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IMPORT SUBSTITUTION IN RUSSIA AS A CONSEQUENCES OF SANCTIONS AGAINST RUSSIA

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NEAR EAST UNIVERSITY

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DEPARTMENT OF INTERNATIONAL BUSINESS

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M.Sc. THESIS

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Approval

We certify that we have read the thesis submitted by **ALIONA MADJAR** titled **"IMPORT SUBSTITUTION IN RUSSIA AS A CONSEQUENCES OF SANCTIONS AGAINST RUSSIA"** and that in our combined opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of International Business.

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Declaration

I hereby declare that all information, documents, analysis, and results in this thesis have been collected and presented according to the academic rules and ethical guidelines of the Institute of Graduate Studies, Near East University. I also declare that as required by these rules and conduct, I have fully cited and referenced information and data that are not original to this study.

ALIONA MADJAR

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I would like to thank my family and my friends for supporting me on this path, and for the motivation and strength they gave me. I would like to emit my appreciation to my supervisor Dr. Laith Tashtoush for his guidance and help.

ALIONA MADJAR

Abstract

Import substitution in Russia as a consequence of sanctions against Russia

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MA, Department of International Business

MAY 2023, 84 pages

The goal of this research is to understand the consequences of the Western world's sanctions against the Russian Federation, after the start of the military operation against Ukraine. In this research, the measures taken by Russia to save the Russian economy will be identified. Industries that have suffered greatly from such sanctions will be presented, and companies that have left the Russian market will be identified. Because of these events, measures were taken to replace imported goods and support domestic producers, whose goods can become worthy competitors and analogy of Western goods. The implementation of import substitution may be a consequence of the expansion of the domestic market and an increase in demand for Russian products. Since 2014, the sanctions policy towards Russia has been one of the most important political and economic problems. This international relations model caused several issues and also allowed for a breakthrough in the local industrial sector. Import substitution and the establishment of domestic production has become the primary vector of movement for nearly all sectors of the Russian economy. To keep up with other countries, the application of new and accurate technologies, as well as expensive specialized equipment, requires huge financial commitments from the government and the establishment of specific research centers.

Keywords*:* sanctions; economic; import; import substitution; export.

ÖZ

Import substitution in Russia as a consequence of sanctions against Russia

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Bu araştırmanın amacı, Ukrayna'ya yönelik askeri harekatın başlamasının ardından Batı dünyasının Rusya Federasyonu'na uyguladığı yaptırımların sonuçlarını anlamaktır. Bu araştırmada Rusya'nın Rus ekonomisini kurtarmak için aldığı önlemler tespit edilecektir. Bu tür yaptırımlardan büyük zarar gören sektörler tanıtılacak ve Rusya pazarından ayrılan şirketler belirlenecek. Bu olaylar nedeniyle, ithal malları değiştirmek ve malları Batı mallarının değerli rakipleri ve analogları haline gelebilecek yerli üreticileri desteklemek için önlemler alındı. İthal ikamesinin uygulanması, iç pazarın genişlemesinin ve Rus ürünlerine olan talebin artmasının bir sonucu olabilir. 2014 yılından bu yana Rusya'ya yönelik yaptırım politikası en önemli siyasi ve ekonomik sorunlardan biri olmuştur. Bu uluslararası ilişkiler modeli bir dizi soruna neden oldu ve aynı zamanda yerel sanayi sektöründe bir atılım sağladı. İthal ikamesi ve yerli üretimin kurulması, Rus ekonomisinin neredeyse tüm sektörleri için birincil hareket vektörü haline geldi. Diğer ülkelere ayak uydurmak için, yeni ve doğru teknolojilerin yanı sıra pahalı özel ekipmanların uygulanması, hükümetin büyük mali taahhütlerini ve belirli araştırma merkezlerinin kurulmasını gerektirir.

Anahtar Kelimeler: yaptırımlar; ekonomik; içe aktarmak; ithal ikamesi; ihracat.

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List of Abbreviations

ISI: Import substitution industrialization

CIS: Commonwealth of Independent States

US: United States

EU: European Union

NATO: North Atlantic Treaty Organization

PACE: Parliamentary Assembly of the Council of Europe

UN: United Nations

G7: Group of seven (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States)

GDP: Gross domestic product

EAP: Economically active population

USSR: Union of Soviet Socialist Republics

APEC: Asia-Pacific Economic Cooperation

UNCTAD: United Nations Conference of Trade and Development

FDI: Foreign Direct Investment

FCS: Federal Customer Service

CSR: Centre for Strategic Research

IMF: International Monetary Fund

OECD: Organization for Economic Co-operation and Development

KSE: Kyiv School of Economics

BRICS: BRICS nations — Brazil, Russia, India, China, South Africa

CHAPTER I

Introduction

In recent years, Russia has faced a series of economic sanctions implemented by Western nations in retaliation for its activities in Ukraine and other geopolitical issues. These sanctions have had a significant impact on the Russian economy, particularly on its trade relations and access to global markets. As a response to these sanctions, Russia has implemented import substitution policies aimed at reducing its dependence on imports and developing domestic industries. This study aims to investigate how sanctions have influenced the Russian economy and the effectiveness of import substitution policies as a response.

Import substitution is the economic policy of the state, which consists in replacing imported commodities with state-produced goods that are in demand on the home market. Although, the process of transformation and establishment of a new national market based on import substitution is not yet complete, and there are several challenges in addition to the opportunities. However, when replacing imports with domestically produced items, the Government can prevent half of them if it sticks to its chosen path, reacting to market shifts promptly.

Import Substitution theory was connected with Argentine economist Raul Prebisch in the 1950s. Following World War II, practically all countries invested their wealth in the development of their economies. However, by the 1980s, this theory had fallen out of favor because of the establishment of the "Washington Consensus," which supported greater free trade. (Douglas A. Irwin, 2020)

A popular economic theory among developing or emerging market nations that want to lessen their reliance on wealthy nations is import substitution industrialization (ISI). To completely develop the sectors and make produced goods competitive with imported goods, this strategy strives to defend and incubate newly developed domestic industries. The ISI theory states that this process renders the local economy self-sufficient. The introduction of an ISI policy can be either voluntary or forced. For modern Russia, the combined option will be the most likely. The voluntary desire to switch to domestic products is combined with the imposed sanctions.

Biryukova T.I. & Veverista D.M. (2022) suggest that sanctions are restrictive measures, that are both economic and political. They are introduced by various states and international organizations. Since 2014, one of the most significant political and economic challenges has been the sanctions regime against Russia. If a country wants economically to keep up with other countries, it has to use cutting-edge technologies, but pricey specialist equipment necessitates significant financial investments from the government and the creation of dedicated research facilities. All of this calls for highly skilled workers who earn a lot of money.

Background of Study

Several nations and international organizations have imposed sanctions on Russia in reaction to its activities in the Ukraine, its annexation of Crimea, its engagement in the Syrian conflict, and its alleged meddling in other countries elections.

In March 2014, the United States and the European Union issued the first wave of sanctions against Russia following its annexation of Crimea. These penalties included import and export quotas, asset freezes, and travel bans targeting Russian government officials. Over time, more sanctions were added that specifically targeted the Russian economy's energy, banking, and defense sectors. The Russian economy has suffered greatly as a result of these sanctions, which have decreased foreign investment and limited access to Western markets and capital.

In addition to the US and EU sanctions, other countries and international organizations have also imposed sanctions on Russia. These include Canada, Japan, Australia, and NATO, among others. The sanctions were further expanded in subsequent years as a result of Russia's alleged interference in the 2016 US presidential election, the poisoning of former Russian spy Sergei Skripal in the UK, and other actions deemed by Western countries as violating international norms.

The Russian economy has been significantly impacted by the sanctions, particularly in its energy and banking sectors. They have also caused tensions between Russia and the countries that have imposed them, with Russia responding with counter-sanctions and diplomatic measures against Western countries, restricting imports of food and other goods and targeting their industries, such as the automobile and agriculture sectors.

Problem Statement and Purpose of the Study

Almost all sectors of the Russian economy now move primarily via import substitution. For Russia, import substitution has become a key strategy as a result of the sanctions established on the country in recent years. These sanctions, which were put in place by Western countries in response to Russia's actions in Ukraine, have had a significant impact on the Russian economy, particularly in areas such as trade and investment.

The present circumstance in the Russian economy is characterized by the fact that it is subject to frontal sanctions. They have a clear purpose, being a typical variant of the economic war against the Russian Federation. Economic war is a clash of interests, a form of political and competitive struggle of various states and blocs against each other or a separate country using various economic sanctions and means, such as a ban on the import and export of new technologies, high-tech products, full or partial restriction of trade, political demands for lending, a collapse in export prices (for example, oil) and the national currency, a blow to social spheres (education, science, healthcare, culture, migration), etc. That is, the real goal of the imposed restrictions is to strike at all spheres of domestic and foreign policy, namely the introduction of Russia into international isolation, a decline in production, a decrease in the socio-economic level of the country, and provoking social discontent among the population by causing unemployment.

In February 2022, the US, the EU, and several other states intensified their general economic war against Russia. The scale of the 2022 sanctions exceeds the number of bans in all previous periods. The number of new restrictive political and economic measures put forward against Russia has made the Russian Federation an absolute leader in terms of the number of sanctions applied against individuals and legal entities by other states. The West wants to force the political leadership of Russia to retreat from earlier decisions regarding the Donbass (protection of residents) and Ukraine in general (denazification and demilitarization) under the threat of applying significant damage to the economy of the Russian Federation and its citizens.

The purpose of studying import substitution in Russia as a consequence of sanctions against Russia is to understand how Russia is responding to the economic sanctions imposed on it by the international community, particularly the United States and the European Union, as a result of its actions in Ukraine.

Import substitution refers to the policy of reducing reliance on imports and promoting domestic production to replace them. Russia has implemented import substitution policies to reduce its dependence on Western imports and to develop its domestic industries in response to the sanctions.

Studying import substitution in Russia can shed light on the broader economic and geopolitical implications of sanctions. By examining how sanctions have affected Russia's economy and its relationship with other countries, policymakers and scholars can better understand the potential costs and benefits of using sanctions as an instrument for foreign policy.

This research will help to understand the impact of sanctions on Russia's economy. Import substitution is one of the ways that Russia is seeking to mitigate the effect of the sanctions on its economy. By studying how these policies are being implemented and their effects on different sectors of the Russian economy, researchers can better understand the consequences of the sanctions on Russia's overall economic performance.

Overall, the study of import substitution in Russia as a consequence of sanctions against Russia is important for understanding the economic, political, and strategic implications of sanctions and the responses they elicit, and the implications of these developments for global economic relations.

Significance of Study

This study is significant for several reasons. First, it will provide insights into the effectiveness of import substitution policies as a response to economic sanctions. The case of Russia provides a unique opportunity to examine the implementation and impact of import substitution policies in a large, resource-rich economy facing significant external pressures. Second, the study can contribute to our understanding of the economic and political consequences of sanctions and inform future debates and decisions about the application of economic sanctions as an instrument for foreign policy. Finally, the study has broader implications for the global economy and international trade, as the imposition of economic penalties and the development of domestic industries to reduce dependence on imports have significant implications for global supply chains, competitiveness, and economic growth. By studying import substitution in Russia as a consequence of sanctions, researchers contribute to a better understanding of Russia's efforts to adapt to the challenges posed by the sanction's regime.

Research Questions

This study's primary research question is: What is the impact of sanctions on the Russian economy, and how effective are import substitution policies as a response? To answer this question, the following objectives will be addressed:

- To analyze the effect of sanctions on the Russian economy in terms of trade, investment, and access to global markets.
- To evaluate the effectiveness of import substitution policies in reducing Russia's dependence on imports and developing domestic industries.
- To identify the challenges and opportunities associated with import substitution policies in Russia and their broader implications for the global economy.
- To analyze the impact of sanctions on Russia's energy sector, including its oil and gas production, export, and revenues.
- To evaluate the consequences of sanctions on Russia's relations with its trading partners and its geopolitical position in the world.
- To identify how have sanctions affected the Russian people, including their standard of living, employment, and access to goods and services.

Limitations

There are several limitations to this research design. Firstly, the study would rely on publicly available data sources, which may be limited or incomplete. Secondly, the study would be limited to the period after the imposition of sanctions in 2022, and may not capture the long-term impact of sanctions on the Russian economy. Finally, the study would be limited to the impact of sanctions on the Russian economy, and may not capture the broader political and social effects of sanctions. The proposed research design and methods provide a framework for studying the impact of sanctions on the Russian economy. The goal of qualitative data collection and analysis is to provide a thorough understanding of how sanctions affect the Russian economy and to pinpoint the major elements that influence how effective or ineffective sanctions are as an instrument for foreign policy.

Definition of terms

Sanctions, import substitution, economy, import, export, counter-sanctions

- Sanctions are measures taken by a government or a group of governments to influence or penalize another country, group, or individual for various reasons. Sanctions can be imposed for political, economic, or social reasons and can take various forms, such as trade embargoes, financial restrictions, travel bans, and arms embargoes.
- Import substitution is an economic policy aimed at reducing a country's dependence on foreign goods and increasing domestic production by encouraging the production of goods that were previously imported. This policy is based on the assumption that by producing domestically what was previously imported, a country can become self-sufficient and reduce its reliance on imports.
- An economy is a system of production, distribution, and consumption of goods and services that operate within a particular society or country. It is how resources are allocated and used to meet the needs and wants of individuals and organizations within society.
- Import refers to the purchase of goods or services from a foreign country and their transportation across international borders into a domestic market. Imports can be physical goods, such as raw materials, finished products, or machinery, as well as intangible services, such as software development or consulting services. Imports are a vital component of international trade, allowing countries to access goods and services that are not produced domestically or to obtain goods and services at a lower cost than would be possible through domestic production. Imports can also create competition, driving down prices and stimulating innovation and efficiency in domestic industries.

- Export refers to the sale and shipment of goods or services produced in one country to another country for use or resale. Exports can be physical goods, such as manufactured products, raw materials, and agricultural products, or intangible services, such as consulting and financial services. Exports are a key component of international trade, allowing countries to sell their goods and services to other countries and generate revenue. Exports can also create jobs and stimulate economic growth by supporting domestic industries and creating new markets for their products.
- Counter-sanctions are retaliatory measures taken by a country in response to sanctions imposed by another country or group of countries. Counter-sanctions are intended to inflict economic or political harm on the countries that imposed the original sanctions or to discourage them from taking further actions against the country. Counter-sanctions can take many forms, including trade restrictions, travel bans, asset freezes, and diplomatic measures. They are often used as a political tool to show strength and defend a country's sovereignty or to protect its national interests.

CHAPTER II

Literature Review

Overview of the literature on sanctions and their effect

Import substitution, the policy of promoting domestic production in place of imported goods, has been a prevalent economic strategy in Russia in recent years, specifically as a consequence of the sanctions imposed on the country by several countries following its annexation of Crimea in 2014. This literature review will provide an overview of the main findings and debates in the literature on sanctions and their effect.

Sanctions are a commonly used tool in international relations for coercive diplomacy, aiming to alter the behavior of states, groups, or individuals. The literature on sanctions is extensive and multidisciplinary, covering political science, economics, law, and international relations.

Such a concept as "sanctions" first appeared in 1920 in international law along with the Charter of the League of Nations. A famous supporter of the institution of sanctions, or, as he put it, "a comprehensive boycott of the aggressor," was US President Woodrow Wilson.

The concept of sanctions in the scientific literature is considered from different positions. So, for example, G.B. Polyak (1999) defines financial sanctions as "coercive measures, expressed in monetary form, applied to organizations as a result of their violation of the current legislation in financial and economic activities." However, this definition seems incomplete.

Yu. A. Ryzhkova & V.N.Batova (2015) suggest that sanctions can be divided into several logical groups: personal (affecting specific citizens), financial, against the oil and gas sector, and restrictions on the export of dual-use goods/technologies. Sanctions against individual citizens have little effect on the economy as a whole.

There are two sides to the introduction of economic sanctions - this is either an opportunity to establish domestic production or a deterioration in the economic situation in the country. Most Russian citizens and government officials are confident that now is the opportunity to somewhat change the economic situation in the country, as well as to acquire new allies. (S.G. Mikhneva 2008)

Sanctions can have a range of impacts, including economic, social, and political effects. Economic impacts include reduced trade, investment, and financial flows, while social impacts include increased poverty, food insecurity, and human rights violations. Political impacts can include changes in the behavior of target states, such as changes in policy or leadership. The impact of sanctions can also vary depending on the characteristics of the target state, such as its political system, economic structure, and level of development.

T. Clifton Morgan, Valerie L. Schwebach, Elena V. McLean, and Taehee Whang are experts in international relations and among the authors who examined the effect of sanctions on a country's economy. They concur that in theory, economic sanctions can only be successful if a nation is entirely reliant on the importation of the products that have been limited and is unable to produce alternatives, which is practically unattainable in reality. Trade ties between nations are so extensive in the current economy that they inevitably affect the side applying sanctions while also affecting the status of another nation.

According to E. V. Lapteva (2015), a state's international legal obligation for violating international accords may take the shape of unique punishments. governments and international organizations utilize these economic and political coercive measures against other governments that try to avoid taking responsibility for their illegal activities. Between open censure and the application of actual force, international sanctions are regarded as a compromise method to exert pressure on a state or a portion of its territory.

International sanctions differ in types:

- trade - embargo;
- financial (blocking, restricting access, termination of financial cooperation);
- sanctions in the field of movement (ban on entry/exit);
- diplomatic (cancellation of all or part of diplomatic relations with the recall of ambassadors);
- sports and cultural (ban on participation in cooperation and competitions);

- procedural (termination or deprivation of the ability to vote, representation in elected bodies or international organizations).

The effects of sanctions can be complex and can vary depending on the specific circumstances of the situation. Here are some general effects of sanctions:

- Economic Effects: Sanctions can have a substantial impact on the economy of the targeted country. Depending on the severity of the sanctions, they can lead to decreased trade, reduced foreign investment, inflation, shortages of goods and services, and other economic challenges. The effects can be particularly severe for countries that rely heavily on exports, as sanctions can disrupt trade relationships and reduce demand for their goods.
- Political Effects: Sanctions can also have political effects, both domestically and internationally. Domestically, sanctions can increase political tensions and lead to public unrest. Internationally, sanctions can strain diplomatic relationships between the targeted country and other nations, and can sometimes result in the isolation of the targeted country on the global stage.
- Social Effects: Sanctions can also have social effects, particularly on vulnerable populations such as the poor, elderly, and sick. Sanctions can limit access to food, medicine, and other necessities, leading to a decline in health and well-being. Sanctions can also lead to increased migration and displacement, as people seek better opportunities in other countries.
- Strategic Effects: Sanctions can have strategic effects on the targeted country's military and defense capabilities. Sanctions can limit access to weapons, technology, and other resources necessary for maintaining military readiness.

Overall, the effects of sanctions can be complex and far-reaching and can impact not only the targeted country but also neighboring countries and the global economy as a whole. It is important to carefully consider the potential consequences of sanctions before implementing them and to work towards finding diplomatic solutions.

Historical context of sanctions against Russia

Sanctions against Russia have a long and complex history, reflecting the ups and downs of the country's relationship with the West. From the Soviet era to the present day, sanctions have been used as a tool of foreign policy to influence Russia's behavior on a range of issues, including human rights, arms control, and territorial disputes.

Susanne Oxenstierna and Per Olsson (2015) assert that the illegal annexation of Crimea by Russia and subsequent violations of Ukraine's sovereignty are the starting point for the EU and US sanctions on that country. But the distinctions go deeper because they all developed after the Cold War. The fall of the Soviet Union in 1991 harmed the economies of all 15 states. Maintaining Russia's sway in the post-Soviet region served its interests. Western nations, on the other hand, see these nations as sovereign, independent governments, free to join any international cooperation and create any alliances they see fit. The three former USSR Baltic states became full members of the EU in 2004 and 2007, and they joined NATO in 1999 and 2004. In 2008, Georgia and Ukraine wanted to join NATO, but the Russian government objected. After a military war with Georgia, the two republics of South Ossetia and Abkhazia, which are solely recognized by Russia, were declared. The EU decided to start the Eastern Partnership, which was to encompass Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine, as a result of this military confrontation. This partnership's goal was to work together economically for the benefit of all people and the growth of states. The Russian state opposed this partnership since these were the countries of the former Soviet Union and Russia did not want to lose its influence/dominance over these states. Russia needed to stop the "EU influence" from growing further, and in particular, to stop Ukraine from joining the Eastern Partnership. In November 2013, Ukraine refuses to join the Eastern Partnership. In this regard, the situation in Ukraine tilted and caused the annexation of Crimea by the Russian Federation in March 2014. (Susanne Oxenstierna & Per Olsson, 2015)

Due to the Crimean referendum on the accession of the peninsula to Russia, many member countries of the UN, the USA, the EU, several other partner countries of the USA and the EU, as well as international organizations such as NATO, the Parliamentary Assembly of the Council of Europe (PACE) expressed dissatisfaction with Russia's policy in regarding Ukraine. As a result, the United States imposed sanctions, with the primary objective of isolating Russia on the global stage. Under strong pressure from the US leadership, at the risk of suffering economic damage, the countries of the European Union, the G7 (Great Britain, Germany, Italy, Canada, USA, France, and Japan), and some others (partner countries of the USA and the EU) joined the sanctions. At the request of EU politicians, Russia was excluded from the top eight leading countries of the world. (A. I. Bulatova & N. P. Abelguzin 2015)

According to the Ministry of Finance of the Russian Federation, the imposition of sanctions in various spheres of state activity can directly affect the Russian economy. Sanctions are fraught with restrictions on the import of advanced technologies, the infusion of foreign investment, and the use of innovative practices. As a result, the state's ability to modernize industry may suffer, conditions may deteriorate, and the state's financial stability may decline. The imposition of sanctions may damage financial stability in some economic sectors, foster borrowing, and cause a flight of capital and investment. This may shake the position of the ruble, lead to higher inflation, and worsen consumer confidence.

As a result of Russia's actions in Ukraine, the European Union, the United States, and several other nations implemented sanctions against it in 2014. The sanctions affected certain people and economic sectors, preventing investment and the export of high-tech goods to Russia and limiting its ability to access foreign capital. A. I. Bulatova & N. P. Abelguzin (2015) revealed that the sanctions that were imposed on Russia, including those restricting the access of Russian banks and companies to the EU capital market, affected the oil, aircraft industry, and defense complex.

The original set of sanctions, according to Korhonen et al. (2018), was rather light. It forbade conducting business with particular people and organizations, especially those based in Crimea and Sevastopol, and contained travel restrictions, financial sanctions, and business prohibitions. Sanctions against certain high-ranking officials of Russia. They consist of a ban on entry into the territory of countries that have put forward their sanctions and the freezing of their assets located on the territory of these countries. Sanctions were significantly strengthened in numerous sectors following the shooting down of air the liner MH-17. Weapons export and import, as well as the export of commodities with dual military and civilian uses, were all forbidden. The export of some items used in oil exploration and production was also forbidden. Possibly the most significant was the decrease in long-term financing for Russian companies that were not directly involved in the war in the Donetsk and Luhansk regions. Sberbank, VTB, Gazprombank, Rosselkhozbank (Russia's agricultural bank), and VEB (Russia's state-owned development bank) were all forbidden from receiving long-term financing from the EU and the US. The funding prohibition initially only applied to equity financing or loans with maturities of more than 90 days; later, the prohibition was lowered to 30 days. The oil major Rosneft, the oil pipeline company Transneft, the oil exploration and refiner Gazpromneft, and many defense-related businesses were also subject to the long-term financing ban. In response to the fine, Russia imposed import restrictions on some foods, including fish, fresh milk and dairy products, fruits, and vegetables.

Summarizing the set of economic sanctions introduced against Russia in 2014 shows that they target such industries as gas, oil, defense, aerospace, and nuclear, as well as the banking sector, i.e., those industries that form the competitiveness of the Russian economy in the global market.

I.V. Loginova, B.A. Titarenko and Sayapin S.N. (2014) suggest that sanctions are not aimed at the Russian economy as a whole, but at ousting it from certain Western markets and speak of the number of countries that have joined the sanctions. Thus, 38 countries are involved in sanctions against enterprises of the oil and gas industries in Russia, 39 countries against financial structures, 1 country (USA) against the nuclear industry, 39 countries against the military industry, 4 countries against the aerospace industry, 36 countries against the construction industry, and 38 countries against trade. Almost all of these countries are located in Europe. This also confirms the conclusion that these sanctions are aimed not only at damaging the Russian economy but at ousting it from the Western European market.

Since then, sanctions against Russia have been extended and expanded by various countries and organizations. In 2015, the EU extended its sanctions for another six months and added further individuals and entities to the sanctions list (EU, 2015). In 2016, the United States and the EU imposed new sanctions in response to Russia's involvement in the conflict in Syria (U.S. Department of the Treasury, 2016; EU, 2016).

In response to Russia's suspected meddling in the 2016 U.S. presidential election, the United States slapped sanctions on it in 2018 (U.S. Department of the Treasury, 2018).

The EU also extended its sanctions in response to the ongoing conflict in Ukraine (EU, 2018).

More recently, in 2021, the United States assessed new penalties on Russia in response to its alleged involvement in the SolarWinds cyberattack and election interference (U.S. Department of State, 2021). In response to Alexei Navalny, a prominent Russian opposition activist, being poisoned and imprisoned, the EU also imposed sanctions. (EU, 2021).

Overall, the historical backdrop of sanctions on Russia demonstrates that penalties have been enacted in response to Russia's actions in Ukraine and its annexation of Crimea, and its involvement in conflicts in Syria and Ukraine. Sanctions have been extended and expanded over time, and in reaction to alleged meddling in the 2016 U.S. presidential election and cyberattacks, fresh sanctions have been implemented effect. As Graebner (2019) notes, sanctions have been used both as a tool of punishment and as a way of encouraging Russia to cooperate with the West. However, the effectiveness of sanctions has been limited by Russia's ability to adapt and find new sources of support, as well as by domestic political factors that have driven the Russian government to take a more confrontational stance towards the West.

The history of sanctions against Russia reflects the complex and often contentious nature of the country's relationship with the West. While sanctions have been used as a tool of foreign policy for decades, their effectiveness in achieving their intended goals has been mixed.

US and EU Sanctions against Russia

The annexation of Crimea and Russia's involvement in the conflict in eastern Ukraine prompted the United States and the European Union to impose a variety of economic and diplomatic sanctions against Russia in 2014. These measures were put in place to hold Russia accountable for its deeds and to discourage future aggression. (Watts, 2019).

Economic sanctions against Russia primarily concern the oil and gas sectors of the economy, the financial and banking sectors, as well as the defense industry complex. Additionally, specific Russian Federation firms and people were subject to personal penalties, and investment proposals were prohibited. These sanctions are detailed in Table 1.

TABLE 1 Economic sanctions against Russia

Branch of the economy	List of sanctions
Oil and Gas	• A restriction on the transfer of oil production and refining technologies to Russia; • sanctions against individual companies, their subsidiaries, and companies affiliated with them in other sectors; • the suspension of ongoing projects and the refusal to approve new ones.
Financial and banking	• Russian legal entities and individuals' financial assets have been frozen; • access to credit has been restricted; • financial institutions have been cut off from international payment systems; • opportunities to engage in certain activities have been limited; • restriction on money deposits in Western banks.
Defense industrial complex	• A ban on conducting business with Russia regarding the export and import of weapons; • a ban on exporting to Russia dual-use products and any technology that can be applied to military operations.
Others	• Personal sanctions against specific Russian Federation businesses and individuals;

	• prohibition of investment projects, supply of equipment and materials for infrastructure facilities, transport, and energy complex of the constituent entities of the Russian Federation: Crimea and Sevastopol

The sanctions included asset freezes and travel bans on Russian officials, as well as restrictions on trade and investment with Russia. Initially, the EU sanctions list included 21 people, and the US included 7 people. But the lists were constantly expanding and in 2017, 78 federal politicians, officials, and the military, 29 Crimean and Sevastopol politicians, 16 businessmen, and four public figures were under sanctions from different countries. The US and EU also worked with other countries to coordinate sanctions against Russia, further increasing the economic pressure on the country (Graebner, 2019).

The imposition of economic sanctions against Russia by the United States and the European Union has had significant impacts on the country's defense industrial complex. In particular, the sanctions have affected the ability of Russian companies to access advanced technology and components for military equipment, as well as their ability to finance research and development projects (Rozhnova & Kupriyanov, 2020).

One of the primary impacts of the sanctions on the defense-industrial complex has been the inability of Russian companies to purchase advanced technology and components for their military equipment from Western countries. This has forced Russian companies to look for alternative sources of technology and components, such as from China or domestic production. However, this has led to a decline in the quality of Russian military equipment, as it has become increasingly outdated and less competitive on the global market (Kuchins & Shlyakhter, 2018).

To strengthen its competitive advantage, in addition to stopping ongoing initiatives in the gas business and refusing to enter into new ones, the United States put a prohibition on the transfer of oil production and refining technologies to Russia. Such consequences, according to R. M. Nuriev & P. K. Petrakov (2016) lead to a slowdown in the growth of the oil and gas industry in Russia and, ultimately, to its technical backwardness. The restrictions on technology transfers have been particularly impactful for Russia's oil and gas industry, as it relies heavily on Western technology to maintain and develop its energy infrastructure.

According to Irina Ilnitskaya (2017), the European Union is the biggest oil consumer. The daily oil consumption in Europe ranges from 13 to 15 million barrels. 90% of the oil consumed in continental Europe is imported, and as domestic supply declines, this dependence only grows. Norway, the only oil-exporting nation in Europe, produces 1.8 million barrels a day, of which 1.19 million are exported. However, Norway is not a member of the EU. Oil is imported to varying degrees by every other European nation. The most prospective and desirable market for oil exporters is the EU. Russia supplies more than 5 million barrels of oil per day (or one-third of the total supply) to Europe.

Sanctions have limited the ability of Russian energy companies to access Western technology and equipment, leading to production declines and reduced efficiency. This has been particularly impactful for offshore drilling projects, where Western technology and equipment are necessary for efficient exploration and production (Carter, 2019).

The restrictions on access to international capital markets have also had a significant impact on the Russian energy sector, particularly for the larger state-owned energy companies. The restrictions have made it more difficult for these companies to raise capital for new projects and refinance existing debt, leading to a decline in investment and reduced production levels (Weafer, 2020). The effect of the sanctions on the Russian energy sector has also had broader implications for the global energy market. The decline in production from Russia has led to an increase in global oil prices, particularly as other major producers, such as Saudi Arabia, have been reluctant to increase production to compensate for the loss of Russian output (Dipasquale, 2018).

Financial restrictions were initially taken against development institutions and commercial banks with state participation. Already at this stage, some restrictions were imposed on the oil industry. In a joint statement by the Council of the EU and the European Commission on August 5, 2014, a second round of economic sanctions was announced, deepening economic and financial restrictions.

The consequences of these sanctions on the Russian economy were significant. The value of the Russian ruble plummeted, and the country's GDP contracted by 2.5% in 2015. Russian businesses and individuals faced difficulty accessing international financial markets, and the sanctions also hurt trade and investment with other countries (Graebner, 2019).

EU financial sanctions against Russian companies have resulted in a ban on any direct or indirect purchases, sales, provision of investment services, assistance with the issuance, and other activities involving transferable securities and money market instruments. The sanctions list of the EU Council includes several companies in the military-industrial complex, as well as the largest corporations in the oil and financial sector, including Rosneft, Transneft, Gazpromneft, Sberbank of Russia, VTB Bank, Gazprombank, Vnesheconombank, Rosselkhozbank, which have a significant share of state participation in voting shares. Sanctions apply not only to these companies but also to affiliated organizations. However, in the EU Council Regulation, the definition of the scope of financial sanctions is ambiguous. On the one hand, restrictions apply to the subsidiaries of these companies in the European Union and outside it, in which they directly or indirectly own more than 50% of the property, that is, under their control. (I.N. Platonov & I.P. Gurova 2015)

The practice of borrowing money from "convenient" Western sources forced Russian businesses to hunt for alternate sources of funding and enter the Asian financial markets, which they frequently did not do before. For instance, in 2015, Gazprom raised $1.5 billion for the first time from a group of Chinese banks, and last year, the company reached an agreement with the Bank of China for a loan of 2 billion euros. US Rusal said in early February of this year that it intended to list bonds on the Shanghai Stock Exchange for 10 billion yuan ($1.5 billion). (A. Veselov& R. Azanov (2017))

Businesses in Russia have proven they can find crucial investors outside of the US and Europe. The selling of Rosneft's 19.5% shareholding serves as a good example. Many observers questioned whether Rosneft would ever find an investor when Western investors were forbidden from purchasing the company's shares. However, the Qatari sovereign wealth fund and the global consortium Glencore purchased the shares.

In 2015, the Russian government successfully implemented the Mir national payment system in response to initiatives to limit the settlements of several banks in the Visa and MasterCard systems.

On the one hand, the adopted economic sanctions hurt the country's economy, leading to a reduction in production volumes in certain industries, rising prices, significant fluctuations in the exchange rate, and a reduction in budget revenues. According to Rosstat, the number of economically active population (EAP) in 2014 amounted to 75.4 million people, which is 100 thousand people less than in 2013. Unemployment was at the level of 5.1-5.2% of the EAP, and at the beginning of 2015 increased to 5.8%. Many organizations due to economic difficulties are forced to reduce staff, thereby increasing the number of unemployed. There was a problem with the employment of graduates of educational institutions. The decline in wages and real incomes is forcing the population to look for a second job. All this affected the mood and behavior of citizens. However, these effects can be assessed as short-term. The most significant is their long-term positive impact on the country's economy. As shown by the actions of the Russian government in 2014-2015, the main attention has been paid to import substitution. (I.V. Loginova, B.A. Titarenko, Sayapin S.N. (2014)

The relevance of import substitution in Russia has increased dramatically against the backdrop of the Ukrainian crisis, but this does not mean that the issue of replacing foreign products with goods from domestic manufacturers has not been raised before. The collapse of the USSR, liberal reforms, and the closure of many enterprises in the early 1990s resulted in a twofold drop in domestic production; an unrestrained flow of foreign products rushed to the Russian market. This has made our financial sector increasingly dependent on any changes in the global arena. (Tatiana Mishchenko 2022)

The first step towards improving the country's economic security was to stimulate key domestic enterprises such as Gazprom and Rosneft. In addition, in the 2000s, large state corporations for the defense, nuclear industry, energy, machine, and aircraft building were created: Rostec, Rosnano, Rosatom, and United Aircraft Corporation. State orders and credit support provided these organizations with a reliable foothold for dynamic development. (Tatiana Mishchenko 2022)

In Maksim’s Blinov studies (2015) to reduce the country's food dependence on Western partners, the State Program for the Development of Agriculture was launched, under which the agro-industrial complex received huge support in the form of partial compensation for the costs of repaying loans, purchasing equipment, building, repairing and modernizing production. The program calls for a series of actions to be taken to create and modify regulatory legal acts in the areas of ensuring the Russian Federation's food security, advancing the production and marketing of agricultural goods, raw materials, and food, constructing infrastructure and providing logistical support for the agri-food market, regulating customs and tariffs, phytosanitary and veterinary control (supervision), implementing land policy, and international cooperation.

According to Tatiana Mishchenko (2022), sanctions imposed in 2014 exacerbated the problem and prompted the Russian government to develop more ambitious measures covering other sectors for which the task of import substitution has become no less urgent.

Russia decided to implement "counter-sanctions" in reaction. The Russian president signed a decree "on the application of some special economic measures to maintain the security of the Russian Federation" on August 6, 2014. Russian authorities have banned the importation of "certain types of agricultural products, raw materials, and foodstuffs, the country of origin of which is the state that has decided to impose economic sanctions against Russia." Vegetables, fruits, nuts, dairy products, and meat are all on the list. In response to the sanctions, Russia expanded the food embargo to include Ukraine, Iceland, Montenegro, Iceland, and Liechtenstein. Russia’s counter-sanctions have also had their economic effects.

Initially, countersanctions aided in the rise of food-related inflation This led to the country experiencing double-digit inflation for the first time in many years; in 2014, it was 11.4%, and in 2015, it was 12.9%. However, European agriculture producers were most harmed by Russian sanctions. The export of food items from EU nations to Russia fell by 29% in 2015 alone, costing European companies 2.2 billion euros in revenues and putting 130,000 jobs in jeopardy. (Andrey Veselov & Roman Azanov, 2017)

According to Volchkova et al. (2018), there is a decline in food variety and an increase in food costs in Russia. Additionally, certain varieties have shown a rise in productivity. The countersanctions have been expressly tied by Russia to its broader import substitution strategy, and even their schedule has changed from that of the EU sanctions, which are renewed every six months. Therefore, it is sensible to suppose that the EU's food import restriction would continue for a considerable amount of time even if sanctions were lifted today.

The Ministry of Economic Development of the Russian Federation calculated that the United States, Canada, Norway, and Australia, due to the food embargo of the Russian Federation, lost the sales market by 8.6 billion dollars a year. The analysis of imports of goods prohibited for import into Russia decreased by 98.9%.

The bans on the import of fruits and vegetables from European nations, which were declared as counter-sanctions by Russia in reaction, hit heavily on the small-scale sector and farmers of these countries rather than the very state structures of the EU countries. The Russian blockade caused the Polish food industry to lose between 400 and 500 million euros. The Russian market received more than 56% of the production of apples, 62% of pears, 35.5% of cherries, sweet cherries, and apricots, 19% of raspberries, strawberries, and black currants, and about 50% of the tomatoes and cabbage. At the same time, a replacement for the Russian market was not found - the volume of exports of apples from Poland in 2015 turned out to be less than exports in 2013 by 30% in physical terms and by 38% in value terms and amounted to 291 million euros. (O.V. Morozenkova, 2017)

Taking into account the negative impact of reduced domestic prices for agricultural products, this figure rises to 9–10 billion euros. In 2014, the direct losses of European farmers due to lost profits on the Russian market were more than 6 billion euros. In particular, businesses that produce dairy goods, pigs, fruits, and vegetables felt the effects of the Russian sanctions in retaliation.

The French Research Center for International Economics (CEPII), in a report published by it in early July 2016, estimated the export losses of 37 countries that supported sanctions against Russia from August 2014 to July 2015 at $60.2 billion. The researchers concluded that the bulk of these losses are related precisely to the sanctions themselves, and not to the retaliatory food embargo imposed by Russia. Thus, 78.1% of the total lost profits of European countries relate to goods that are not subject to the Russian food embargo. The main losses were incurred by the EU countries - they accounted for 76.7% of all losses from restrictions on trade with Russia. The German economy has suffered the most, losing over $832 million a month in absolute terms. Germany accounts for 27% of all losses from sanctions, France - 5.6%, Great Britain - 4.1%, USA - only 0.4%. (V. Ardaev, 2016)

Italy 2014-2015 lost 668 million euros and ranked second after Germany among those most affected by the sanctions. The rupture of economic ties with Russia dealt an additional blow, depriving the country of Russian orders in energy, engineering, and agriculture. The drop in Italian exports brought on by the Russian embargo resulted in losses to the Italian agriculture sector of 600 million euros in just two years. Energy has a serious impact on the position of Slovakia. The country is completely dependent on Russian gas. (D. Narkevsky, 2016)

After the sanctions against Russia were introduced in August 2014, the volume of deliveries of European goods to Russia decreased by an average of 12.9%, and Russian goods to the EU countries - by 24.9%. At the same time, the supply of goods subject to sanctions fell by about 90%. According to the Austrian Institute for Economic Research, the European Union lost 17.6 billion euros in 2015 due to the imposition of sanctions against Russia and due to counter-sanctions. In addition, the sanctions have led to the reduction of 400,000 jobs in EU countries. (Günther Oswald, 2017)

The direction of development of international commercial contacts is progressively altering as a result of the existing sanctions, and Russia's foreign trade structure is moving toward the Asia-Pacific area. While the share of EU nations in the structure of Russia's foreign trade turnover fell from 49.6% to 42.6% between 2013 and 2016, the share of APEC countries climbed from 24.8% to 29.8% during this time.

Russia has been increasing its domestic production of goods and services, particularly in the food and automotive sectors (Guriev & Tsyvinski, 2016). This has led to the growth of domestic industries and a reduction in Russia's reliance on imported goods (Guriev & Tsyvinski, 2016; Estrin, et al., 2018). However, import substitution also poses challenges for the Russian economy, such as a lack of technology and expertise to compete with imported goods, and a high cost of production, which can make domestic goods less competitive in the market (Larionova & Ledeneva, 2016). Additionally, it is argued that the sanctions have hurt the country's GDP and depreciation of the Ruble (Guriev & Tsyvinski, 2016).

Although, there are some positive effects to it. One of the positive effects of import substitution in Russia as a result of sanctions is the growth of the agricultural sector (Guriev & Tsyvinski, 2016). The sanctions have led to a ban on imports of certain food products from the European Union, the United States, and other countries. In response, Russia has been increasing its domestic production of food products, such as meat, dairy, and fruits and vegetables. As a result, Russia's agricultural sector has experienced significant growth (Guriev & Tsyvinski, 2016).

Furthermore, the sanctions have also led to an increase in the promotion of Russian brands. The Russian government has been promoting the cultivation of Russian brands, both domestically and internationally, through initiatives such as the "Made in Russia" campaign (Estrin et al., 2018). This has helped to increase the visibility and recognition of domestic brands, which has had a positive impact on the domestic economy.

However, the effectiveness of the US and EU sanctions has been subject to debate. Some scholars have argued that the sanctions have argued that the effectiveness of the sanctions was limited. Russia was able to find alternative sources of financing and support, including from China, and was able to adapt its economy to the new circumstances. In addition, the sanctions may have strengthened support for the Russian government and its policies among the Russian population (Aslund, 2017).

Overall, the US sanctions against Russia in 2014 were a significant response to Russia's actions in Ukraine and had a clear impact on the Russian economy. However, their effectiveness in achieving their broader goals, such as changing Russian behavior or resolving the conflict in Ukraine, has been subject to debate.

Analysis of the Effectiveness of Sanctions on Russia

In reaction to Russia's annexation of Crimea and involvement in the conflict in eastern Ukraine, the United States, the European Union (EU), and some other nations placed economic and diplomatic sanctions on Russia in 2014. As a result, there was a substantial shift in Russia's ties with the West, and the efficacy of sanctions as an instrument for foreign policy came into question.

The effectiveness of economic sanctions has been a topic of debate in the literature. Some studies suggest that economic sanctions can be effective in achieving their objectives. For example, Drezner and Weeks (2010) found that targeted sanctions, which are directed at specific individuals or organizations, are more likely to be effective than broad-based sanctions. Hufbauer et al. (2007) also found that economic sanctions can be effective when used in conjunction with other forms of pressure, such as diplomatic efforts or military threats.

Other studies, however, suggest that economic sanctions are often ineffective or even counterproductive. For example, Haggard and Noland (2009) found that economic sanctions are rarely successful in achieving their objectives and can have negative consequences, such as harming the civilian population, strengthening authoritarian regimes, and damaging relations between states. Pape (1997) argued that economic sanctions are unlikely to be effective because they are often unable to create the necessary political pressure to change the behavior of the target state.

According to Burges and Haglund (2019), the sanctions have not succeeded in changing Russia's behavior or weakening its grip on power. Instead, they have led to a hardening of the Russian state and a strengthening of its sovereignty. Similarly, Karagiannis and Karyotis (2018) argue that the EU's sanctions have been ineffective in achieving their intended goals and have contributed to a deterioration of the EU-Russia relationship.

Despite these critiques, the sanctions have had a significant impact on the Russian economy. Harmer (2020) notes that the sanctions have contributed to a decline in GDP and a depreciation of the ruble, and rising unemployment. The study finds that sanctions have harmed Russia's economic growth. According to a report by the World Bank (2016), the sanctions in 2014 caused a decline in Russian GDP by 1.2% in 2014, 2.8% in 2015, and 0.6% in 2016. The report also notes that the sanctions have led to a reduction in investment and capital inflows, which has further impacted GDP growth. The authors argue that sanctions have also hurt the global economy, particularly in the

European Union. (Kirton and Kokotsis (2018)) Similarly, Kuzyk (2019) argues that the sanctions have had a significant impact on the Russian economy, but their effectiveness has been limited by the government's ability to mobilize support and adapt to changing circumstances.

A study by Hirsch et al. (2017) found that the sanctions led to a decline in Russian exports of around 5.6% in 2014 and 11.2% in 2015. The study also notes that the sanctions have led to a shift in Russian trade patterns, with Russia increasing its trade with countries such as China and India, and decreasing its trade with the European Union.

Dabrowski (2019) suggests the impact of sanctions on the Russian financial system. The study finds that sanctions have led to a decline in foreign investment in Russia, as well as increased capital flight and reduced access to international financial markets. The author argues that these effects have contributed to a decline in the stability and resilience of the Russian financial system. According to a report by the United Nations Conference on Trade and Development (UNCTAD) (2018), foreign direct investment (FDI) inflows to Russia declined by 27% in 2014 and by a further 9% in 2015. The report notes that the decline in FDI is due in part to the impact of the sanctions on investor sentiment, as well as the economic and political uncertainty caused by the sanctions.

R. M. Nuriev & P. K. Petrakov (2016) suggest that in response to a sharp spike in the price of loans, the Central Bank raised the key supply three times in the fourth quarter of 2014 to reduce volatility. The biggest shock to the banking system came from the key rate's increase from 10.5% to 17% on December 16, 2014. As a result, the key rate rose from 5.5% to 17% in 2014. This raised borrowing rates, which caused the GDP to decline. At least three factors contributed to the increase in loan costs for consumers:

- Business bankruptcies and increasing credit burden contributed to an increase in unemployment;
- Costs for consumer and mortgage loans, vehicle loans, etc. increased.
- The price of the ruble sharply increased due to its depreciation, which also had an impact on the cost of imported items.

After the 2008–2009 financial crisis, the situation drastically changed as a result of economic sanctions and dropping oil prices, as arrears expanded rather slowly.

The mixed results of the sanctions have led to ongoing debate over their effectiveness. Menkiszak (2019) argues that the sanctions have had a significant effect on the Russian economy, but their effectiveness has been limited by Russia's ability to adapt to changing circumstances and find new sources of support. Meanwhile, Trenin (2018) suggests that the sanctions have led to a widening rift between the US and Europe and have raised questions about the future of transatlantic cooperation on issues related to Russia.

In a more recent study, Grigoryev and Voeten (2021) examined the impact of the US and EU sanctions on the Russian political system. The study found that the sanctions had led to increased political polarization in Russia and had strengthened the position of hardliners within the Russian government. The authors argue that the sanctions have made it more difficult to achieve a peaceful resolution to the conflict in Ukraine. According to a report by the International Crisis Group (2019), the sanctions have led to a hardening of Russia's position on a range of foreign policy issues, including Ukraine, Syria, and arms control. The report notes that the sanctions have contributed to a sense of mistrust and hostility between Russia and the West, making it more difficult to resolve conflicts and cooperate on issues of mutual concern.

Economic sanctions imposed by the United States and the European Union have led to a renewed focus on import substitution in Russia. The country has sought to reduce its dependence on imported goods, particularly in strategic sectors, and to increase domestic production and self-sufficiency (Cramer, 2019). According to a report by the Atlantic Council (2018), the Russian government has used the sanctions as a way to rally domestic support and to deflect attention away from economic and political problems at home. The government has also used the sanctions as a way to justify its policies, portraying itself as a defender of Russian sovereignty against foreign aggression.

One of the key sectors targeted for import substitution has been the agricultural sector. The sanctions have led to a ban on imports of certain agricultural products from the European Union and the United States, and Russia has responded by increasing its domestic production. As a result, Russia has become more self-sufficient in terms of food production and has reduced its dependence on imports (Baranovskaya & Golubtsov, 2020). However, this has led to higher prices for consumers and has also resulted in a decrease in the quality of food products available in the country.

In addition to the agricultural sector, the sanctions have also led to a focus on import substitution in other strategic sectors, such as the defense industry, the energy sector, and the pharmaceutical industry. The Russian government has implemented a range of measures to support domestic production in these sectors, including tax breaks, subsidies, and the establishment of special economic zones (Cramer, 2019).

The focus on import substitution has had mixed results. While some sectors, such as agriculture, have seen increased domestic production and self-sufficiency, other sectors have struggled to achieve the same level of success. For example, the Russian automotive industry has faced challenges in achieving competitive levels of production and quality and has continued to rely on imported components and technology (Lavrovsky et al., 2018).

Russian President Vladimir Putin, speaking at the "Delovaya Rossiya" forum, advised representatives of the Russian business community to take advantage of Western sanctions and the depreciation of the ruble. According to him, the current conjuncture of the foreign exchange market "increases the price competitiveness of domestic production, opens a window of opportunity to take control of new niches both at the national and international levels."

Sanctions have had a significant impact on social welfare in Russia. According to a report by the World Bank (2017), the sanctions have contributed to a decline in real household incomes, with the poorest segments of society being the most affected. The report notes that the sanctions have also led to a reduction in the availability of goods and services, as well as a rise in prices for necessities such as food and housing. In addition, the sanctions have limited access to foreign investment and financial markets, leading to a slowdown in economic growth and exacerbating the social welfare situation.

According to a report by the Russian Cultural Foundation (2019), the sanctions have led to a reduction in cultural exchange programs, including exhibitions, concerts, and performances. The report notes that the sanctions have also limited access to Western cultural products, including books, films, and music. This has led to a growing interest in domestic cultural products, as well as a sense of cultural isolation from the West.

The amount of trade between Russia and the majority of the nations who backed the anti-Russian sanctions considerably reduced by the end of 2014. For instance, commercial turnover in Portugal decreased by 41.2%, with Greece by 39.2%, Hungary by 27.5%, the United Kingdom by 21.3%, and Lithuania by 20.5%, according to the Federal Customs Service (FCS). Trade with other EU nations shrank more gradually. For instance, commerce with Poland declined by 17.6%, that with France by 17.5%, that with Finland by 14.7%, that with Italy by 10%, and that with Germany by 6.5%. Trade between Russia and other nations that have declared sanctions against it has also reduced, though not as significantly. Trade volumes, for instance, fell by 3% with Canada and by 4% with Japan. One of the few countries whose trade with Russia has only increased against the backdrop of sanctions is the United States. At the end of 2014, the volume of Russian-American trade increased, according to the Federal Customs Service, by 5.6% and amounted to about $29.2 billion. At the same time, the volume of imports of American goods to Russia immediately increased by 12.1%, to $18.5 billion. The US share in Russia's foreign trade turnover increased in 2014 from 3.3% to 3.7%. The Russian Federation's top trading partner in 2014 was once again China, whose trade volume declined by 0.8% to 88.4 billion dollars, or roughly 11.3% of Russia's total foreign trade volume. Results for the first two months of 2015 show that China's share of Russia's exports climbed to 11.8%.

Restricting the import of foreign products and supporting domestic producers is the task of the Russian state. Import substitution of goods has undeniable advantages. Despite the apparent advantages, import substitution has negative consequences if control measures are not introduced.

TABLE 2 Advantages vs disadvantages of import substitution

Advantages	Disadvantages
technology is evolving	the development of new industries requires large financial investments

new jobs appear	government influences business
in the future, exports begin to dominate imports	fewer competitors in the market
dependence on foreign supplies is reduced	the risk of receiving poor-quality products
new manufacturers enter the market	commodity prices are rising

Overall, the literature on sanctions suggests that economic sanctions can be effective in achieving their objectives when used in conjunction with other forms of pressure and when targeted at specific individuals or organizations. However, economic sanctions are not always effective and can have negative consequences.

In conclusion, the sanctions against Russia in 2014 have had a significant impact on the Russian economy, but their effectiveness in changing Russia's behavior or ending the conflict in Ukraine has been limited. The ongoing debate over the effectiveness of the sanctions highlights the challenges and limitations of using economic measures as a tool of foreign policy, particularly when dealing with a powerful and resourceful state like Russia.

CHAPTER III

Methodology

At the end of February 2022, 2.4 thousand subsidiaries of 1.4 thousand enterprises from the European Union and the G7 were operating in Russia. According to the Center for Strategic Research (CSR), by November 2022, 34% of the largest foreign companies operating in Russia limited their activities in the country, and 15% decided to leave it through the transfer of a Russian division to a new owner, and only 8.5% of companies announced their complete withdrawal from the market without selling the business. These are 18% of the subsidiaries of corporations from the United States, 15% from Japan, 8.3% from the European Union, the remaining 19.5% are German companies, and 12.4% are American. Their losses amounted to $200-240 billion, with American and British companies suffering the most losses. The departure of foreign vendors from Russia has forced many Russian companies to urgently look for a replacement for their old products and systems, to resolve issues related to business security. The list of foreign companies that left Russia turned out to be long. The research design for this study is qualitative data collection and analysis. It is a **secondary data analysis.**

According to Creswell (2014), qualitative research is a method of inquiry that seeks to understand the meaning and experiences of individuals, groups, and communities through the collection and analysis of non-numerical data such as texts, images, and audio recordings. Methodology as secondary data analysis involves the use of existing data sources, such as published reports, academic studies, and government statistics, academic journals, articles to answer research questions related to a particular phenomenon or problem. In the context of studying import substitution in Russia, secondary data analysis was used to analyze existing data on trade patterns, economic indicators, and policy initiatives related to import substitution. This served as a foundation for comprehending how sanctions affected the Russian economy and for identifying research gaps. By locating patterns and themes within the data, content analysis is a technique for assessing qualitative data. These sources provided a wide range of perspectives on import substitution in Russia, including historical context, government policies, and economic analysis. This method was chosen because it allows for the identification of patterns and themes in the data, which was used to understand the experiences and perceptions of individuals, groups, and communities to import substitution.

This study investigated the possible effects of the import substitution policy on Russia due to sanctions. The study adopted measurable indicators of economic growth as suggested by the literature. The study conducted the statistical analysis using publicly available data sources, such as the World Bank and the International Monetary Fund, OECD, Trading Economics, European Commission, US Treasury, Bank of Russia, Federal State Statistics Service, etc. The analysis would focus on economic indicators, such as GDP, inflation, unemployment, foreign investment, and trade. The study used regression analysis to estimate the impact of sanctions on these economic indicators, controlling for other factors that may influence the Russian economy.

CHAPTER IV

Findings and Discussion

Consequences of Sanctions for Russia

From the very first days of the start of a special military operation in Ukraine, the Russian economy was cut off from the world economy by banning all systems of interconnections both in the sphere of exchange and supply, imposing an embargo on access to world markets for goods and services.

The West began to pursue an anti-Russian policy, accompanied by a surge of Russophobia and a manifestation of impatience for everything Russian, including the sphere of culture, sports, education, and other humanitarian ties.

Now, to Russia and Russians, the “culture of cancellation” is actively applied. Cancel Culture is a form of boycott in which a person is completely excluded from social society. Cancellation can also be applied to companies, brands, and social movements that lose the support of social and economic ties, contacts, and business partners. Now Russia, its citizens, and Russian speakers around the world have become the object of cancellation.

There are the following directions in the culture of cancellation:

- Political Cancelling is the expulsion of ambassadors and the declaration of more than 200 Russian diplomats as persona non-grants. Personal sanctions were imposed on Russian officials, including Vladimir Putin, members of the government, MPs, diplomats, bankers, media representatives, businessmen, and security officials.

- Economic cancellation is Russia's disconnection from SWIFT and termination of support for MasterCard and VISA.

- Cultural canceling is the cancellation of performances by Russian composers, and the removal of Russian music from the repertoires.

- Sports Cancelling is the removal of athletes from competitions and pressure on athletes.

According to the database of the Castellum website, Switzerland - 1,103, Great Britain - 1,098, the European Union - 940, France - 931, the USA - 838, Japan -620, Canada - 729, Australia - 642 imposed the most sanctions, this statistics can be seen in figure 1.

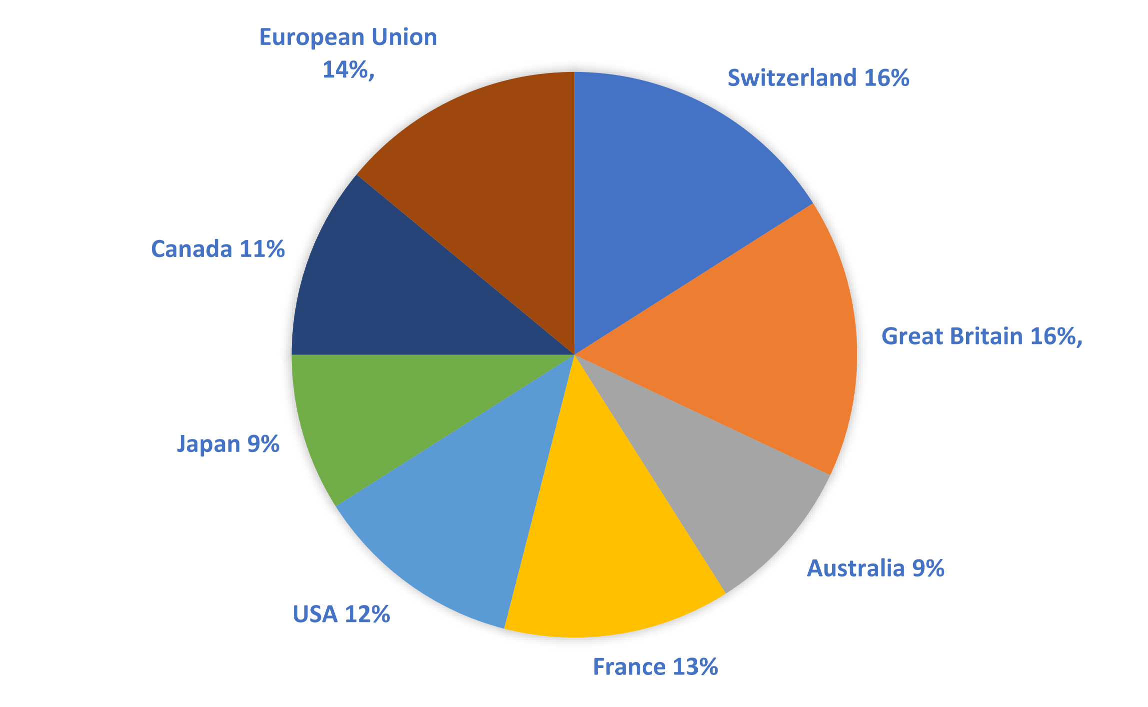

Figure 1 Structure of economic sanctions imposed against Russia by country

Source: Castellum. Al

One of the most significant and potentially highly risky for the Russian economy is the suspension of activities or the exit from the Russian market of a large number of companies. Foreign companies leaving the Russian market are naturally characterized by different geography or location of their divisions within the borders of the country, which means that the suspension of their activities or the withdrawal from the Russian market will affect the situation in the regions of the Russian Federation in different ways.

The departure of foreign companies from the Russian market means the technical isolation of the country. The introduced measures mean the degradation of the Russian economy. After all, no device now works without electronic components.

To date, many sanctions have been imposed on the Russian Federation: a complete blocking of Apple Pay in the Russian Federation, the supply of branded products called Apple has been stopped, Pepsi suspended the sale of drinks and advertising in the Russian Federation, the supply of Audi auto parts has stopped, a ban on the supply of microchips and AMD video cards, Retail Amazon was blocked, Adobe was blocked, the British withdrew 20% of its shares from Rosneft, the BBC withdrew its broadcasting license, BMW closed factories and stopped shipping cars. Chevrolet, Cadillac, and Bolt exited the Russian Federation market, Cannes Festival blocked delegations from the Russian Federation, Carlsberg restricted exports to Russia, Disney canceled all films and many unmentioned companies also imposed sanctions.

As a result of their leaving, the harm done to sectors like transportation and auto manufacturing where numerous foreign corporations played a significant role has gotten worse. Figures 2 and 3 show that foreign firms continue to hold a larger percentage of shares in industries like energy and materials than in IT services, real estate, and communications. European and North American businesses have been the most significant in temporarily or permanently ceasing operations, Only about 40 businesses have reduced or sold their stakes in Russia. The Russian government has made it more difficult for non-residents to leave the country and transfer money overseas, but they still manage to not intend to enable banks to sell their assets as long as Russian banks are subject to international sanctions.

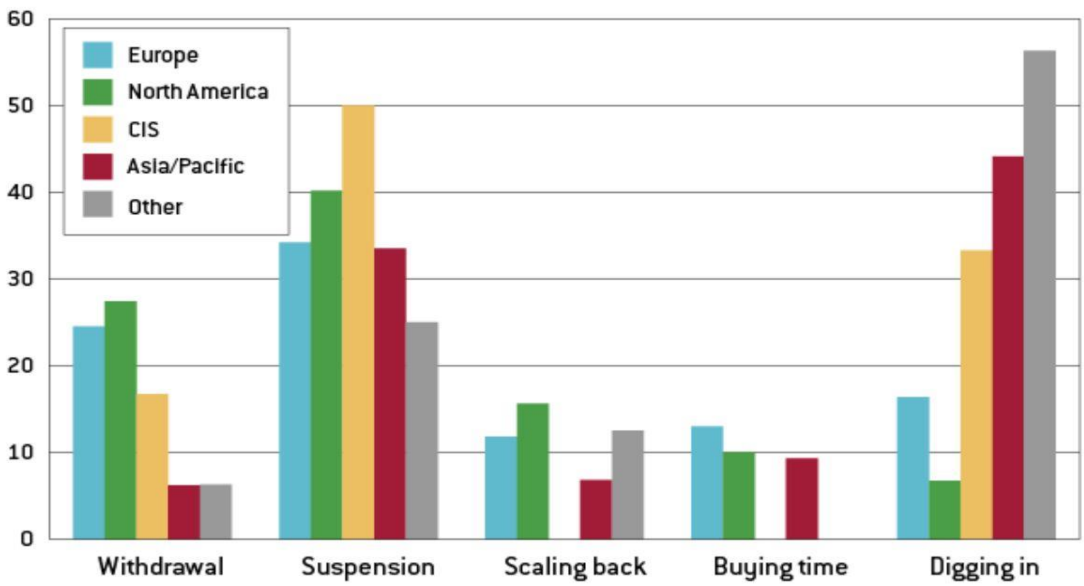

Figure 2 Rank of foreign businesses in Russia, by country of origin

Source: Bruegel based his work on Yale (2022). Note: withdrawal refers to terminating all relations with Russia or leaving Russia entirely; the suspension is the temporary reduction of almost all operations while preserving the right to resume; scaling back is the process of continuing some crucial company operations while stopping others; Digging in is carrying on with business as normal in Russia while postponing future planned investments, developments, or marketing.

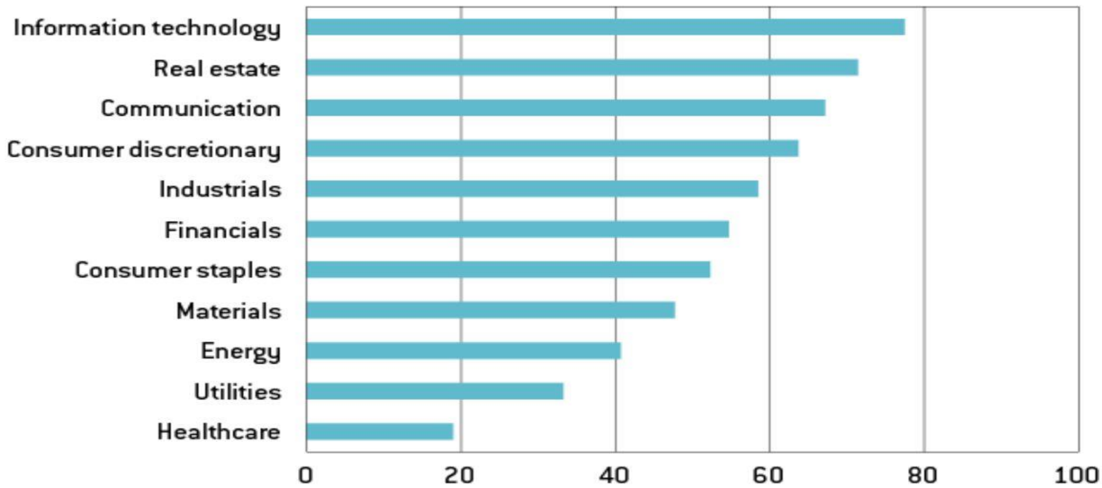

Figure 3 The degree to which foreign enterprises leave varies by industry

Source: Bruegel based on Yale (2022).

Russia was denied access to its gold and foreign exchange reserves located outside the country. This blocks the attraction of external financing for the implementation of investment projects. The only liquid asset of the Central Bank is gold. There is a lot of it - about $132 billion, but it is difficult to sell it because Western countries have banned their individuals and legal entities from any transactions with the Central Bank of the Russian Federation and the Ministry of Finance.

Despite expectations, sanctions against Russia's banking sector appear to have had the opposite effect. The financial sector has stabilized even though the majority of financial institutions are subject to sanctions, such as asset freezes, limitations on access to the US dollar and the euro, and disconnection from the SWIFT payment infrastructure. This is largely because of the Bank of Russia's efficient management. Sanctions on the assets of the Russian central bank were far harder than anticipated, which had a considerable effect. However, the Bank of Russia still keeps enormous sums of foreign currency in reserve for potential interventions.

The vast majority of significant institutions have cut ties with SWIFT, which was once considered a "nuclear option" (Figure 4). Structural liquidity conditions have, however, restored to their pre-sanction levels after a brief period of hardship in March 2022. (5 Figures). Additionally, there are still a few channels through which Russian banks can contact other countries. But there are significant issues with the financial system. The future elimination of Russian imports of gas and oil from Europe is possible as they continue to decline.

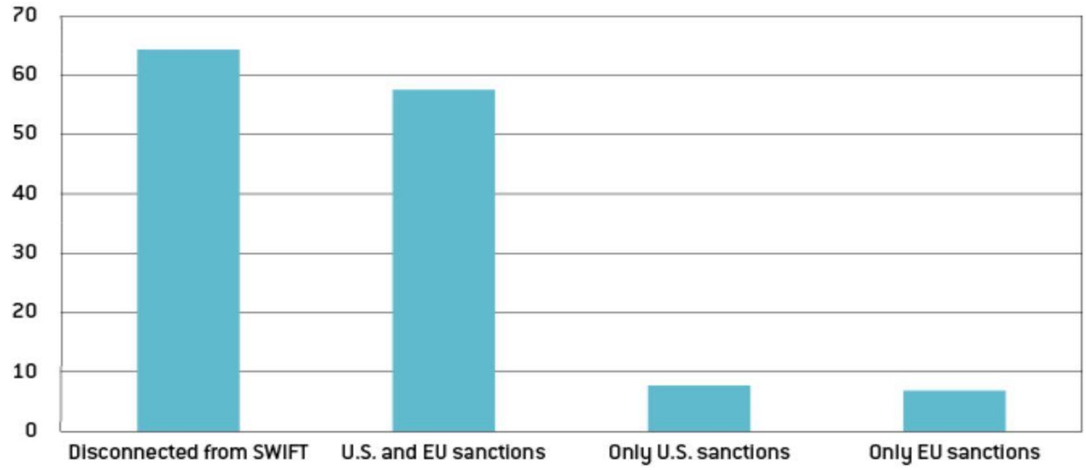

Figure 4 Sanctions-related portion of the Russian banking system

Source: European Commission, US Treasury, banki.ru.

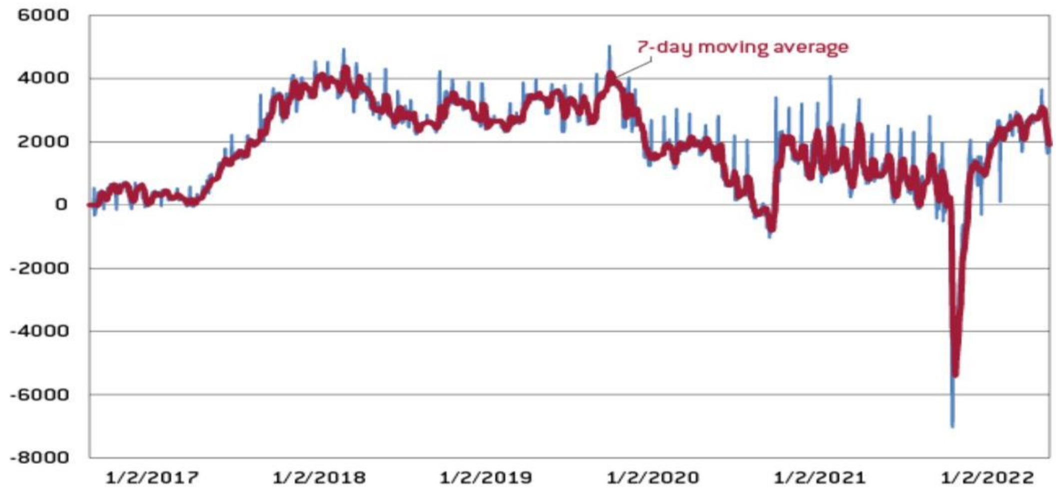

Figure 5 The structural liquidity surplus of the banking sector has reached pre-war levels

Source: Bank of Russia.

Immediately after the sanctions were imposed, the ruble fell from around 70-75 per dollar to almost 140 per dollar. This market response was relatively fleeting. The exchange rate had dropped to earlier levels by April 2022. At the moment, it is roughly 60 roubles to the dollar (Figure 5). Two variables are the key influences on this.

First, and most importantly, the volume of commerce in rubles decreased to around one-third of pre-war levels (Figure 6). Even though it might not have much of an impact on overall exchange rate dynamics, this poses a challenge for investors, particularly those who own OFZs—Russian government bonds—and foreign businesses that are leaving the country's market.

The Bank of Russia also instituted stringent capital controls that lasted for a long time, prohibiting banks from selling foreign currency to retail customers and putting a $10,000 cap on cash withdrawals from retail accounts denominated in foreign currencies. After the ban was partially lifted, Russian citizens are now allowed to send up to $1 million per month. Withdrawals can be slow, though, and there are still very few foreign currency supplies available. Additionally, even the simplest transactions run the risk of being held up in correspondent bank accounts for weeks or months due to the hesitation of foreign banks to execute transfers for Russian clients due to compliance worries.

Furthermore, current account dynamics are extremely favorable as a result of decreased imports and strong prices for the main export commodities. As a result, the value of the Russian economy's fundamentals is not represented by the current exchange rate. Instead, it is proof that the ruble is being isolated by global banking sanctions.

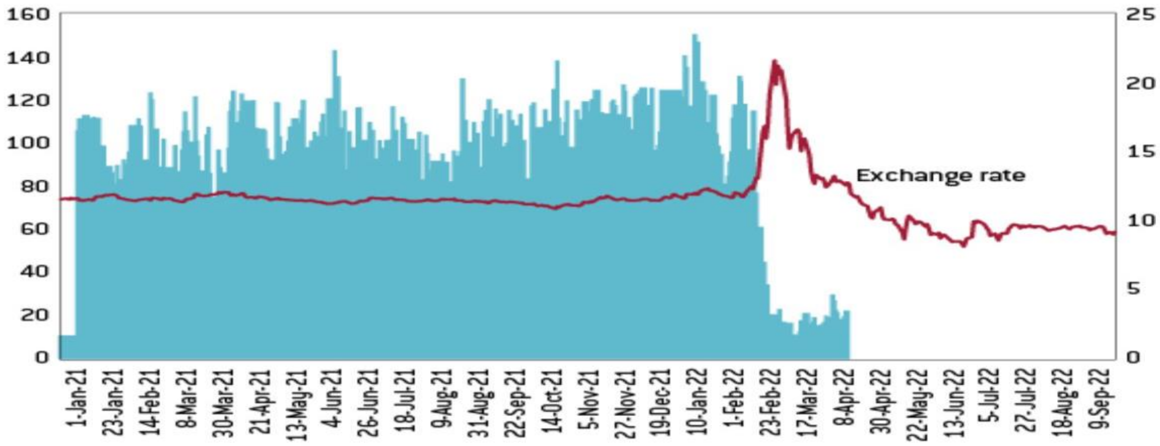

Figure 6 Following the imposition of sanctions, ruble trading volumes drastically decreased

Source: Bank of Russia, Bloomberg.

The inflation rate in Russia is expected to increase significantly to around 14% by the end of 2022. The forecasts for 2023 range from 5.0% (IMF) to 6.8% (OECD).

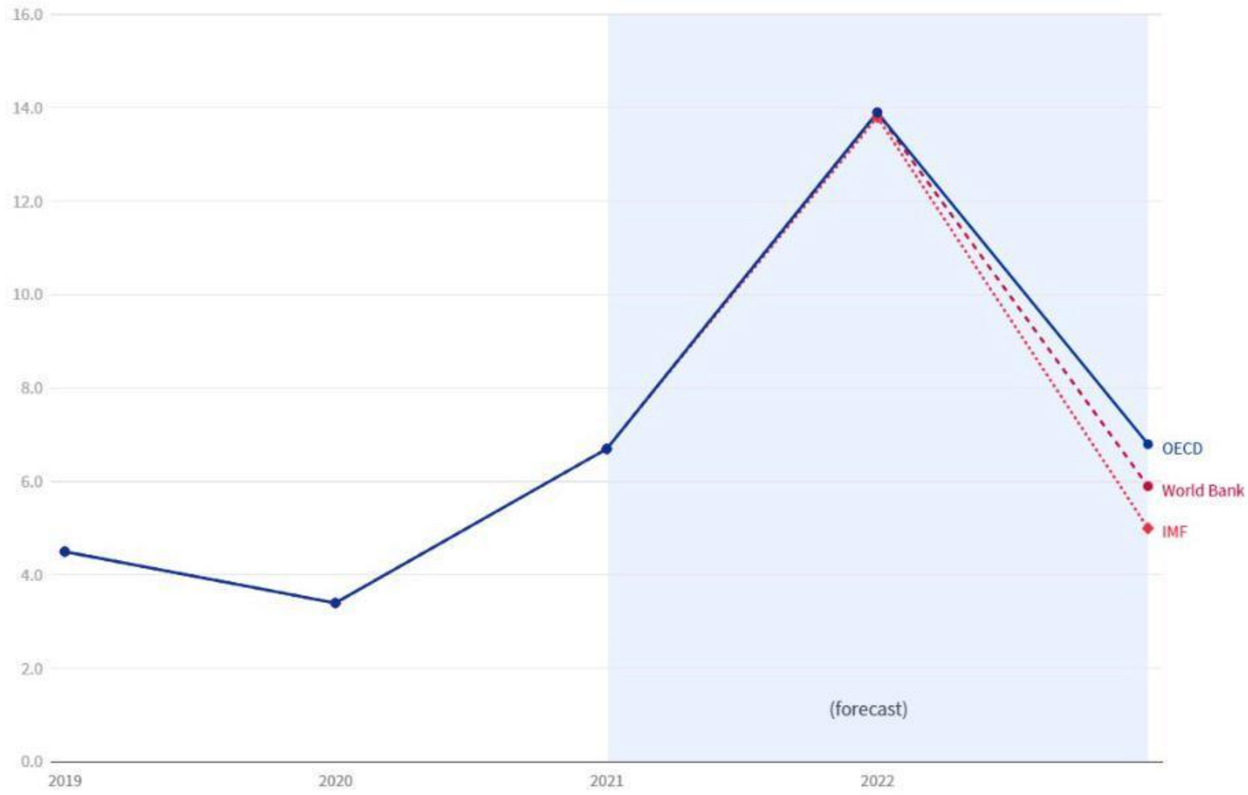

Figure 7 Russia's inflation developments from 2019 to 2023

Source: World Bank, IMF, OECD

Significant restrictions have affected the gas, oil, nuclear, and defense industries - those that are responsible for the competitiveness of the Russian Federation in the international economic arena. The EU countries established a ban on the import of Russian coal and stated their preparedness to refuse Russian oil, and the United States refused to purchase oil and gas from Russia. The authorities of Western countries are calling on private businesses to voluntarily refuse to work in Russia and cease cooperation with all Russian companies.

Russia is losing its main oil sales market and is reorienting itself to the east - to China and India. According to OPEC estimates, China and India will account for 30% of global oil demand by 2025 and may become profitable partners for Russia shortly. Taking into account the fact that prices for "black gold" are still growing, Russia can increase its income from its sale to 1.5 trillion rubles. Even although Asian countries buy oil at a big discount.

With equipment for the oil industry, the situation is different. With the fifth package of EU sanctions adopted in April 2022, a ban appeared on the import of oil refining equipment: atmospheric vacuum distillation of oil, alkylation, isomerization, delayed coking, hydrocracking reactors, sulfur, and aromatic hydrocarbon production machines, and so on. If necessary, Russia will not yet be able to independently either create equipment important for the oil refining industry or repair it.

According to BCS GM forecasts, in 2023 Russia may lose 30-50 billion dollars due to a ban on oil imports to the European Union. At the moment, deliveries to the EU have decreased from 50% to 20% (of the total volume of oil exported by Russia), and Eastern markets cannot compensate for this reduction in supply.

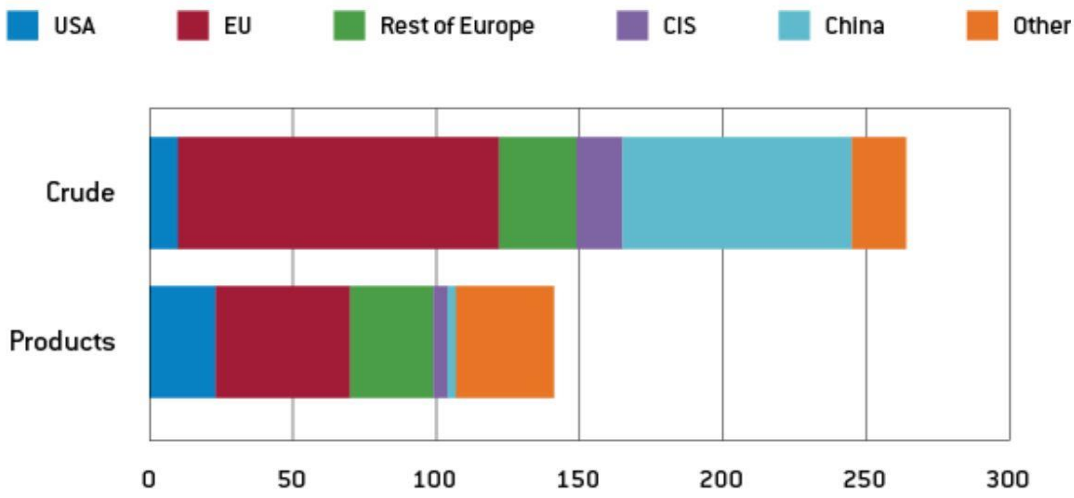

Figure 8 Exports of Russian crude oil and petroleum products in 2021, in million tones

Source: BP and Eurostat.

Naturally, natural gas accounts for the majority of this pricing effect (more than 40%), but coal, petroleum byproducts, and crude oil also play a substantial role (Figure 9). Commodity price futures predict that the price increase for the entire year of 2022 will be over $120 billion. These forecasts are likely overly optimistic because long-term contracts frequently include export restrictions, particularly on natural gas exports. They do, however, imply that higher commodity prices more than offset lower export volumes.

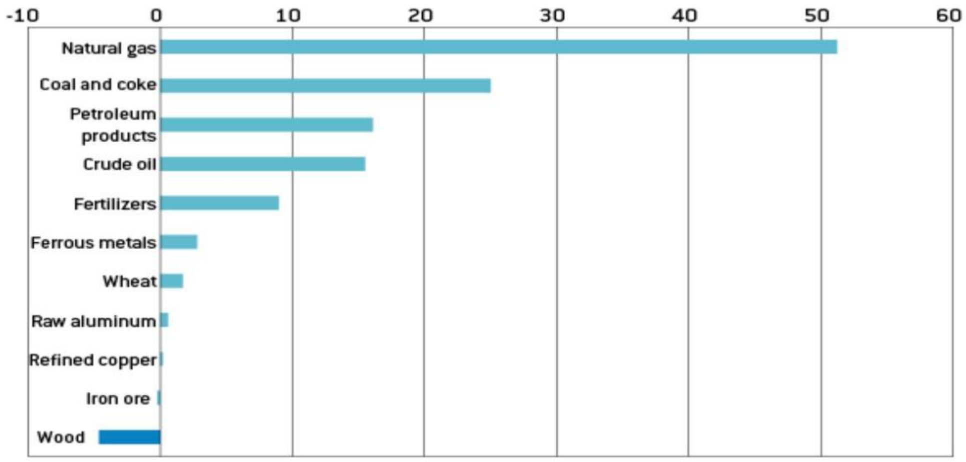

Figure 9 The value of Russian exports surged dramatically between January and September 2022 as a result of high energy costs

Source: Bank of Russia, Rosstat. Note: Price effect calculated by holding 2021 volumes constant and applying 2022 spot prices.

Now there is a reorientation to Asia, mainly India, which plans to double the import of Russian oil shortly. In 2022, Weatherford International, Halliburton, Schlumberger, and Baker Hughes, the world's largest oilfield services companies, announced that they would no longer invest in the Russian economy. About 50-80% of equipment in the oil industry fell under sanctions. As a result, oil companies are forced to look for solutions to replace foreign equipment with Russian counterparts. Russian oil will be sold soon at a large discount and in reduced volumes. For this reason, revenues from the oil sector to the budget will decrease.

That is, we can say that the sanctions are aimed at reducing exports from Russia and blocking significant imports. The consequences of the imposed sanctions were fully felt by society. As a result of the ban on exports and imports of products, prices for all categories of products and goods have risen, a ban on entry to many countries has appeared, many familiar goods have disappeared from store shelves, and familiar social networks have stopped working. A significant blow was dealt to investments, both domestic and imported. And, as a consequence of the above points, there is a sharp decline in GDP growth, and this indicator is one of the most important indicators of the country's economy.

The country's official trade statistics don't go past February 2022, but imports in the months that follow can be estimated using information from its top trading partners (Figure 10).

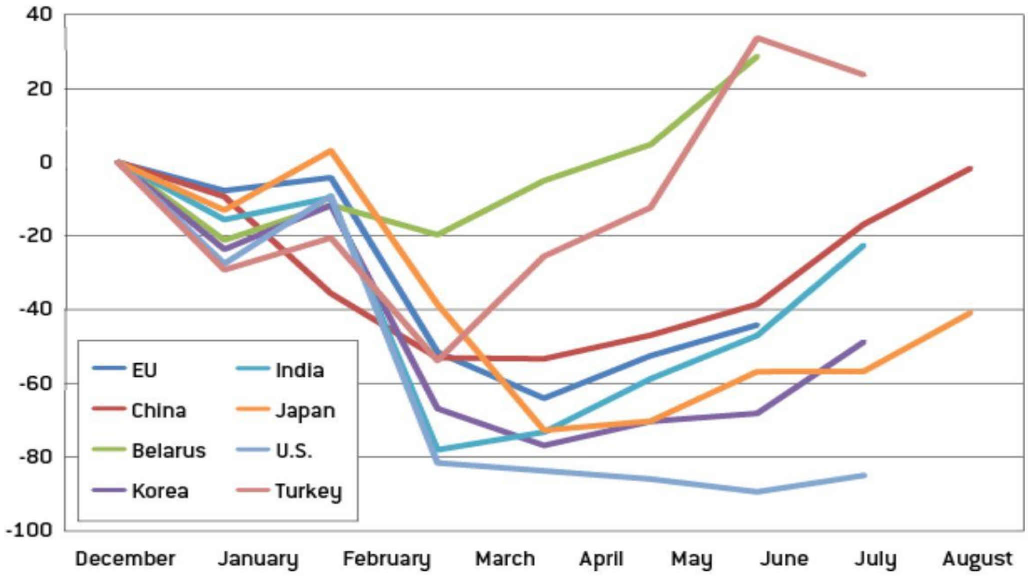

Figure 10 Russian imports 2022 by origin

Source: Bruegel based on national authorities.

The restrictive measures are concentrated on the import and export of particular goods. The items on the restricted list are chosen to have the most detrimental effects on the Russian economy and the least detrimental effects on enterprises and persons in the EU.

These rigorous limits are having an effect, according to statistics. In 2022, the World Bank and the IMF both forecast a significant decline in Russian trade in commodities and services. While imports are expected to rise over 2022 levels, 2023 exports are likely to remain in decline.

The IMF predicts a 19.2% decline in imports and a 15.98% decline in exports for Russia in 2022 compared to 2021. Imports will rise by 5.6% in 2023 (relative to 2022), while exports will decline by more than 3%.

The World Bank predicts that Russia's imports would decline by 20.8% in 2022 compared to 2021 and that its exports will decline by 12.3%. Imports will rise 3.3% in 2023 compared to 2022, while exports will fall 9.1%.

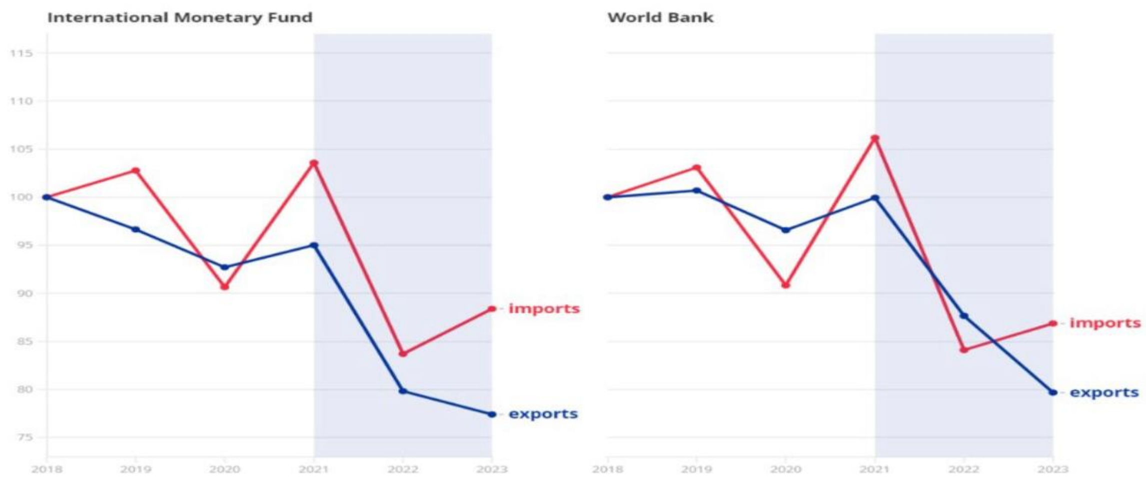

Figure 11 Russia’s imports and exports from 2018 to 2023

Source: IMF, World Bank

This statistic reveals that, in comparison to the previous month, Russia's imports decreased by almost $8.5 billion in March 2022, then increased from May through August (Figure 12). China's imports have reverted to their pre-war levels, but those from Turkey and Belarus have dramatically surged. The amount for the first half of 2022 will almost certainly be $8 to $9 billion less than the amount for the first half of 2021. (or a fall of 6% from the previous year). Russian imports are likely to increase over the coming months, especially as the nation seeks alternative suppliers for needs, although the total for 2022 maybe $20 billion lower than it was for 2021. The anticipated $140 billion shift in the trade balance in Russia's favor due to the drop in imports and the effect on export prices may be too great for sanctions on Russian exports to overcome.

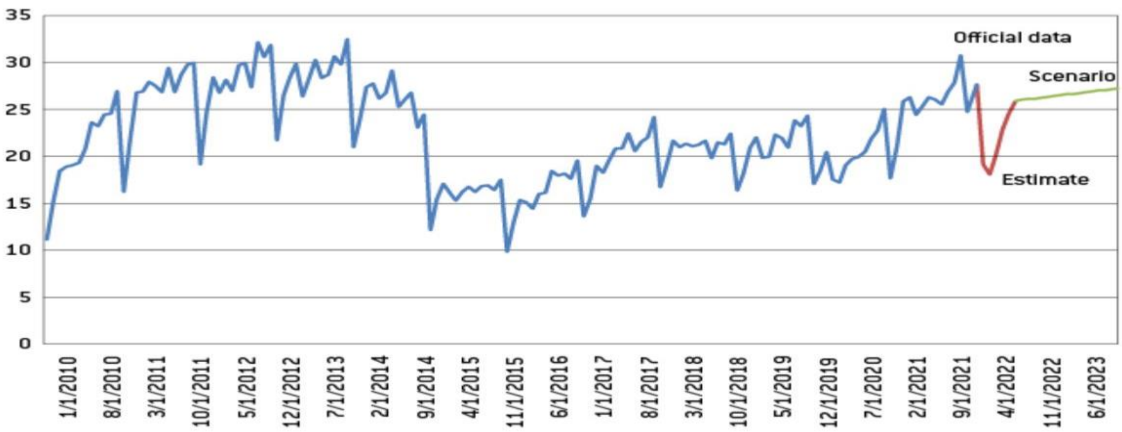

Figure 12 Recovery in Russian imports

Source: Bruegel based on national authorities.

According to Federal State Securities Services, In contrast to market predictions for a 2.7 percent decline, industrial production in Russia decreased by just 1.8 percent year over year in November 2022, slowing from the previous month's 2.6 percent decline. The industrial output fell for the eighth week in a row, highlighting the consequences of Western sanctions and labor shortages brought on by military mobilization, which led to a large-scale exodus of the labor force. Production decreased in manufacturing (-1.7 percent vs -2.4 percent), raw material extraction (-2.2 percent vs -2.7 percent in October), and water and sewage distribution (-10.7 percent vs -7.4 percent). In contrast, the prices of gas and electricity have increased by (1.5 versus -2.4%). Monthly, industrial production increased by 1.6 percent, decelerating from the previous month's increase of 5.3%.

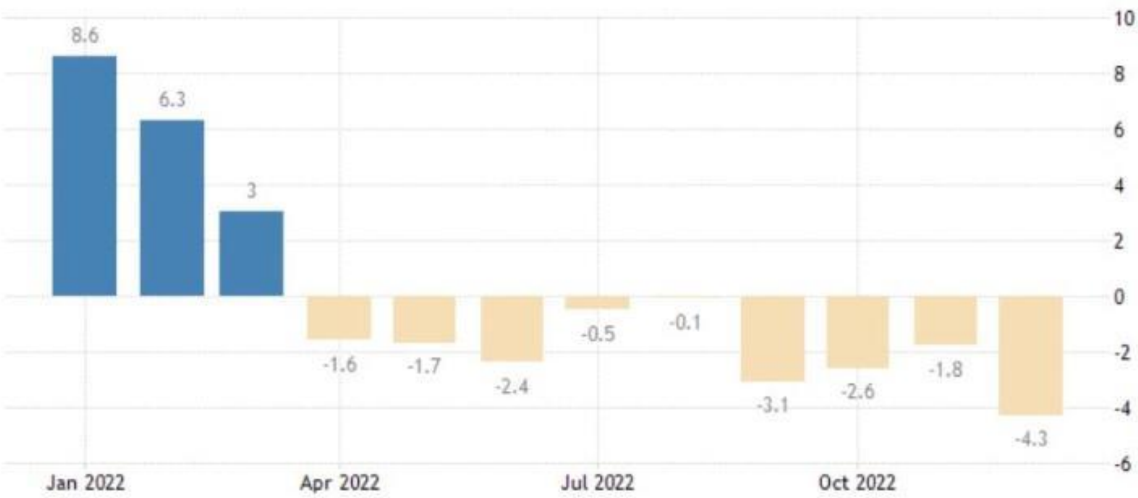

Figure 13 Fell of Industrial production

Source: Federal State Statistics Service

The lowest unemployment rate ever recorded in Russia was 3.7 percent in November 2022, down from the previous month's 3.9 percent and under the market consensus of 4 percent. The outcome was consistent with prior claims made by the Central Bank of Russia that the Russian military's deployment to Ukraine to combat increased labor shortages diminished the potential of the Russian economy. The number of unemployed persons fell by 152 thousand to 2.745 million.

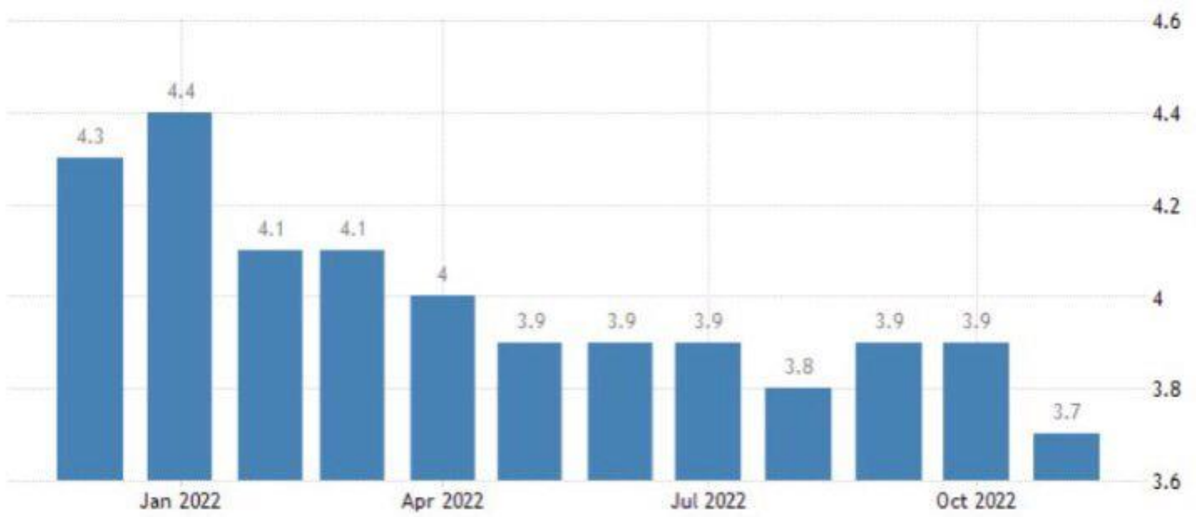

Figure 14 Unemployment Rate in Russia 2022

Source: Federal State Statistics Service

In 2023, the World Bank, the International Monetary Fund, and the Organization for Economic Cooperation and Development predict that Russia's GDP will contract by a maximum of 2.3% per year and a maximum of 5.6% annually.

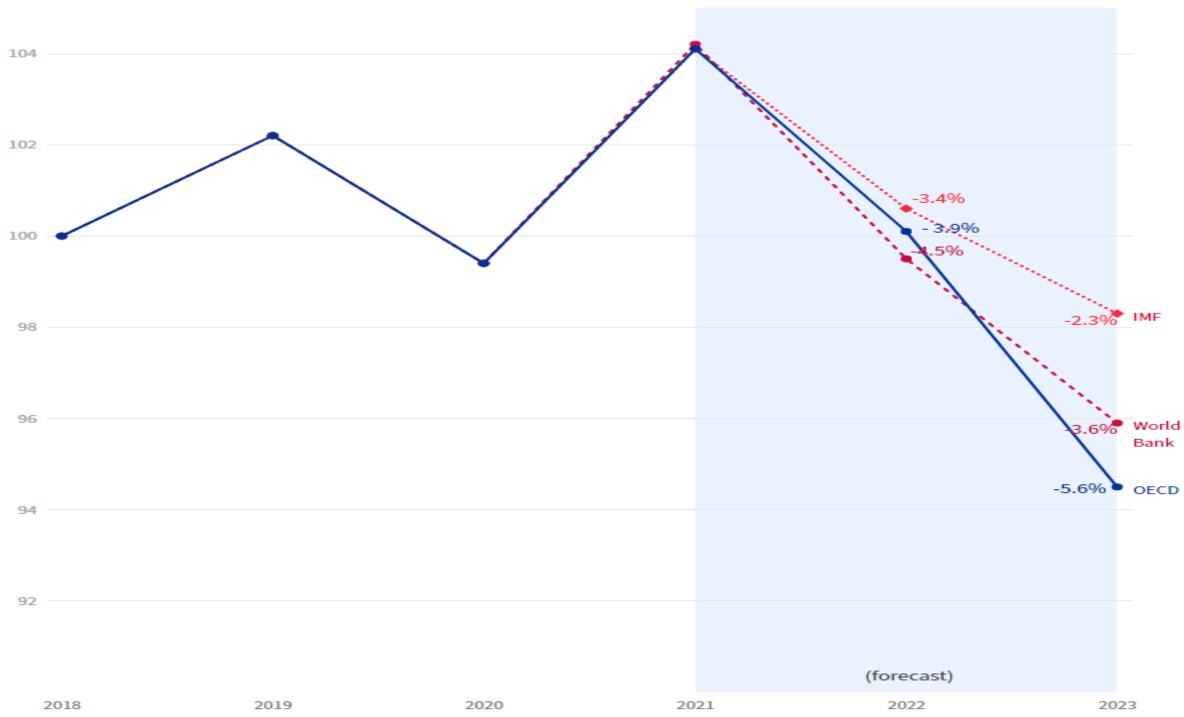

Figure 15 Russia's GDP from 2018-2023

Source: World Bank, IMF, OECD.

The introduction of restrictive measures affected not only Russia. Western countries have also felt the negative consequences of the sanctions. In Europe and America, against the backdrop of rising inflation and rising cents for gasoline, strikes of driver-carriers are taking place, and farmers and other citizens are expressing dissatisfaction, who cannot afford the required amount of necessary products due to high prices. Higher fuel prices have affected logistical supplies, which have led to a reduction in the range of products in most stores in the collective West.

Sanction restrictions could have a devastating effect on the world and provoke famine due to severe shortages in the supply of wheat since Ukraine and Russia together account for a third of world wheat and barley exports and more than 70% of sunflower oil exports.

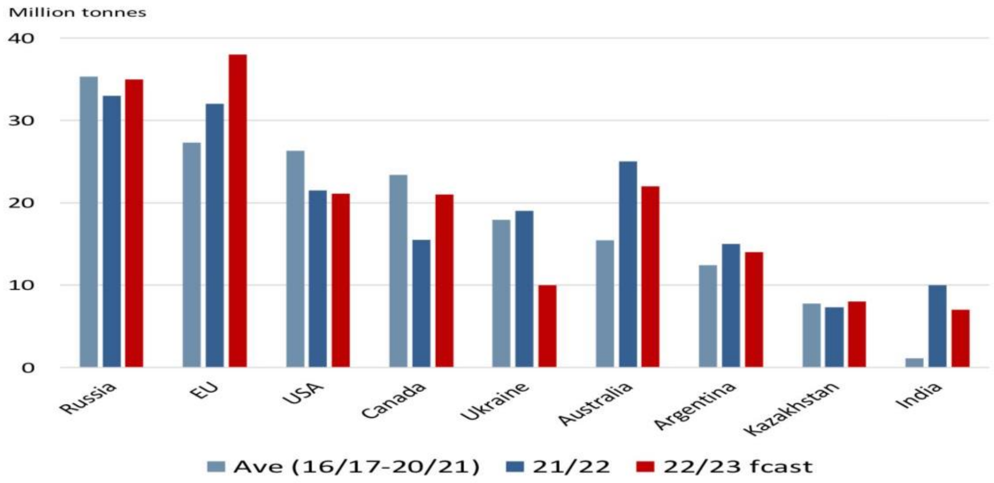

Figure 16 The world's largest wheat exporters

Source: Agricultural Market Information System (21st session of the AMIS Global Food Market Information Group)

The main problems faced by the agro-industrial sector this year are related to import substitution and disruption of logistics supplies. According to the Ministry of Agriculture, the spring sowing was successful, as agro-industrial enterprises were preparing for it in advance: the supply of seeds in Russia by April was 103%, and the readiness of agricultural machinery for the operation was 95%. At the same time, a significant share of seeds in domestic crop production still came from abroad, and at the moment it is necessary to develop the Russian production of seeds and plant protection products so that there is no sharp reduction in the volume of crops. In Russia, about 11 million tons of seeds are used per year, more than a third of which are imported.

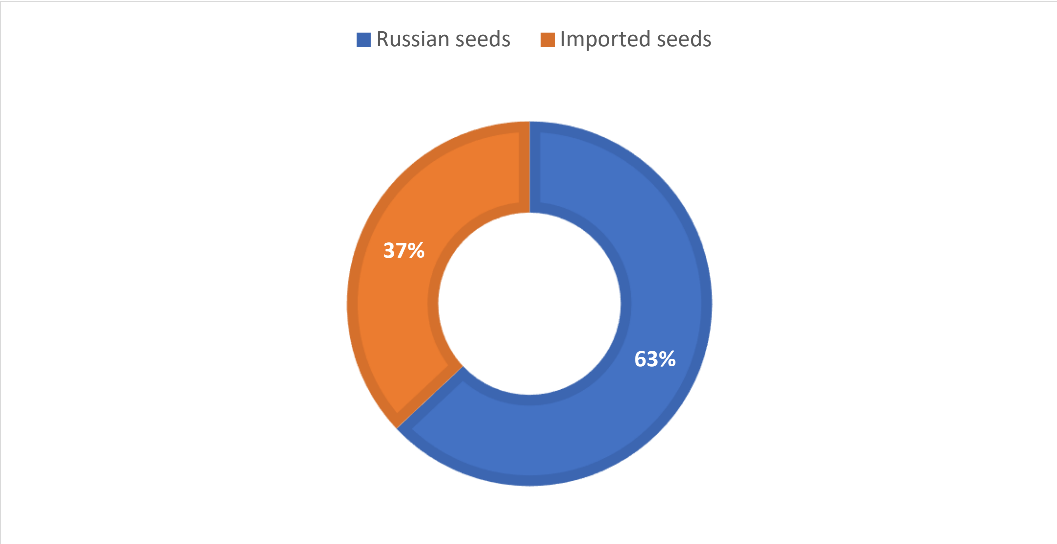

Figure 17 Share of domestic and foreign seeds, %

Source: Ministry of Agriculture of Russia

According to experts, in the Russian market, foreign corn seeds account for 48-53%, sunflower seeds - 75-77%, potatoes - 88%, and beets - almost 100%. The Ministry of Agriculture plans to increase the share of domestic seeds to 75%. It is believed that with corn and sunflower, it is possible to achieve this level by 2024. At the same time, Russian seeds are inferior in yield to foreign ones - on average, by 20-30%. Although local seeds have their advantage - they are most adapted to use in risky farming areas.

Speaking about the consequences of the sanctions for Russia and the world, there are also positive aspects here. States that support or take a neutral position speak out about unification. For example, Chinese Foreign Minister Wang Yi announced the need to expand the BRICS. According to him (the Chinese Foreign Minister), this will help demonstrate the openness and exclusivity of the BRICS, become a response to the expectations of developing countries, help increase the influence of the association, and also make a great contribution to maintaining peace and development around the world.

Russia's actions in response to imposed sanctions

The President of the Russian Federation met with representatives of Russian business to determine the most important areas for economic growth during the time of sanctions. The major tasks for the state were determined during the meeting to be enhancing import substitution, promoting business, and maintaining jobs. Russia has reacted to the sanctions in many different ways. Implementing counter-sanctions, which are directed toward the nations or people who imposed the original sanctions, has been a popular response. For instance, in 2014, Russia banned the import of food from nations that had sanctioned it as a result of its activities in Ukraine. To lessen its reliance on the nations that have imposed sanctions, another response has been to look for alternative economic partners, including China. As a way to counteract the effects of Western sanctions, Russia has increased trade with China recently and has also been working to deepen its ties with the other BRICS nations (Brazil, India, China, and South Africa). Import Substitution Exchange (etpgpb.ru) is a new service being introduced by the Russian Ministry of Industry and Trade to streamline communication between manufacturers and consumers of industrial goods. The specified service was created so that customers could place their requests there, and suppliers of offers. Its work will allow, under the conditions of sanctions, to accelerate the search for the necessary analog of an industrial product that is no longer supplied to the Russian Federation.

Additionally, Russia has also been working to develop its domestic industries and increase self-sufficiency to reduce its dependence on imported goods. This has included measures such as increasing state support for domestic producers and implementing import substitution policies. On a political level, Russia has also responded to sanctions by denying any wrongdoing and portraying itself as a victim of unjust and politically motivated actions by the West. It has also used the sanctions as a rallying point for domestic support, portraying them as an attack on the country and its sovereignty. Vladimir Putin, the president of Russia, issued an executive order imposing punishing economic sanctions on the United States and individuals linked with it in response to Western sanctions against Russia. The following is the latest Russian retaliatory measures: Russian exporters must sell 80% of foreign currency derived from foreign trade contracts and 80% of foreign currency credited as of January 1, 2022, starting on February 28, 2022. Foreign exchange loans to foreigners are prohibited for Russian citizens. Residents of Russia will not be permitted to create accounts in foreign currencies or deposit money in foreign institutions. Furthermore, until December 31, 2022, public companies may purchase back their outstanding shares if the acquired shares are allowed to organize trading. The weighted average price of the purchased shares for any three months commencing February 1, 2022, fell by 20% or more from the weighted average price of such shares for any three months beginning January 1, 2021. The value of the major stock market index calculated by the stock market maker for any three months beginning February 1, 2022, fell by 20% or more compared to the value of such index determined by the stock market maker for three months beginning January 1, 2021. Applications addressed to an infinite number of bidders will be used to purchase shares through organized trading. The broker purchases shares on the instructions of a publicly traded firm. A public company's Board of Directors has decided to acquire the shares following the decree's conditions.

President Vladimir Putin announced that payment for Russian gas supplies for export to "unfriendly" countries is being transferred from dollars and euros to Russian rubles. European countries at the beginning categorically refused to pay for gas in Russian rubles, referring to the violation of the sanctions they had imposed. As a result, due to the hopeless situation associated with the impossibility of replacing Russian gas with another, European countries are forced to pay in rubles. In the future, Russia will transfer sales to rubles and other goods, including oil and grain. This transition to rubles in the future can lead to global economic consequences since many countries are interested in switching to national currencies when paying for their goods, which ultimately can hit the dollar as the main world currency and force it out of its position.

Problems of import substitution

The sanctions measures of Western countries, of course, caused enormous harm to the Russian economy, but at the same time contributed to favorable changes in the development of some industries. It is the new reality that is the “window of new opportunities” against the backdrop of the slammed “window to Europe”. This allows you to use new reserves and provides chances for the development of not only the country's economy but society as a whole. Sanctions helped the country acquire new competencies in many areas in a relatively short time.

Based on the current situation, the issue of import substitution was raised. Creating a favorable environment for the existence and development of the national industry, and reducing the technological industry is the main goal of the import substitution policy.

This is the opening of new horizons for Russian business in connection with the departure of foreign companies. It was very difficult to compete with such corporations.

With the departure of foreign companies, some problems arise:

1. Many businesses that have abandoned the Russian market were either supplier of the necessary equipment or consumers of products manufactured by Russian enterprises. The production chains established over the years have disintegrated, and it will take time to fully replace them. This means that many Russian enterprises will lose some of their suppliers and consumers. They will have to stop production or restructure their work, which is not easy and costly in the new conditions.

2. Trading companies one after another began to announce their withdrawal from the Russian market. The Swedish clothing company H&M was one of the first to leave, since March 2, the corporation has closed more than 150 stores across the country, which led to the dismissal of 3,500 employees. IKEA also left the market, although 14 Mega shopping centers continue to operate in the country. However, Inter IKEA announced that it was stopping work in Belarus and Russia, thereby leaving 15,000 people unemployed. For many, the exit of McDonald's was a disappointment. So, in Russia, 847 restaurants were closed, which led to an increase in the number of unemployed by 62 thousand people. Moreover, this fast-food chain had about 160 suppliers, which together gave more than 100 thousand jobs. Against the background of the start of the military operation in Ukraine, 50 to 70 thousand IT specialists left Russia. The outflow of IT specialists will exacerbate the personnel crisis in the industry, where the shortage of personnel ranges from 500 thousand to 1 million people, and by 2027 it may increase to 2 million specialists. The overwhelming number of employees of foreign companies is concentrated in the largest cities of Russia. In Moscow, 12.1% of all employees of the city are employed in organizations of foreign and joint ownership, among them about a third are in trade, and another 13.6% are in the commercial banking sector. This could provoke job cuts in the high-tech sector and cause an exodus of specialists from Russia, exacerbating the personnel crisis in certain industries.

3. Closing itself inside its market, Russia will lose the possibility of a real assessment of its competitiveness. Domestic producers increased production and sales volumes, but the quality was often at a rather low level. In conditions of limited competition and high demand, some companies cannot, and some do not seek to improve the quality of goods and services, and the prices of goods have risen anyway. Thus, one of the key problems associated with the import substitution policy is the inability of many domestic analogs of imported goods to compete with them both in terms of price and quality. Therefore, at the moment, the production of competitive products that can replace imports is the main task for the successful development of the Russian economy.

4. It is obvious that to achieve a higher quality of manufactured products at adequate costs, it is necessary to use modern equipment and technologies, while it is obvious that imported equipment used in many industries is better than domestic: more economical and efficient. But foreign companies did not just leave, they took with them technologies and competencies that cannot be created or cannot be created in a short time. Neither money nor enthusiasm will help here. We are talking about electronics, computers, avionics, components for the aerospace industry, and other technology related to the IT industry.

That is, the creation of domestic equipment of a similar level of comparable quality requires at least time, while Russia will constantly be “catching up”. Eliminating the technological gap through the development of our technologies is one of the priorities of the import substitution policy in Russia, but such opportunities are limited in almost any country. Conducting your scientific research requires significant costs, both financial and time, while it does not give a guaranteed result. At the same time, financial resources in Russia are limited, and the economy has been in crisis for a long time. In addition to financial resources, significant human capital is needed to develop and implement proprietary technologies. Unfortunately, for many years there has been an outflow of human capital abroad. Under such conditions, it is not an easy task to overcome technological stagnation and enter the world market with competitive products, since new technologies are primarily people, carriers of knowledge, skills, and experience.

Experts in the field of economics note that Russia has managed to successfully establish the production of foodstuffs and thereby ensure the country's food security. According to Rosstat, the consumption of products such as grain, meat, meat products, fish, and potatoes is provided by more than 100 percent of domestic production in 2021. Milk, dairy products, and vegetables have lower rates. And the lowest is fruits. Also, the share of imports in consumption decreased due to the establishment of domestic production in the chemical, woodworking, and pulp and paper industries, in metallurgy and pharmaceuticals. Ferrous metallurgy, food, light industry, aircraft construction, as well as the field of electrical engineering, deserve special attention.

Given the statistics of import substitution in Russia, according to experts, one of the most demanded industries for establishing import substitution is:

- machine tool industry,
- heavy engineering,
- textile production,
- electronic industry,
- medical and pharmaceutical production.

Ways to solve these problems

The solution to these problems is the personal interest of the "elite" of the country in change. Previously, government officials, politicians, and oligarchs were not interested in funding science, creating production, and the risk of introducing new developments, since everything you need could be bought abroad. But in the current situation, it will no longer be possible to buy! Therefore, it is worth investing in the production of your product. We need new technologies, we need investments. It is necessary to invest in the development of human capital.

The lack of breakthrough technologies is primarily due to the low level of scientific research. It is necessary to create a favorable environment for scientific activity. To keep up with the future, we must invest in science, as all highly developed countries do. For example, spending on science (in % of GDP) is 2.2% in the European Union, up to 2.5% in China, and 3.0% in the USA. Russia, with an indicator of 1.03% of GDP, occupies 34 ... 36th place and lags significantly behind not only the leading countries of the world but also the average indicators (in the USSR, spending on science reached 5.0% of GDP). The United States spends $600 billion a year on science, China $400 billion, and the European Union €300 billion. Expenditures on science in Russia in absolute terms amount to 16 billion dollars. On a per-researcher basis, spending on science in Russia is about $93,000, which is half the amount in the UK and 3.7 times less than in Germany. According to this indicator, Russia ranks 47th in the world. A few words about the state of affairs in academic science. The salary of a junior researcher is 15,628 rubles per month, a researcher is 17,935 rubles, and a senior researcher is 23,867 rubles. The salary of the chief researcher - the highest position in the scientific world (this is a doctor of science, professor) - is 34,810 rubles. What kind of competitive scientific products can be expected at such a low level of salary? What level of specialists can be attracted with such money? The answer is obvious. Young people do not go into science - hence the poor demographics of scientific organizations (aging of scientific personnel, the process of natural death of the organization) and the desire to go abroad. And the most talented, motivated, and hardworking people are leaving - aged 21 to 39.

It is necessary to solve problems in the field of heavy engineering. Many components were previously supplied from other countries. The electronics industry needs stable software and computer parts. The manufacturing of machine tools, aircraft, textiles, and medical equipment requires attention. Unfortunately, the listed areas relied on imports for 60-90%. At the moment, the government and the manufacturing sector are solving the problems of finding suppliers and establishing the manufacture of analogs. It is quite difficult to do this in a short time, but everything possible is being done to carry out import substitution.

Some industries, such as aircraft manufacturing, require mobilization activation of R&D, and the development of their technologies. The bioindustry and medical technology need reintegration into global chains on more favorable terms. In light industry, imported technologies should be adapted and localized. In pharmaceuticals and certain IT segments, a generic model should be applied. In electronics, relocation to the supply chains and added value of friendly countries is required, and in some industries, primarily in the automotive industry, it is advisable to switch to the production of products of previous generations while simplifying technical regulations to maintain production. Government should pay attention to the digital transformation of industries, which will allow the country to deploy new production through the integration of components.

Therefore, an important decision in import substitution will be the investment of finances in the development of human capital, which will work and create for the benefit of the development of the country's economy.

Cultivation of Russian brands

The Russian government has been promoting the cultivation of Russian brands as a way to increase the visibility and recognition of domestic brands both domestically and internationally. This policy is aimed at reducing the country's reliance on imported goods and promoting the growth of domestic industries.

One way the government has been promoting the cultivation of Russian brands is through the "Made in Russia" campaign. This campaign, which was launched in 2014, aims to promote Russian products and services and to increase their competitiveness in the global market. The campaign includes a variety of initiatives, such as advertising and marketing efforts, as well as efforts to improve the quality and design of Russian products.

Another way the government has been promoting the cultivation of Russian brands is through the creation of special economic zones. These zones, which have been established in various regions of Russia, provide tax and other incentives to companies that produce goods and services in Russia. The goal of these zones is to attract investment and promote the development of domestic industries, including the cultivation of Russian brands. The government has also been providing financial and other support to domestic brands through state-owned development institutions, such as Vnesheconombank and the Russian Direct Investment Fund. These institutions provide funding and other resources to domestic companies to help them improve their competitiveness and to expand their operations both domestically and internationally.

In addition, the government has implemented trade barriers, such as tariffs and quotas, to protect domestic industries and to encourage the growth of domestic brands. This has been done in sectors such as agriculture, textiles, and automotive to protect domestic production and promote the cultivation of Russian brands.

Overall, the Russian government has been taking some initiatives to promote the cultivation of Russian brands, including implementing an import substitution policy, creating special economic zones, providing financial and other support to domestic companies, and implementing trade barriers. While these efforts have led to some success in promoting the growth of domestic industries and reducing the country's reliance on imported goods, the overall success is still being debated as it also poses a challenge such as a lack of technology and expertise to compete with imported goods, and high cost of production, which can make domestic goods less competitive in the market.

Russia's relations with other countries

South Korea

South Korea is among the countries that are insufficiently provided with their energy resources. Almost the entire volume of raw materials consumed comes to the country from abroad. Because of this, the fuel and energy complex of the Republic of Korea is vulnerable to crises that can harm the volume and stability of foreign supplies. According to Alexander Firanchuk, Senior Researcher at the Center for International Trade Research at the RANEPA, Russia exports $16.9 billion worth of goods to South Korea, which is 3.4% of total exports. Russian oil, gas, coal, metals, as well as seafood, corn, flour, meat by-products, timber, and wood pulp, enter the Republic of Korea. South Korea is a major manufacturer of ships, electronics, and vehicles. The country exports to Russia in large quantities cruise liners, bulldozers, bodies, cabins, machinery, lighting, and signaling equipment. Russia also buys industrial or laboratory machines, engines, tires, and tires from the Koreans. A separate niche is occupied by Korean cosmetics. In 2021, Russia imported products worth $12.99 billion from South Korea, of which the republic receives most of the revenue from ships and vehicle components.

China

In the conditions of the current crisis in Russia, there are high hopes for a partnership with China. Due to sanctions and a transport blockade, imports from the EU to Russia have “collapsed”, gas problems begin, and an oil embargo will come into force very soon. In such conditions, Russia needs to sharply reorient its exports to other countries, among which the main one is China. China buys a lot of Russian oil, having almost tripled its purchases since February with a discount of about 20-30%. In the future, this trend will only intensify, as it will be necessary to complete the pipes and increase the capacity of the Eastern Siberia-Pacific Ocean oil pipeline. China accounts for 13.8% of all Russian exports. Russia supplies China with oil, coal, wood, turboprop and turbojet engines, gas, metals, ores, cellulose, timber, polyethylene, precious metal concentrates, fertilizers, and crustaceans. In total, profit from exports from Russia to China in 2021 amounted to $67.96 billion. Imports from China to Russia, according to Alexander Firanchuk from the RANEPA, during the same time reached $72.67 billion, or 24.8% of the country's turnover. Russia buys telephones, computers, tricycles, pneumatic hand tools, and lighting devices from China - Russia imports more than 70% of these goods from China. In addition, parts for tractors and special-purpose vehicles, such as fire trucks, truck cranes, and watering machines, are brought to the Russian Federation from China. Russia receives Chinese electric heaters, monitors and projectors, cars, transformers, footwear, and air conditioning units.

Latin America

Russia conducts the largest trade turnover with Brazil, Argentina, Mexico, and Ecuador, according to the Center for International Trade Studies of the RANEPA. In total, exports to Latin American countries amount to $12.55 billion, and imports - $8.99 billion. The countries of the region buy heavy and chemical products from Russia - oil, iron, steel, coal, aluminum, mineral and chemical fertilizers, as well as rubber, wheat, meslin, paper, and cardboard. Latin America supplies Russia with food products and agricultural raw materials - 78% of imports are soybeans, peanuts, bananas, cattle meat, fish, flowers, and coffee. In a smaller volume - cars, medicines, and tobacco.

Central Asia

Central Asia includes Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan, and Turkmenistan. The share of Russian exports to the countries of Central Asia, according to RANEPA, is 5.6%. Revenues from the sale of oil, metal, timber, coal, cars, sunflower oil, and chocolate amounted to $27.67 billion in 2021. The former CIS countries import ores, iron, precious metals, zinc, ferroalloys, and grapes to Russia. The main exporters-importers in relations with Russia are Kazakhstan, Uzbekistan, and Kyrgyzstan.

India

By August 2022, India is one of the largest players in the world that has not joined the sanctions against Russia. In 2014, the Ministry of Industry and Trade of the Russian Federation announced plans to increase trade and economic turnover between Russia and India to $30 billion by 2025. At the end of 2021, it amounted to $13.5 billion, an increase of almost 50% compared to the pandemic year of 2020. This is a lot, but the pace is hardly sufficient to achieve the goal in the remaining 2.5 years. At the same time, India has not yet entered the top ten key foreign trade partners in Russia. In total, in 2021, Russia exported goods to India worth $9.13 billion. Almost a third of this volume was mineral products (including ore and fuel), 19.88% were machinery, equipment, and vehicles, 18.44 % - was precious metals and stones, 16.08% - was products of the chemical industry, 5.5% - was metals and products from them, 4.27% - food products and agricultural raw materials. In turn, India exported goods worth $4.43 billion to the Russian Federation in 2021. These are mainly chemical products (31.7%), machinery, equipment, and vehicles (29.9%), food products and agricultural raw materials (16.34%), metals and metal products (7.69%), textiles and footwear (7.31%).

Africa

Russia's trade ties with Africa are weak: the continent accounts for only 3% of Russian exports and 1% of imports. By 2050, the situation may change dramatically. The basis of Russian exports to Africa is food, mineral products, and secret commodity groups, including weapons. African countries occupy a prominent place in Russian exports of grains, vegetable oils, ammonia, copper products, timber, and radar equipment. On the other hand, the continent is important for Russian imports of fruits, vegetables, cocoa, tobacco, and aluminum oxide.

Middle East

Egypt, Iran, Turkey, Iraq, Saudi Arabia, Yemen, Syria, Jordan, the United Arab Emirates, Israel, Lebanon, Palestine, Oman, Kuwait, Qatar, Bahrain, and Cyprus are among the 17 states that make up the Middle East, which is a sizable region with a population of around 470 million.

Russia has long-standing business relationships with several Middle Eastern nations. One of the primary sectors is still tourism. Despite a sharp reduction during the coronavirus outbreak, over 10% of excursions to Turkey, about 17% to the UAE, almost 20% to Cyprus (before the implementation of sanctions), and up to 40% to Egypt are made by Russian tourists. Some Middle Eastern nations receive their agricultural supplies in large part from the Russian Federation. Particularly, nearly 85% of Egypt's grain imports originate from Russia and Ukraine, and Syria and Lebanon also rely heavily on imported wheat. The proportion of commodities coming from Russia might potentially be larger now that Ukrainian seaports have been closed after 2022. Additionally, Russia already has established itself as a reliable partner in the construction of nuclear power plants, contracts for the delivery of military goods, and the sale of mineral fertilizers. Trade between the region's nations is still expanding. The entire turnover hit $20 billion in 2021. In the Middle East, Turkey, Iran, the United Arab Emirates, Saudi Arabia, Egypt, and Israel are the top importers of Russian commodities

CHAPTER V

Conclusion

The sanctions opened a new window of opportunity for the development of the country's economy, and it was the sanctions that became the reason for import substitution. Sanctions also opened up new opportunities for finding partners in new countries on different continents. For many countries, the Russian market is reopening. Russia needs to start building economic ties with more predictable countries: India, China, and the Arab world.

Russia got a chance to get rid of the treaties, agreements, and obligations to international organizations and countries imposed on it in 1991, which did not work in any way for the benefit of the Russian economy. However, it should be remembered that the “window of opportunity” is a short time during which certain actions can be taken leading to the desired result. When this period ends, there will no longer be a chance to take advantage of this opportunity. If Russia misses the chance to catch up with the civilization of the future, then it will simply disappear - disappear without a trace. While the sanctions have caused some difficulties for many sectors of the Russian economy, they have also had some more positive effects.

One of the positive effects of the sanctions has been the increased focus on import substitution (Guriev and Tsyvinski, 2016). As a result of the sanctions, which have led to a ban on imports of certain goods from the European Union, the United States, and other countries, Russia has had to reduce its reliance on imported goods and promote the development and production of domestic goods and services. This has led to the growth of domestic industries, such as the food and automotive sectors.

Russia has been increasing its domestic production of food products, such as meat, dairy, and fruits and vegetables. As a result, Russia's agricultural sector has experienced significant growth. The sanctions have also led to an increase in the promotion of Russian brands. According to Estrin et al. (2018), the Russian government has been promoting the cultivation of Russian brands, both domestically and internationally, through initiatives such as the "Made in Russia" campaign. This has helped to increase the visibility and recognition of domestic brands, which has had a positive impact on the domestic economy.

Additionally, the sanctions have also led to an increase in domestic consumption. As a result of the sanctions, many Russian consumers have turned to domestic products and services, which has helped to boost the domestic economy. Larionova and Ledeneva (2016) stated that the sanctions have also helped Russia in reducing its dependence on external markets, particularly Western countries. This has helped the country to diversify its economic ties and increase trade and investment with other countries such as China, India, and other countries in the Middle East.

Thus, the problem of import substitution is important for the entire economy of the state. The main problem is the lack of the necessary equipment on the territory of the Russian Federation, due to which the goods of a domestic manufacturer may be inferior in quality. Starting from 2014 and to this day, the Russian Federation has faced some problems related to ensuring import substitution. Conducting a competent state policy contributes to strengthening domestic producers in the market, stimulating the economy, creating competitive goods, increasing incomes, solving the problem of imports from other states, and stimulating investment inflows.

Sanctions provide a chance for the Russian economy's innovative development, help it attain technological independence in its priority development areas, and inspire and foster innovative business.

In the future, import substitution will be able to provide Russia with all the necessary technologies and economic benefits, then the imposed sanctions will simply not have an impact in this direction. However, the process of transforming and creating new domestic markets based on import substitution is not yet complete, and there are many threats along with the prospects. Also, in the case of replacing imported products with domestic products, if the country maintains its existing policy and responds to market fluctuations promptly, half can be avoided.

The CIS countries, Germany, and Asian countries support economic cooperation with Russia and are aware of its crucial role in global processes. But for the United States, Russia poses a threat to its interests and is a competitor in the struggle for leadership on the world stage.

There is an opinion that Russian oil companies can make record profits in 2023 thanks to sanctions, as the imposition of bans against our country led to an increase in energy prices and an increase in the supply of “black gold” to Asian markets. It should also be mentioned that Russia's journey to industrial prominence is based on the country's abundant natural resources. This gives the country a competitive advantage in the development of numerous manufacturing sectors, particularly heavy industries (railroads, agriculture, and competent human capital). As a result, it is reasonable to argue that Russia gained enormously from the ISI policy framework, both economically and militarily. More precisely, Russia developed its military and economic capacities, propelling the Russian Federation into global economic and political prominence. Of course, the sanctions imposed on Russia contribute to the disorganization of numerous economic processes, but this is precisely what gives impetus to the further development of the country's society and economy. These are new opportunities for cooperation and the establishment of a new world order based on the principles of solidarity, security, sovereignty, and mutual interest.

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