan congressional delegation voiced concerns over impacts of the sanctions on the state's seafood industry.⁹⁴ Concerns have also been raised by Washington State apple and pear producers, who complained of the need to locate new purchasers.⁹⁵ The US' National Association of Manufacturers and US Chamber of Commerce placed advertisements in leading broadsheets warning of the potential negative ramifications to the US of its sanctions on Russia.⁹⁶ According to a 2015 report for the US Congress,⁹⁷ USA*Engage, a group of manufacturing, agriculture and services producers, sponsored by the National Foreign Trade Council, also warned that US sanctions were causing substantial collateral damage to US investments and operations in Russia across sectors.⁹⁸

Turning to employment, a 2014 ING bank briefing paper suggested that total Russian imports are responsible for an estimated USD 16 billion of production and that 132,000 US jobs are linked to Russian demand (compared to USD 115 billion of production from the EU and 1.9 million EU jobs).⁹⁹

While the detrimental impacts on certain individual companies and sectors should not be dismissed, Christie (2016) illustrates the way in which such figures are sometimes distorted by business lobby groups, without using adequate analytical caveats.¹⁰⁰ In the EU context, for example, corporate lobbyists (official and otherwise) have cited risks of losing ‘billions of euros’ and ‘tens of thousands of jobs’, without comparing the figures to the EU’s entire GDP of Euro 14 trillion and total employment level of 218 million in 2014. Germany’s main Russia-friendly business lobby group, the Committee on Eastern European Economic Relations (*Ost Ausschuss der Deutsche Wirtschaft*) released a statement on 25 August 2014 saying that 50,000 jobs could be at risk from the sanctions, but without caveating that this amounted to some 0.1 % (of 39,871,300 in total). They also claimed on 05 December 2014 that a fall of exports of Euro 7-8 billion could occur, without referencing the proportion was at 0.7% of Germany’s total export volume (Euro 1,008 billion).¹⁰¹

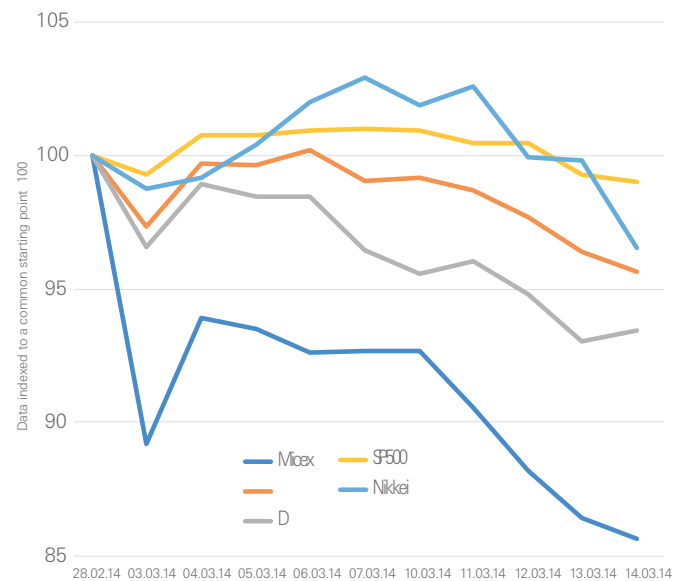
ING also estimated that 12,000 US jobs could be at stake if Russian countersanctions remain in place.¹⁰² Such a figure would constitute under 0.01% of the US’ employed population in the same year (total of 146.31 million aged 16 and over in 2014)¹⁰³. The estimate is also dwarfed by the US’ job-creation figures (216,000 in November 2016 alone).¹⁰⁴ In contrast, economic analysis of lost export revenues from the US in relation to its sanctions on Iran reportedly lead to up to 66,436 lost job opportunities each year that sanctions were in force.¹⁰⁵ Like successful trade diversification that has been confirmed in the EU context,¹⁰⁶ US companies appear to have coped well with any disruption caused by sanctions though securing alternative markets, helped in part by the slow lead-in time of each round of US measures, according to a report for Congress.¹⁰⁷ Indeed, the fall in global oil prices may have brought some benefits to US consumers, including lower production costs and increased purchasing power. Finally, there must also be some acknowledgement on the

part of policy-makers that some economic costs must always be borne by those imposing sanctions. Nevertheless, the US economy has remained relatively strong since imposition of sanctions. In 2015 and 2016, the IMF projected a higher than average growth rate for the US than for other advanced economies,¹⁰⁸ and in December 2014, US unemployment figures fell to their lowest levels since June 2008, at 5.6%.¹⁰⁹

Financial market reaction to sanctions

The broad-based equity market index reaction to the Russia-Ukraine crisis further confirms that economic ties between the US and Russia are not significant (Graph 8). While French and German stock exchanges (CAC and DAX), and particularly Russia’s Micex, reacted more sharply to signals of possible economic sanctions on Russia that were given out by US and EU policy-makers at the beginning of March 2014, the US’s S&P 500 reacted less abruptly.

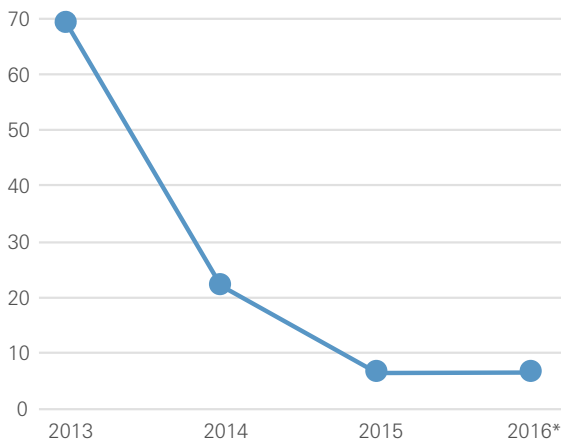
Graph 8: Stock markets reaction to Crimean crisis



Foreign Direct Investment

Net aggregate FDI in Russia started falling in 2013 (prior to the Russia-Ukraine crisis and subsequent sanctions) and continued to do so after the measures were imposed (Graph 9). Net inflows of FDI to Russia decreased between 2013-2015 (from USD 69.2 billion to USD 6.4 billion) and the US share dropped from USD 485 million in 2013 to USD 209 million in 2015 (and up to USD 218 million in June 2016). On the other hand, the overall number of FDI projects (excluding portfolio investments, mergers and acquisitions and extraction activities) have increased in Russia between 2013-15 (from 114 to 201), and the same is true for US FDI projects in Russia (from 24 to 29).¹¹⁰

Graph 9: Russia: Inward Foreign Direct Investment
Net inflows, \$bn

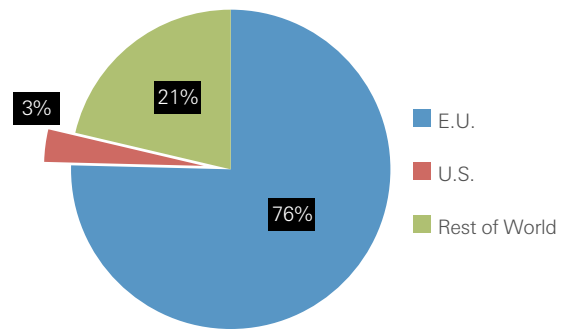


* Q2 2016. Source: Bank of Russia

While net inflow levels of investment fell, the proportion of investments coming from the EU compared to the US did not change dramatically. A similar situation occurred in relation to foreign bank lending to Russia, whereby the overall level of lending fell dramatically from 2013 to 2016 levels, but shares in this market hardly changed, with the EU remaining a major lender (at 76% and 74% respectively), and US banks' shares of these loans decreasing only slightly (from 3% to 1% respectively) (Graphs 10 and 11).

Graph 10: Foreign Direct Investment in Russia, as of December 2013

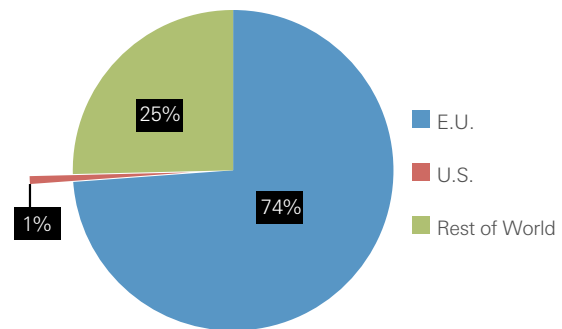
(Total=\$566.4 Billion)



Source: Bank of Russia

Graph 11: Foreign Direct Investment in Russia, as of June 2016

(Total=\$389 Billion)



Source: Bank of Russia

The concluding section proceeds to summarise some of the likely political and economic impacts that lifting the US sanctions on Russia could entail in the absence of a political settlement. ■

Conclusion

From an economic perspective, the US economy has been fundamentally indifferent to the Russia-Ukraine crisis in general, and to the sanctions in particular. Trade interdependence between the US and Russia is minimal, suggesting that economic consequences for the US of its measures against Russia should not represent a major consideration in the US government's decision-making on whether to lift or maintain the sanctions. From a political perspective, earlier studies suggest that sanctions appear to have been instrumental in exerting pressure on Moscow and signalling disapproval of Russian-supported actions in south-east Ukraine on a number of fronts.

The next phase of international sanctions against Russia will be a critical one. The new US administration will no doubt be weighing up benefits of lifting the sanctions – centred around resumed economic (and particularly energy) ties with Moscow, and scope for closer working on Islamic terrorism and other areas of international security. Yet, easing measures in the absence of a political agreement (based on the Minsk Agreements, or a future iteration thereof) carries some inherent risks. This could entail a loss of leverage vis-à-vis Russia in the future, alongside reduced efficacy of sanctions regimes against existing and new adversaries. It could also raise questions over US commitment to the inviolability of territorial integrity and sovereignty, the laws of war and conflict resolution. Thus, such a move risks sending a message to third countries that the acquisition of new territory by force is permissible, with potentially far-reaching implications for international relations (not least with Central and Eastern Europe and Ukraine itself) and global stability. It might also impose a dent in US leadership in this field, at a time when sanctioning powers are susceptible to varying kinds of domestic pressures to avoid perceived negative ramifications of such measures, whether real or otherwise. In addition, the US could face new cases of legal liability for those firms still bound by European sanctions in the event of a lifting of measures without coordination with the EU, whereby the bloc's restrictive measures could remain in force at a time when US companies begin seeking renewed access to the Russian market. Lifting the sanctions, if not

closely coordinated with the EU, could also spark a domino effect among international partners given the vital role that US sanctions appear to currently play in terms of facilitating unity in the EU and among other international partners on a common Russia policy.

If, on the other hand, US sanctions are to be maintained until such a point that a settlement is reached, it could be beneficial to continue focusing on constraining Russia's financial room for manoeuvre, rather than further cutting trade.¹¹¹ In doing so, policy-makers should continue to consider carefully the possible secondary impacts on global financial markets. They should also assess the risks that Russia might continue to adapt (or "securitise") its economy to avert potential ongoing and future adverse effects of sanctions¹¹² through import substitution, the production of domestic alternatives to sanctioned goods, and the creation of parallel financial mechanisms. In addition, careful attention should continue to be paid to legal and humanitarian risks that can present challenges in all sanctions regimes, alongside continued close coordination with the EU and wider mediation efforts. ■

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