

EU-Russia relations: the impact of sanctions against Russia in the Ukraine crisis context

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2 Introduction

Relations between the European Union and Russia have been one of the most sensitive issues among EU member states (Leonard & Popescu, 2007, p.1). Much of this relation is based on their intensive trade between one another. Russia is the third trading partner of the EU and the EU is the first trading partner of Russia. Moreover, the EU is highly dependent on Russia for its energy supply, which rendered EU-Russia relations tense and unstable. Some sort of status quo was maintained until the Ukraine crisis seemed to shatter the fragile framework on which their relations were based. The violation of Ukraine's sovereignty and the invasion of the Peninsula of Crimea by Russia pushed the EU to issue sanctions against its Eastern neighbor in the hope of coercing it to abandon its position. Shortly afterwards, Russia witnessed an economic crisis. Due to the dependence of the Russian economy on oil exports, the sudden drop of world oil prices plunged the economy into a near recession. Such economic crisis already occurred in 2008 when US financial markets collapsed, highlighting the fragility of the Russian system.

So what happened? In the context of the Ukraine crisis and the issuance of sanctions by several international actors, including the EU, it appears that Western sanctions took away "the usual buffers—such as foreign borrowing and expanding trade—that Russia relies on to insulate its economy from an oil shock" (Khan, 2015). Western sanctions acted as a force multiplier by blocking access to Western financial markets. Knowing the country's dependence on foreign markets, the path of action taken by the Kremlin appears surprising. Following a neoliberal perspective, it should be expected from Russia that it cooperates with its partners and neighbors to ensure the stability of its economy. However, on the contrary, the strained relations between the EU and Russia, and the recent crisis in Ukraine, forced the different Western actors to follow a more realist approach. Political motives became more important than economic ones, resulting in the present situation. This paper therefore asks what are the effects of EU sanctions on the Russian economic crisis and what were the motives behind the issuance of the sanctions in the first place. In order to answer these questions, this paper analyzes the recent trends of the Russian economic crisis, and more specifically its GDP growth rate, imports and exports, and the ruble's exchange rate. These indicators were picked for several reasons. First, due to Russia's dependence on energy revenues, losses in revenues would shrink the Russian economy in the case of extended low

world oil prices (Bowler, 2015). The ruble would in turn react immediately to such decline. Moreover, Western sanctions – and Russia’s counter-measures – have directly affected trade between one another, resulting in changes in the amount of imports and exports. The results drawn from that analysis are then linked to a more theoretical approach of EU-Russia relations in order to understand why the EU resorted to the use of sanctions against Russia.

This paper is structured as follows. Firstly, a short literature review is given on the role of sanctions in international relations, and on EU-Russia relations since the Ukraine crisis. Secondly, the theoretical framework and methodology on which the analysis is based is presented. EU-Russia relations have followed a certain pattern that matches the neorealist study of International Relations. Thirdly, a timeline of events explains how EU-Russia relations have developed since the collapse of the Soviet Union and the Ukraine crisis in order to demonstrate what has led the EU to issue sanctions against Russia. Fourthly, the whole extent of the EU sanctions is described. Fifthly, the analysis of the Russian economy illustrates the extent of the Russian economic crisis. Finally, the paper reflects on the analysis of the sanctions process and the role of the different state actors. The paper concludes that Western sanctions did have an effect on Russia’s economy by preventing Russian banks and businesses from accessing Western financial markets when the oil price crisis hit the country. Such a crisis brought Russia close to recession, and the sanctions contributed to a slower recovery. This situation was brought by the combination of strained relations between Russia and the EU and the Ukraine crisis, which pushed both actors to follow a neorealist approach despite their undisputable interdependence.

3 Literature Review: Sanctions as Political Tools

Sanctions as political, economic, diplomatic or strategic tools are being increasingly used in the international community. Although David Cortright and George A. Lopez (2000) describe the 1990s as the “sanctions decade”, international organizations and nations continue to issue sanctions against other nations, or more recently, also against terrorist organizations. Gomez and Nivet (2015, p.1) state that the increasing use of that particular tool requires academics to pay more attention to the impact that sanctions have on the international environment and on the interactions between international actors. They argue that international relations are a society in which balance of state power is pursued, and in which “deviant” actors are subject

to punishment by other actors. Sanctions, based on coercion and rectification, become a means to impose specific norms, which in turn determine what can be done and what cannot (pp.3-6). Francesco Giumelli (2013) describes three types of sanctions: coercive, constraining, or signaling. Coercive sanctions aim at a behavioral change of the target. Damage is caused to create incentives for the target to change specific policies. Constraining sanctions seek to restrict the target's room to maneuver in achieving policy objectives and to limit their capacity to act. Signaling sanctions are more symbolic actions that are used to show commitment or "to underline the importance of a norm in international relations and to stigmatize non-compliance with that norm" (Giumelli, 2013, p.21). In other words, it is used to signal to other actors its dissatisfaction towards specific policies or foreign actors. In addition, in this globalized world, the use of force is also less and less perceived necessary or appropriate. Sanctions therefore emerge as a means to deal with a more diversified and complex world. Nevertheless, sanctions remain a tool with uncertain consequences (Gomez & Nivet, 2015). Difficulties remain to draw uniform and definitive conclusions on their efficiency. Their efficiency is not only linked to their content, but also to external and specific circumstances. Gomez and Nivet therefore ask why international actors rely more and more on sanctions to achieve their aims. They argue that in the case of the EU, it is a means to exist in the international scene and to appear as a strong and united actor (Gomez & Nivet, 2015, p.9).

In the context of the EU sanctions against Russia for its role in the Ukraine crisis, several authors have developed scenarios about what would happen both in Russia and in the EU after the issuance of the sanctions. Erik Jones and Andrew Whitworth (2014) argue that the EU sanctions might have unintended consequences on Europe. They claim that these sanctions will put extra costs on financial firms, European banks and non-financial firms. Moreover, the sanctions might push Russia to find permanent alternatives to the European market, which could seriously harm some sectors of the European economy. In addition, Samuel R. Schubert, Johannes Pollak and Elina Brutschin (2014) draw on two possible futures of EU-Russia relations. On the one hand, the EU could decide to move even closer to Russia economically and in particular in the energy sector despite the current crisis in Ukraine. By doing so, the European states could strengthen their medium term energy security and possibly have a stronger influence on Russian foreign policy. On the other hand, the EU could continue to impose sanctions on the Putin regime in the hope that Ukraine would remain within its influence and push Russia to follow a more moderate foreign policy.

However, there remains a widespread skepticism on the necessity of such sanctions as well as their consequences for both parties. Nevertheless, Francesco Giumelli argues that the effectiveness of sanctions is not only measurable in a change of behavior of the intended target (Giumelli, 2015, p.1). Whereas the effects of military actions are immediate, sanctions are part of a broader approach that seeks both short-term and long-term objectives. Giumelli believes that the sanctions were necessary, because the EU needed to show commitment. He adds that the effect of sanctions on European countries has also been limited compared to the effect on Russia.

However, all these authors failed to predict the economic crisis that Russia witnessed, and the effects that the sanctions might have on it. Previous literature questions the validity of the issuance of the sanctions, but none shows the links between the sanctions and the economic situation in Russia. This paper goes further by analyzing the relation between the crisis and the sanctions. In addition, the motives behind the sanctions as such were not mentioned in any articles. This paper aims to shed light on these particular aspects and understand why the EU resorted to the use of sanctions against Russia.

4 Theoretical Framework: Neorealism and Neoliberalism

Interstate relations are mostly analyzed through the framework of International Relations theories. Two schools depict the interplay of states in the international system: neorealism and neoliberalism. The theory of neorealism rests on the principle of an international system governed by anarchy (Macleod, 2010). There is no superior authority that can exercise legally its will over the units – in this case, states – that compose the system. This creates a system in which the action principle is based on “self-help”, which states that a unit cannot depend on anybody except oneself for protection. States are considered the only truly autonomous actors in this system (Macleod, 2010). They are a “black box”, meaning that internal goings have no relevance in international affairs. States are unified and rational actors. The logic of anarchy makes them similar to one another because there is no superior authority to impose a repartitioning of tasks or functions between the units that are part of the system. Each state decides for itself as to how to deal with its internal and external problems. The neorealists believe that states are similar in the face of the tasks they have to manage, but not concerning their capacity to accomplish them. It highlights the way neorealism conceives the problem of

power. A state power is linked to its capabilities, such as the size of its population and territory, the possession of natural resources, its economic capacity, its military power, and its political stability and competency. In the particular field of interdependence and cooperation, neorealists state that interdependence means intimacy and increases the perspective of occasional conflicts (Macleod, 2010). States are worried that today's friend might be tomorrow's enemy in war, and fear that the gains that give the advantage to the friend in the present might produce a potentially dangerous enemy in the future. This fear of dependency and preoccupations over relative gains prevent them from cooperating in the long run.

The theory of neoliberalism in International Relations was developed as a reaction against neorealism and its failure to explain why states are cooperating and creating international institutions (Desrosiers & Massie, 2010). Although neorealists believe that international cooperation depends on the existence of a stabilizing power that contributes to the efficiency of the whole system, they failed to explain why international cooperation persisted despite the decline of the American power witnessed in the 1970s. Neoliberals opened the debate on the possibility of international cooperation without the presence of a stabilizing power. They established that despite selfish and rational behavior, states might still have common interests, which was proved by the existence of international regimes. Whenever states recognize common interests, cooperation sometimes happens to be more profitable than confrontation. The theory of regimes was developed as a tool to explain that states might benefit from cooperation in the long-term despite losses in the short-run. Neoliberals clearly stress, however, that cooperation is taking place only when seen as profitable. Neoliberals are more optimistic toward human nature and its capacity to overcome conflicts and rivalries. It is believed that states learn from their mistakes and make progress. Trust can be built between actors of the international system, if only for avoiding retaliation in future transactions. International institutions facilitate this cooperation by playing a role of mediator between states. Although states remain the main actors in the international sphere, international institutions became considered important analytical objects as well.

International Relations traditionally concern the analysis of relations between states, which the EU is not. Nevertheless, for the purpose of this analysis, the EU is considered a state-like entity. This paper follows the point of view of neorealism on the prevention of cooperation in the long run due to mistrust and the perspective of occasional conflicts. This paper does not however argue against the theory of neoliberalism as such. The EU has shown

that cooperation between states, when profitable, was possible despite the absence of a stabilizing power - such as the creation of the EU under the watch of the United States. Nevertheless, fears of dependency and obsession over relative gains have shaped EU relations with Russia. Many member states remain overly cautious with Russia because of their dependence on Russian exports of gas and oil. Some Eastern European countries have still not diversified their imports of gas and remain solely dependent on Russian exports. The EU and Russia have established some sort of cooperation – out of choice or of necessity is debatable – since the end of the Cold War, but this paper argues that such relationship has declined since the first revolution in Ukraine in 2004. The 2014 crisis in Ukraine showed that EU-Russia relations came to a turning point and that underlying problems cannot be ignored anymore.

5 Methodology

The data on the EU sanctions in the context of the Ukraine crisis were collected from the EU institutions websites. The sanctions are divided in five sections, namely diplomatic measures, restrictive measures, restrictions for Crimea and Sevastopol, measures targeting sectoral cooperation and exchanges with Russia (“economic sanctions”) and measures concerning economic cooperation (EEAS, 2015). The economic sanctions are the main focus for this paper. The impact of the EU sanctions on the Russian crisis is assessed through the analysis of the economic performance - past, present and future (through forecasts) - of Russia from the Trading Economics website as well as financial and economic articles from online media. Furthermore, a reflection on both actors’ actions is presented to try and understand the motives behind their conduct. In order to do so, the reflection is based on the theoretical framework presented above.

The methodological approach will be mostly quantitative by an analysis of Russia’s economic growth. The sudden drop in oil prices has affected Russia’s revenues, which in turn would shrink Russia’s economic growth through a depreciation of the ruble’s value and the increase of interest rates. Moreover, Western economic sanctions target the financial, energy and defense sectors of Russia, key domains on which the Russian Federation relies heavily on (EEAS, 2015). Not only that, but the trade embargo that Russia imposed on the West also further reduces the volume of trade between them and the EU. Such actions are believed to affect the economic growth of Russia. Particular attention is paid on the impact on the

exchange rate of the ruble, and its consequences on the interest rate and the inflation. It is worth keeping in mind that a country's economy may be affected by multiple factors at the same time, so that the results of the analysis cannot be all assigned to the impact of the EU sanctions alone. EU sanctions were issued in July 2014 after the crash of a Malaysian Airlines plane in Donbass, Eastern Ukraine, but the EU was not the only one to take action. Several other countries, namely the US, Australia, Canada, and Norway, also issued their own sanctions. This paper evaluates the impact of the sanctions of each of these countries as a whole, even though particular focus is brought on the issuance of the EU sanctions.

In the next section, a summary of EU-Russia relations and the events leading to the Ukraine crisis is delivered. Such a resume puts the issuance of the sanctions and their consequences in the right context.

6 Empirical data

6.1 Background: EU-Russia Relations and the Ukraine Crisis

Europe and Russia have always had close ties towards one another, even more so since the collapse of the Soviet Union. After the end of the Cold War, both Russia and the EU believed that cooperation was the most suitable path for the future of their relationship. There was a wish on both sides to come to a near-integration, and not only because of their economic and energy interdependence. In the 90s, Russia was also and foremost perceived as a European country, and considered itself as such. The EU sought to persuade Russia to adopt European norms and values that were seen successful in bringing peace and cooperation between neighbors. Instead of adopting a position of careful balance-of-power and non-interference between each other's internal affairs, the EU wished to bring Russia in its "post-modern" world based on transparency and a common legal framework (Leonard & Popescu, 2007, p.25). The idea of a strategic partnership came into being in this particular context, and was perceived as a very promising goal to attain (Moshes, 2015). In 1994, the EU and Russia agreed on a Partnership and Cooperation Agreement, which covers four policy areas – also called common spaces: (1) economy and the environment, (2) freedom, security and justice, (3) external security, and (4) research and education (EEAS, 2015). EU's efforts to bring Russia closer however failed. In 2004, several events marked the turning point in EU-Russia

relations. First, the Kremlin managed to strengthen its control of the Russian economy and society, creating some sort of “sovereign democracy” where power became concentrated into the hands of a political elite (p.11). Russia clearly rejected the European mainstream. Second, the first round of EU enlargement towards the east occurred, so that the EU and Russia started to share common borders and common neighbors. Third, the Orange Revolution sparked in Ukraine. Presidential elections took place, won by Viktor Yanukovich, but the results were deemed forged. Under the leadership of the opposition leader Viktor Yushchenko, mass street protests immediately followed and a re-run was called for. Yushchenko won, but lost six years later. Russia perceived such action as imported from the West, and started to consider the EU as an actor that would be trying to influence the EU-Russia common neighborhood to its liking, weakening Russia’s own influence on the region. All these events contributed to the unraveling of the relationship between the two powers (Moshes, 2015). From there onwards, their relationship became “shaped on both sides by calculated utility and norms, by logics of consequences and appropriateness” (Hughes, 2006, p.1). The promotion of commercial cooperation became more prominent than normative issues, and a certain dependency settled in between on the one hand Europe’s need of energy and on the other hand Russia’s need of foreign market and investments. In light of such relations, many papers have been produced on the matter to advise the EU on a suitable strategy towards its neighbor. Mark Leonard and Nicu Popescu (2007) in particular emphasize the Union’s disunity in dealing with Russia. Strong emphasis is put on the asymmetrical interdependence that characterizes the relationship of the two powers. Russia has become a direct challenge to the EU, not only in the field of energy policy or during negotiations in the UN, but “also as an ideological alternative to the EU, with a different approach to sovereignty, power and world order” (Leonard & Popescu, 2007, p.1). Leonard and Popescu state that while Russia has increased its power over the EU, EU’s power has on the contrary been weakened by internal disagreements and bilateral links. Russia’s strength was to develop bilateral links with EU member states, straining EU’s solidarity and its ability to ensure key policy goals (p.16). EU member states failed, and to some extent still do, to unite around a common strategy towards Russia. Their analysis highlights the fragmentation within the EU, and points towards the necessity of a new approach to develop a new paradigm for the relationship. Hughes (2006) also believes that EU-Russia relations have been shifting towards a clear asymmetric interdependence due to EU’s reliance on Russian oil and gas. He identifies the problem for the

EU as not only managing internal convergence among its member states, but also as limitations on the EU's ability to shape Russian domestic policy. Nevertheless, it should be stressed that EU-Russia relations remain based on interdependence, implying that Russia is also dependent on the EU. Not only does Russia need access to the European market to export its gas and oil (Johnson, 2005, p.261), but also to benefit from financial foreign loans and investments.

Meanwhile, in the beginning of 2008, negotiations between Ukraine and the EU on an Association Agreement started, following EU's new European Neighborhood Policy (European Parliament, 2014). Negotiations were however slowed down following the convictions of former Prime Minister Yulia Tymoshenko and Interior Minister Yuriy Lutsenko in December 2010. The European Court of Human Rights declared both detainments unlawful, and the EU refused to conclude the Association Agreement before these cases were resolved. Despite months of talks, Yulia Tymoshenko would not be freed. On 21 November 2013, Ukraine suspended the signing of the agreement. Such motion was perceived as a detachment from the EU and protestors gathered in Kiev. Clashes broke out between protestors and riot police, and many casualties were inflicted on the population. The scope of what would later be known as "Euromaiden" expanded, and the protestors asked for the resignation of the President Yanukovich. After a failed attempt to prohibit demonstrations, the Ukrainian government was forced to resign at the end of January. Hopes were raised that an agreement would be found between the President Yanukovich and the opposition. Unfortunately, in the following weeks, violent clashes occurred between protestors and policemen, resulting in more than 100 casualties. Several European foreign affairs ministers intervened and both sides eventually came to an agreement involving early election in December, a government nationally united and constitutional changes. President Yanukovich, who fled the country, was removed from power, and Yulia Tymoshenko was released from prison.

Protests were not confined to Kiev only (European Parliament, 2014). It also touched the southern and eastern regions of Ukraine, in which a large part of the population is considered pro-Russian. A secession crisis arose quickly in the Crimean Peninsula. Armed men took control of the main Crimean administration buildings and some of the Crimean airports. Breaking international laws and treaties, the Russian parliament authorized the use of armed force in the region. The Crimean Parliament decided to hold a referendum to join the

Russian Federation. Despite the international reaction that deemed the referendum as illegal, 97% of the voters chose secession. Crimean independence was declared on 17 March 2014, and Russia approved the request of Crimea to join the Russian Federation, granting it the status of republic.

During an extraordinary meeting of the Council of the European Union, the Heads of State or Government called on Russia to immediately withdraw its armed forces from Ukraine and demanded the creation of a dialogue between the Governments of Ukraine and the Russian Federation (European Parliament, 2014). The illegal annexation of Crimea by the Russian Federation and its military intervention in the area pushed the EU to condemn “Russia’s unprovoked violation of Ukrainian sovereignty and territorial integrity” (EEAS, 2014) and to impose the first travel bans and asset freezes against Russian and Ukrainian officials. Fights however continued between pro-Russian separatists supported by Moscow on the one hand and Ukrainian armed forces on the other. Although Russia did not withdraw its forces from Crimea, the EU was unwilling to seek a direct confrontation with its neighbor. However, on 17 July 2014, a Malaysian Airlines flight MH17 from Amsterdam to Kuala Lumpur was shot down in the Donbass region in Ukraine, which was then held by the rebels. Although the responsibilities of the attack could not be attributed to either side, the EU adopted further restrictive measures against Russia. Russia responded to the new sanctions by issuing an embargo on imports of agricultural goods from the US, Australia, Canada, Norway and the EU for a one-year period. A peaceful resolution of the conflict was asked from the international community, but peace talks remained continuously canceled. The EU seemed powerless to influence Russian actions in the region despite sanctions. In the next section, the so-called sanctions are described, and then their effect is assessed on Russia’s economic crisis (European Parliament, 2014).

6.2 EU Sanctions Against Russia

The EU sanctions against Russia over the Ukraine crisis target various sectors of Russian politics and economy (EEAS, 2015). Diplomatic measures have been issued, and the EU withdrew its support of the accession of Russia to major international organizations. Bilateral talks on visa matters and the New Agreement between the EU and Russia have been suspended. In addition, individual restrictive measures, namely asset freezes and visa bans,

have been imposed on 151 persons and 37 entities, either because of their actions against Ukraine's territorial integrity or their support towards Russian decision-makers. The EU has also imposed specific restrictions against Crimea and Sevastopol in response to their illegal annexation. Finally, the European institutions have started coordinating their actions to restrict economic cooperation with their Eastern neighbor. Most importantly, however, are the measures that target sectoral cooperation and exchange – also known as “economic” sanctions – with Russia, and this is where the focus of this paper is drawn upon.

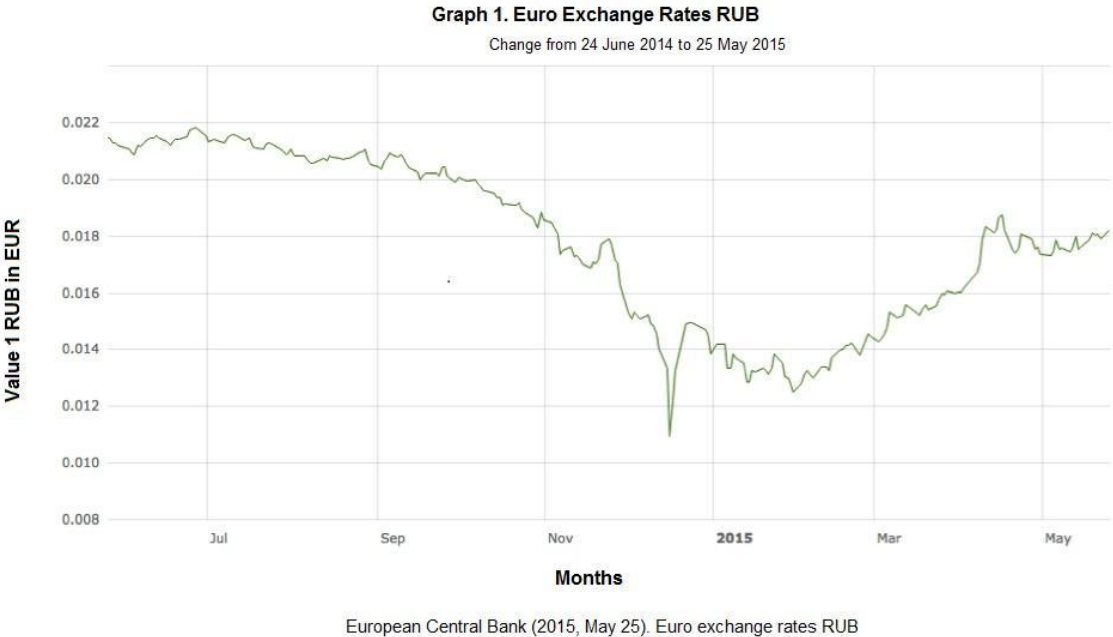
The economic sanctions target specifically the financial, energy and defense sectors, including those whose actions have undermined or threatened the “territorial integrity, sovereignty and independence of Ukraine” (EEAS, 2015). First, a ban has been imposed on the purchase and the sale of new long-term (over 30 days) bonds, equity or similar financial instruments – as well as any service related to their deliverance – issued by specific major Russian companies and their subsidiaries. Five state-owned banks, three energy companies and three defense companies are included. Second, loans may not be provided to these five Russian state-owned banks. Third, EU nationals and companies are prohibited to import and export “arms and related material” (EEAS, 2015) from or to Russia, as covered in the EU common military list. Goods and technology subject to military use are also banned from exports to Russia and to nine mixed defense companies. Fourth, export licenses issued by the member states are required for exports of particular energy-related material and technology to Russia, such as for “deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia” (EEAS, 2015). Services related to such exploration have also been prohibited.

The EU sanctions are part of a broader scheme that several countries have followed, which includes the United States, Australia, Canada, and Norway. The following analysis takes into account the effects of sanctions from all the countries that have targeted Russia.

6.3 Economic Consequences of Sanctions on Russia

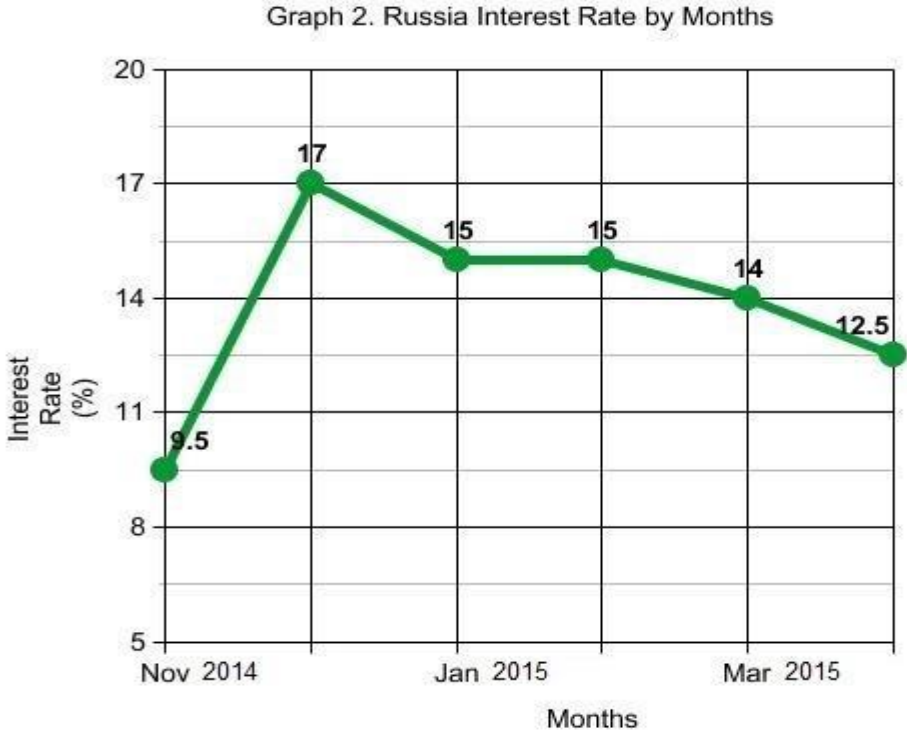
Since last June, world oil prices have fallen sharply. Whereas prices have been revolving at around \$110 a barrel for the last few years, those dropped to below \$50 per barrel in the recent months. The causes have been identified in the weak demand in many countries due to small economic growth and the growing production in the US. Russia is one of the world's

largest oil producers, and its economy relies heavily on incomes from oil and gas exports. In 2013, 67% of Russia’s total export revenues came from the production of oil and gas. As such, the unexpected drop in world oil prices affected immediately the value of the ruble. Graph 1 shows the sharp depreciation of the ruble against the euro – almost 67% (Khlebnikov, 2014). Although such a decrease has been occurring since the beginning of 2014, the ruble’s value underwent a major drop from July 2014 onwards, so right after the drop in world oil prices.



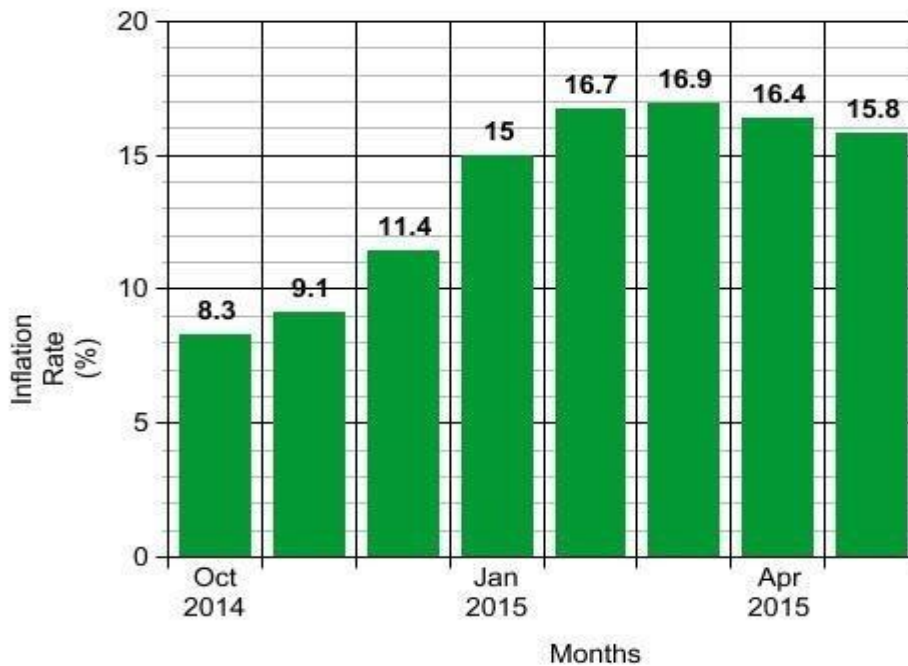
Such abrupt change in the ruble exchange value was previously controlled by the Central Bank of Russia, which would sell or purchase USD and euros to stabilize the exchange rate. The Central Bank would only let the currency to move within a certain band determined by a dollar-euro basket and intervene anytime set boundaries were crossed. However, since the beginning of 2014, the continuous depreciation of the ruble has forced the Central Bank of Russia to spend up to 90 USD billion of its gold and foreign currency reserves in order to keep the currency within the dollar-euro basket’s boundaries. The policy was put to a stop on 10 November 2014, and the Russian currency has been able to float freely since then. The reason put forwards by the Central Bank was to prevent speculative attacks from bankers who could earn on the exchange rate differences.

Following the end of the policy to control the ruble's value, the Central Bank of Russia raised the interest rates from 9% in November 2014 to 17% in December 2014. Graph 2 shows the course of Russia's interest rate by months from November 2014 to May 2015. The move was designed to stabilize the ruble. Indeed, the sudden drop in oil prices put pressure on the Russian currency, which in turn drove inflation up sharply (Phillips, 2014). Higher interest rates help stabilize inflation, but at the cost of economic growth. Graph 3 illustrates the rise of inflation from November 2014 onwards. It can be seen that inflation shows signs of decrease in April 2015. Interest rates were therefore reduced, reaching a level of 12.5% in May 2015. Such rate nevertheless remains higher than before the issuance of the sanctions.



Trading Economics (n.d.). Russia Interest Rate 2003-2015

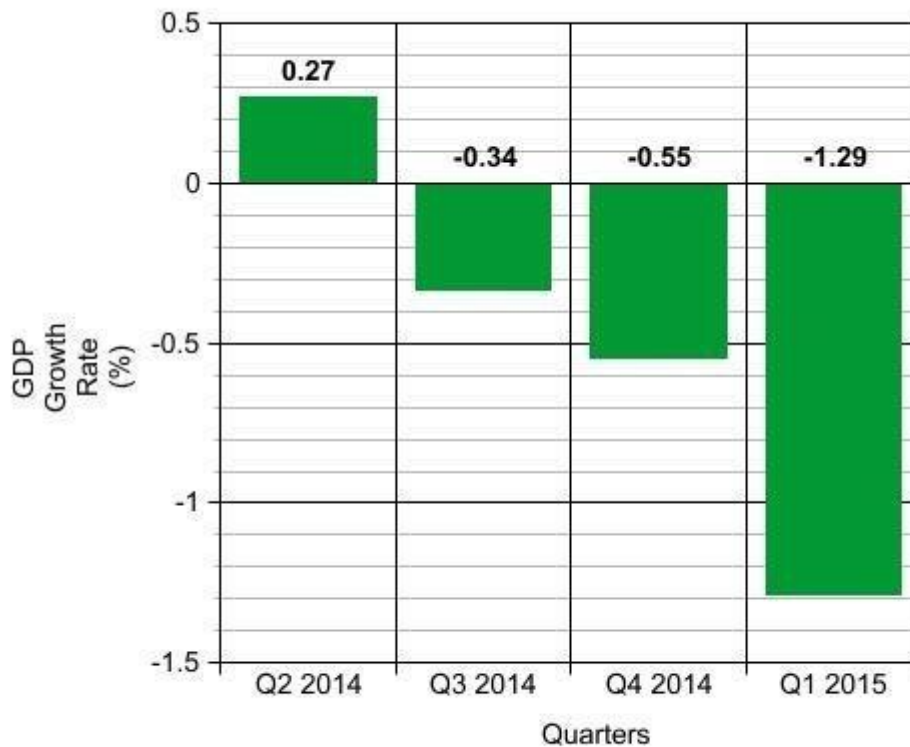
Graph 3. Russia Inflation Rate by Months



Trading Economics (n.d.). Russia Inflation Rate 1991-2015

However, such a move was at the expense of economic growth. Russian GDP growth rate shows clear signs of slowing down from the beginning of 2014 onwards. Graph 4 illustrates such a trend. In the second quarter of 2014, GDP growth rate amounted to 0.27%, before decreasing to -0.34% and -0.55% in the third and fourth quarters respectively. Russian GDP growth rate dropped even further to -1.29% in the first quarter of 2015 (Trading Economics, 2015).

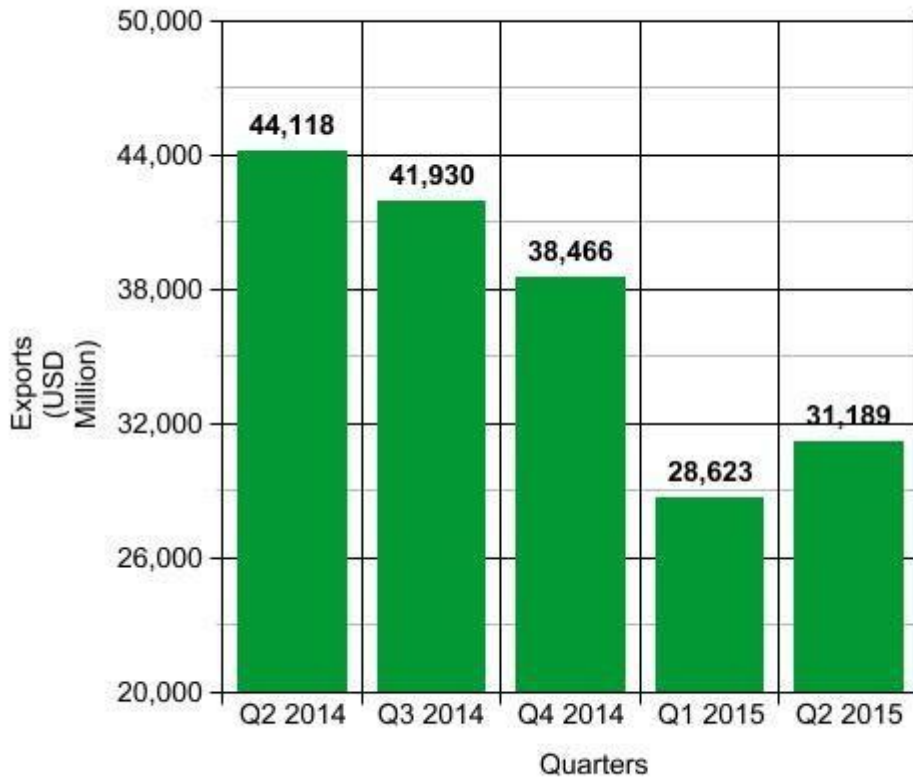
Graph 4. Russia GDP Growth Rate by Quarter



Trading Economics (n.d.). Russia GDP Growth Rate 1995-2015

The previous analysis shows that Russia has witnessed a significant amount of economic shocks in the beginning of 2015, which taken together had a direct impact on its GDP. Whether this economic turmoil can be linked to the burden of the EU sanctions is however debatable. Nevertheless, the issuance of Western sanctions can be linked to the deterioration of specific factors. For instance, the inflation rate measures the annual change in Consumer Price Index, meaning changes in the prices paid by consumers for a basket of goods and services. In Russia, food and non-alcoholic beverages amount for 30 percent of the total weight of this basket. It can therefore be assumed that the high inflation rate of December 2014 results partly from the embargo of imported agricultural products that Russia imposed for a one-year period on the United States, the EU, Norway, Canada and Australia. Moreover, Russia saw a sharp decrease in its imports and exports, as well as in its capital flow. Graph 5 illustrates Russian exports that dropped from 44,118 USD million in the second quarter of 2014 to 28,623 USD million in the beginning of 2015. Prediction estimates a further drop to 23,000 for the remnant of the year.

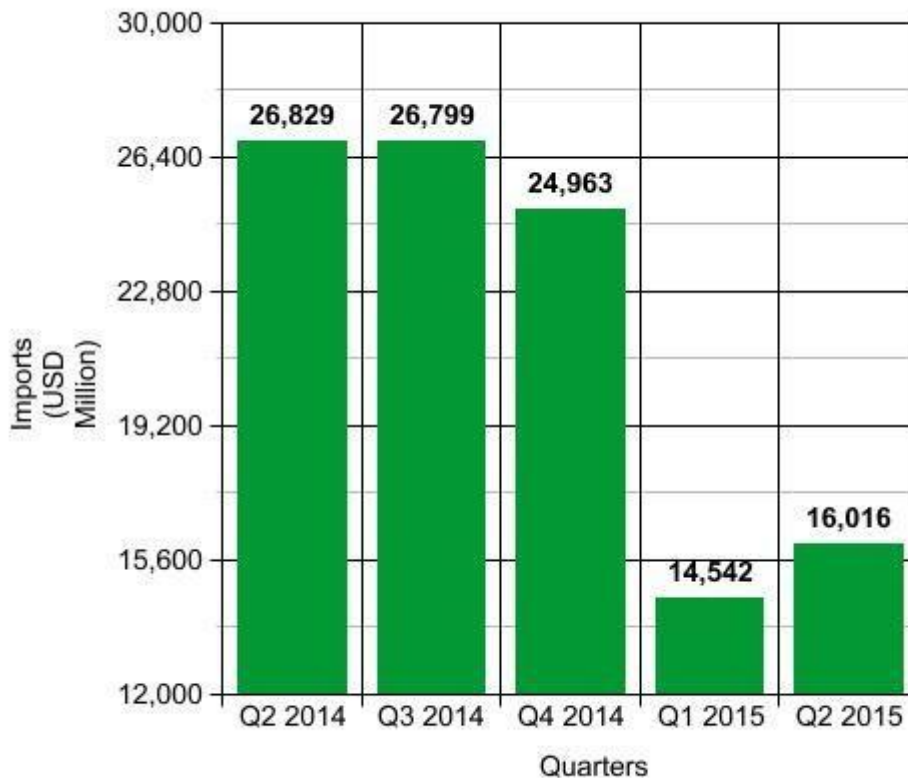
Graph 5. Russia Exports by Quarters



Trading Economics (n.d.). Russia Exports 1994-2015

Similarly, graph 6, which depicts Russia's imports in USD million by quarters of a year, shows that Russian imports have declined significantly. Although they remained stable in the second and third quarters of 2014, imports dropped from 24,963 USD million in the end of 2014 to 14,542 USD million in the first quarter of this year. Forecast predicts imports to settle around 14,000 USD million for the next six months.

Graph 6. Russia Imports by Quarters



Trading Economics (n.d.). Russia Imports 1994-2015

The weak value of the ruble triggered greater inflation, which in turn further influence the investment climate in Russia and capital outflow (Khlebnikov, 2014). Indeed, the slow economic growth and the decrease in the positive balance of payments already put pressure on the money. In addition, capital flows dropped sharply from -10,260 USD million to -43,071 USD million at the end of 2014 (Trading economics, 2015). Already in the first three quarters of 2014, the Western sanctions led to an excess of 85 USD million, which raised the demand for foreign currency. However, the recent drop in oil prices and the lack of foreign investment further affected the ruble's value. Russia's foreign direct investment dropped from 12131 USD million in the second quarter of 2014 to -1144 USD million in the third quarter of 2014 (Trading Economics, 2015). Western financial sanctions have blocked Russia's largest state-owned companies and banks from accessing Western financial sources and raising funds, preventing businesses from refinancing their debts. In consequence, Russia's external debt has been decreasing constantly since the second quarter of 2014, but the Russian government debt to GDP is expected to increase from 13.41% to 14.51% in the following months (Trading

economics, 2015). The unavailability of funds for major Russian companies from Western capital markets forced the Russian state to inject public money in at least companies with a high share of state-owned capital, increasing its debt. The other companies had no other choice but to buy foreign currency in the market, which weighed heavily on the Russian currency.

6.4 Discussion

The previous analysis of the Russian economy has highlighted the influence of the Western sanctions on the Russia economic crisis. Due to the sudden drop of world oil prices in June 2014, Russia witnessed sharp losses in export revenues. The ruble reacted almost immediately to such drop and lost much of its value. In order to stabilize the currency and to control the rising inflation, the Central Bank of Russia raised the interest rates. Such a move was however made at the expense of economic growth, and the Russian GDP growth rate suffered accordingly. All these economic shocks and the economic instability that followed pushed investors to avoid financing Russian banks and companies. It is in this particularly poor investment climate that Western sanctions, and in particular EU sanctions, acted as a force multiplier. The ban imposed on the purchase or sale of bonds and the prohibition to provide loans to Russian state-owned banks, coupled with the lack of investments from other foreign actors, prevented Russia banks and companies from refinancing their debts. In addition, the embargo that Russia imposed on the Western partners put another heavy pressure on its imports of agricultural goods. Such a decision did not only considerably reduce its imports, but it also contributed to the high inflation that has remained for months. Falling prices have hit the country hard, bringing it close to recession (Bowler, 2015). Robert Kahn (2015) estimates that the Western sanctions are acting as a “force multiplier”. He explains that foreign borrowing and trade were previously used as buffers by Russia to protect its economy from an oil crisis, but that Western sanctions have removed Russia’s access to these usual tools. Russia would have been able to deal with an oil shock or sanctions alone, but not both at the same time.

In light of the role of sanctions as presented by Giumelli (2013), the previous analysis clearly shows that the EU sanctions were issued following the three types’ logic. First, the sanctions had a clear coercive aspect: by preventing companies and banks access to foreign

investments, the EU caused damage to the Russian economy and worsened the economic crisis. Second, EU's ban on exports of arms-related materials aimed at constraining Russia's ability to act in Ukraine. Finally, the issuance of the sanctions in the first place was a signal from the EU that it would neither approve nor tolerate the path of action that Russia followed in Ukraine. It was as much aimed at causing damage as it was at showing its commitment to International Law and the respect of a nation's sovereignty.

Moreover, the analysis of both actors' actions shows that their relationship is far from a neoliberal logic, but follows a neorealist model. EU-Russia relations became even further based on mistrust and calculation of risks. Moscow presumed that Russia could easily afford a conflict, and therefore intervened in Ukraine. Nevertheless, Russia and the EU remain heavily interdependent, and the consequences of rounds of sanctions from both have illustrated such a link. Such analysis confirms the assumption that EU-Russia relations are following a neorealist logic. The high interdependence between both bodies causes mistrust and prevents them from cooperating on the long run without occasional conflict. The crisis in Ukraine illustrates the undeniable tension that exists between the two. Not only that, but the EU's internal fragmentation on the issue, as was explained by Leonard and Popescu (2007), is also another source of problems. In late April 2015, discussions started between Greece and Russia on "energy cooperation". Questions arose as to whether Russia tried to find support within the EU to cease the sanctions (Tsiantar, 2015). Such behavior from EU member states indicates that the issuance of the sanctions against Russia was not the preferred outcome by all actors involved in the EU institutions. That all member states agreed to it in the first place was already a challenge. This internal fragmentation adds to the long list of problematic issues that characterized EU-Russia relations.

The resolution of the Ukraine crisis is a precondition for the improvement of EU-Russia relations, but it will not be enough to return to its previous state. What happened in Ukraine has not been a trigger of tense exchanges between the EU and Russia, but rather a symptom of an already strained relation. Such negative trends started already in 2004, but the EU had previously remained in denial. In 2010, it even attempted to revitalize the relationship through a new partnership for Russia's modernization, but such attempts were futile. By that time, Russia did not view itself as a European country anymore and did not wish to become one. European norms, rules and standards were not a model to follow anymore. Such a change of perception was partly caused by the rapid growth of Russia and the slow growth of Europe.

Russia started to see itself as a global power, more powerful and independent than a weak and decadent Europe. In addition, the EU was perceived as keen on compromises and unwilling to resort to hard power (Moshes, 2015; Leonard & Popescu, 2007, p.13).

Nevertheless, the Minks II agreement was agreed upon, indicating that changes were desired by at least one party. Does that mean that the sanctions were effective? In light of the recent developments, the Russian economy appears to send a more positive outlook. The ruble has been gradually recovering and capital outflows have been decreasing, thanks to good policy mixed with seasonal factors. The stabilization of oil prices has also allowed the country a breathing space (Connolly, 2015). Despite the fact that Russia's economic turmoil is far from over, Russia has managed to improve parts of its economy and to secure an agreement that will put an end to the sanctions without abandoning much of its initial gains. Such conclusions would persuade anyone that Western sanctions were not effective in coercing Russia in any way. Nevertheless, as Giumelli (2015) argues, effectiveness should not be assessed only on whether or not "they force a change in the behavior of their intended target" (p. 1). The Minsk II Agreement did decrease the escalation of violence in Ukraine, and dialogues have been kept open between the EU and Russia. Moreover, EU sanctions were as much symbolic as economic. They were a signal as to where the EU stands in the crisis, and that it could, when necessary, agree on a common action against its powerful neighbor. It is worth noticing at this point that the EU could have chosen the path of inaction and done nothing. Such inaction could have been highly probable, knowing the dividing issue that Russia is among member states. The EU nevertheless chose to issue sanctions and has proven to Russia that the perceived "decadent" Europe could still stand its ground against it.

7 Conclusion

One good thing about the Ukraine crisis is that at least now everyone can stop pretending. Russia can stop pretending that it is part of Europe, and Europe can stop pretending it agrees.

Bovt, 2014, The Moscow Times

The EU's relation with Russia has been one of the least successful partnerships with a neighbor that the EU pursued. Despite the EU's almost desperate wish to create a "strategic partnership" based on cooperation and common legal bases, both actors have now been

drifting apart for years. Whereas Europe was “founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights” (TEU, Art.2), Russia has developed a specific “sovereign democracy” in which power lies among a political elites and human rights are not necessarily protected. Such different paths have caused EU-Russia relations to deteriorate since 2004. The Ukraine crisis was therefore not the trigger of these tense EU-Russia relations, but rather a symptom (Moshes, 2015). As Georgy Bovt states, both Russia and the EU cannot ignore the major institutional and political differences, undermining their “partnership”.

The burden of the EU sanctions against Russia due to its role in the Ukraine crisis fell on the Russian Federation at the same time as the world oil prices crisis. The Russian economy, already weakened by the sudden losses in oil export revenues, struggled to recover without the usual access to Western financial markets. This paper aimed to determine the effects of EU sanctions on the Russian economic crisis and the motives behind the issuance of the sanctions in the first place. This paper showed that Russia’s economy witnessed a short recession from the end of 2014 onwards. The analysis of its economic performances indicates that the oil prices crisis hit Russia far more than what would have been expected, decreasing its economic growth, exports and imports, and triggered a sharp depreciation of the ruble. The reason behind it is that Western sanctions prevented banks and businesses from using Western financial markets to refund their debts and counterbalance the economic shock of the oil price crisis.

EU sanctions followed Giumelli’s logic (2013) that sanctions can be coercive, constraining and signaling. The EU issued them with the aim of causing damage to Russia’s economy, limiting its capacity to act and as a means to show its commitment to International Law. Instead of seeking a compromise through cooperation and transparency, as would be expected under a neoliberal logic, the EU sought to ‘punish’ Russia for a behavior that it considered inappropriate. Sanctions were used to encourage Russia to respect the balance of state power currently at play in the international community.

The EU seems stuck in this troublesome situation. Many articles argue that something should have been done differently. The EU however remains a highly fragmented actor, even more so when dealing with Russia. Economic sanctions might have been the only course of action that every twenty-eight countries could agree upon, and that would not excessively harm its relations with Russia. Such foreign policy tool has shown to be efficient for posturing

and keeping EU cohesion. Notwithstanding, sanctions have clear long-term objectives, and their impact cannot be fully evaluated in such a short period. In addition, it is still impossible to predict the future of Ukraine and the next steps of Russia on the issue. Further research would be necessary in the future to try and determine the full impact of the sanctions. Furthermore, it would have been interesting to see the impact of the sanctions on the EU's member states and not only on Russia. Another question that should be researched is also the decision-making process behind the issuance of the sanctions within the EU, which could have highlighted the internal fragmentation of the EU. Such research was however beyond the scope of this paper.

All in all, the EU remains an actor that deeply believes in cooperation and transparency between states. History has shown that the use of sanctions in the twentieth century is complex, and that drawing definitive and uniform conclusions on their efficiency in political and diplomatic transformations is delicate (Gomez & Nivet, 2015). Nevertheless, on the contrary to the case of sanctions against Iraq under the leadership of Saddam Hussein, the EU has proven that “smart sanctions” may influence another actor's behavior.

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