

Hitting Two Birds with One Stone: How Russian Countersanctions Intertwined Political and Economic Goals

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ABSTRACT

This article explicates the intertwined economic and political goals behind the imposition of countersanctions through an analysis of their premises and outcomes for Russia's domestic economy. The evidence supports the argument that retaliation was designed to benefit the Russian domestic food industry, reorient trade relations, and bolster domestic public support for this sector while politically penalizing sanctioning countries. An important contribution of this article is to demonstrate how sanctions imposed on nondemocratic target countries, which play an important role in international affairs, is like a tit-for-tat game, which may have additional effects and also unintended political, economic, and social consequences not yet observed.


International sanctions on Russia were imposed in March 2014 and again in July 2014 as a reaction to Russia's annexation of Crimea and involvement in the armed conflict in southeast Ukraine. The declared purpose was the return of Crimea to Ukraine and the revision of Russian foreign policy. The measures chosen by the United States and the European Union (EU) included individual measures, such as an asset freeze and a travel ban, as well as sectorial measures related to finance, defense, and oil sectors.

It was clear from the beginning that diplomatic and economic sanctions against Russia were intended to discredit Russian politicians, elites, and entities involved in the conflict; to express disapproval of Russian activities in Ukraine; and possibly to constrain Russian expansion in the region.¹ Since March 2014, the sanctions have been renewed and amended numerous times. The European Council agreed to link the duration of the sanctions to the complete implementation of the agreements² to halt the war in the Donbas region of Ukraine, which were agreed to after talks in Minsk under the auspices of the Organization for Security and Co-operation in Europe. Several more countries—Ukraine, Moldova, Georgia, Canada, Australia, New Zealand, Japan, Montenegro, Albania, Switzerland, Iceland, Liechtenstein, and Norway—aligned with some of the EU's measures.³

In response to sanctions imposed by the West, Russia retaliated with diplomatic measures against US, Canadian, and EU officials (O'Kane 2014; Russia Today 2015) and subsequently by Resolution No. 830 of the Government of the Russian Federation, which introduced a food embargo in the form of an import ban from countries imposing economic sanctions against Russia. The import ban encompassed meat, fish, seafood, milk and some dairy products, vegetables, fruits, and nuts.

Russia's countersanctions might have puzzled political scientists and economists because surprisingly little attention has been given to how governments on the receiving end of punitive economic measures react. Have countersanctions had any relevance for broader domestic-policy goals? What type of factors played a role in determining the Russian use of sanctions in response to those imposed by the West? Analysis of how the Russian government specifically designed its countersanction policy can shed more light on understanding the objectives behind countersanctions.

Recent studies examined the effects of countersanctions instituted by Russia and found that it was a carefully crafted measure to inflict greater economic damage on some states as well as to support its political goals (Hedberg 2018; Kazun 2016; Mau 2016; Wengle 2016). We contribute to this research specifically by explicating the political and economic logic of those countersanctions through analysis of their premises and effects on Russia. We argue that countersanctions can be strategically designed to accomplish a number of distinct objectives: they can maximize economic losses across all coalition members under sanctions, and they can be designed so that the disruptive impact is felt

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more by some countries than others. On the domestic level, such a policy can be crafted to benefit particular economic sectors and political constituencies.

We demonstrate that countersanctions facilitated the Kremlin's protectionist policy already implemented before the countersanctions were introduced. This policy aimed to ensure Russia's long-term self-sufficiency in the food sector and to benefit domestic producers and exporters through subsidizing local production. By examining the dynamics in the domestic agricultural capacity and changes in food-import relations after sanctions, we establish whether and to what extent this protectionist strategy has been successful. We also show that import restrictions can be chosen selectively with a view toward developing new trade relationships with specific countries. Finally, because the retaliation of target countries has hardly been researched in the literature (Allen 2005; Drezner 1999; Hufbauer and Schott 1985; Pape 1997), we also discuss the specific lessons that should be learned from the Russian case and how it can inform future work on sanctions and countersanctions.

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COUNTERSANCTIONS ACHIEVE A VARIETY OF OBJECTIVES

Before the imposition of sanctions, Russia was heavily dependent on food imports from the EU and the United States. Although Russia was the twentieth largest market for US exports of agricultural and related products, it was the fourth largest poultry importer from the United States, which was almost 6% of US poultry exports and almost 40% of Russia's poultry imports in 2013.⁴ At that time, Russia was ranked as the EU's third largest trading partner because the EU had supplied almost 40% of the Russian agricultural market; the value of exports was USD15.8 billion. In 2013, Russia's major trading partners were Germany, the Netherlands, Estonia, Lithuania, Finland, and Poland.⁵ When Russia imposed countersanctions in 2015, they included about 43% of EU exports, worth approximately USD6.6 billion (which represented about 4.2% of total EU agro-food exports), with the greatest share of pork, milk and dairy products, vegetables, and fruits being exported.

Russia's relations with the countries against which it retaliated by imposing import restrictions have shown strong economic interdependence in the long term. Therefore, before sanctions, Russia's policies were concentrated on reducing its dependence on foreign agricultural and food imports and strengthening domestic producers. A series of rural reform programs were implemented under a national Development of the Agro-Industrial Complex project in 2006, which in 2008 became a government program aimed at the growth of agricultural production and regulating this market. The goals of the program were to increase poultry, pork, and milk production; boost grain export through subsidies and preferably loans⁶; increase access to preferential banking services by revitalizing Rosselkhozbank and Rosagroleasing; modernize production and processing facilities; develop an effective transport and logistics infrastructure; develop genetic production of livestock; and establish new export channels. Additionally, the Food Security Doctrine, signed by

President Medvedev in January 2010, aimed to decrease Russian food dependence and increase food security⁷ by increasing sustainable domestic production and its self-sufficiency (i.e., from 80% to 95% in grain, potatoes, sugar, vegetable oil, meat, meat products, milk, dairy, and fish products), without specifying the precise time frame to achieve these goals.

As soon as the goal in the Food Security Doctrine was set, measures were taken by the Putin government in the area of food safety to facilitate domestic production and reorient trade. A focus on food in countersanctions was a low-cost way to advance the already established goal of food independence. Sanctions provided an opportunity to accelerate processes that already had taken place. The enumeration of particular food categories embraced by the protective food policy explains the careful choice of categories for banned goods (e.g., products from Harmonized System chapters 02, 04, 07, 08, and 16) and the exclusion of others (e.g., baby food, live animals, seeds, and specialized ingredients for food and animal feed) from the latter food ban.⁸

Being highly dependent on food imports from the EU, the imposition of countersanctions on specific goods had been compatible with Russia's long-term strategy of relying on imports from other countries outside of the EU—especially Brazil, Belarus, Ukraine, China, and Turkey—as well as its own production. For example, the most significant suppliers of meat for the Russian market before the ban on imported food were the EU, Brazil, Paraguay, Commonwealth of Independent States (CIS) countries (mainly Belarus and Ukraine), and the United States. After the food ban in 2015, the main suppliers of poultry were Belarus (although there has been speculation that EU agri-food products made their way to Russia through Belarus) and Brazil. Beef imported earlier from the United States and Europe was substituted with beef from Brazil and Paraguay and currently accounts for the largest share of Russian meat imports. Brazil also has become the major supplier of pork to the Russian Federation. In addition, Russia began receiving pork from China. Other groups of banned foods such as vegetables, fruits, and milk (see the table in the online appendix) were imported before the food ban mainly from the EU and were replaced by supplies from CIS countries. Fish, the last food category in the food ban and previously imported mainly from Norway, Iceland, and Canada, now came from Chile, the Faroe Islands, China, and Belarus.

Given the geographical proximity, we expect that Russia would seek food suppliers in neighboring countries, especially those aligned with organizations in which Russia plays a dominant role. Although some neighboring CIS and Europe–Australasia countries (e.g., Georgia and Moldova) supported the EU on sanctions decisions, they did so sporadically and selectively. The countersanctions were the opportunity for Russia to develop closer trade relations with Serbia, Macedonia, Turkey, Azerbaijan, Armenia, and Bosnia Herzegovina, which had not joined the sanctions coalition, as well as with the BRICS countries (i.e., Brazil, Russia, India, China, and South Africa), which stood firm

against Western sanctions imposed on Russia. Overall, Russia successfully reoriented trade of these goods and established or strengthened relations with other countries. The major trade partners for Russia are currently some CIS countries, Brazil, and China.

Given these changes in imports as well as trade relations, it is important to determine whether the goal of self-sufficiency in the production of banned imported food has been met. As a result of the countersanctions, imports of milk and other dairy products to Russia have fallen considerably, whereas the supply of imported meat and meat products fell with some variation depending on the type of meat; for example, beef imports have not fallen as much as poultry and pork. In general, Russian domestic production of food that was subjected to countersanctions has improved in volume during the ban. Based on data from the Food and Agriculture Organization of the United Nations, we observed a slow rise in the production of seafood, meat (mainly pork), vegetables (mainly potatoes), milk, and frozen fruit.¹⁰ Nevertheless, declining imports were not matched with rising domestic production. We conclude that only some groups of domestic producers benefited, primarily pork and poultry producers, which were able to deliver their meat and compensate for imports—and even considered exporting it to

was the only area in which Russia could be effective: penalizing sanctioning countries while advancing domestic production of banned imported goods.

ENGAGING IN THE SANCTION GAME WITH NONDEMOCRATIC REGIMES

It is important to reflect on what the Russian case might tell us more generally about how nondemocratic regimes respond to sanctions. To analyze behaviors of states in international politics, we must understand the grounds and decision-making process of leaders of these countries and consider the information, possible options, and constraints faced by ruling elites. States do not act, do not have goals, and do not make decisions; however, political leaders do. According to the rational-actor model, leaders are rational in their decisions—they behave purposefully to achieve outcomes that are consistent with goals. Although little research has demonstrated that a target country will respond as a rational actor, it is superficial to expect that responses to sanctions are mere acts of desperate retaliation against external attempts to influence the policy of a given government. On the contrary, we assume that the basis of the imposed political restrictions (both sanctions and countersanctions) always has a rational political or economic reason, albeit often not publicly disclosed.

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CIS countries. However, domestic dairy, beef, and fish producers were not able to increase output to compensate for decreasing imports.

In general, the countersanctions strengthened the Russian strategy of not relying on imports in the food sector. However, other factors facilitated this: (1) the subsidies offered by the Russian government; (2) the inferior quality of imported goods as compared to domestic products, forcing consumers to choose the latter; (3) the decline in consumption of sanctioned goods due to price increases; (4) the fall in average household income and the diminishing power of Russian consumers; and (5) the sharp devaluation of the ruble, which provided additional advantages for Russian food producers because the imported products became too expensive for Russian consumers.

In summary, focusing on food was the easiest way to advance the already established goal of food independence, using the opportunity that sanctions presented to support policies already undertaken by the Kremlin. The question remains whether there were other alternatives that had any relevance for broader domestic policy goals. Our answer is “No.” Although the greatest harm to the EU would be to cut the oil supply, on which member states are highly dependent, this option would be against Russia’s domestic interest because oil revenue is the major source of the state budget. Energy also is a major tool in foreign policy. Moreover, after sanctions were implemented by the West, Russia faced serious economic problems, including a decline in foreign trade and GDP per capita, a decrease in the price of oil, depreciation of the ruble (i.e., “Black Tuesday” of December 16, 2014), and inflation, and therefore could not afford to further increase its budget deficits. Thus, the focus on food as the basis for countersanctions

Foreign-policy choices serve and fulfill foreign-policy goals. A rational decision maker (e.g., a ruling coalition or a leader) considers the foreign-policy goals and makes choices after analyzing various available options, gains and possible losses, and resulting outcomes. However, we must consider that the EU countries and Russia have two different political systems, which implies that the political, social, and economic benefits will be evaluated differently by their leaders.

In authoritarian countries like Russia, the decision-making process is centralized and unconstrained; important goals (e.g., the imposition of sanctions) do not have to be publicly disclosed. This makes the result highly unpredictable. Moreover, in democracies, all political decisions must gain public approval, whereas in authoritarian countries, public opinion more often is subject to manipulation. If we can trust opinion polls conducted by think tanks and organizations operating in Russia,¹¹ then Russians did not perceive the negative effects of the national and personal sanctions. Most Russians believed that the food embargo would benefit domestic manufacturers and the country as a whole. This positive perception was due to the purposeful framing of the image of economic sanctions in the pro-government media, which frequently showed the Russian agricultural-monitoring agency destroying hundreds of tons of illegally imported Western food bearing “sanctioned produce” stickers on banned food, which may have boosted public approval.

Grauvogel and von Soest (2014) noted that sanctions imposed on an undemocratic state often do not achieve their original objectives; in certain cases, they even result in increased support for the national leader. We found that this was the case in Russia, backed up by a substantial increase in public support ratings in 2014 and 2015.

In summary, sanctions imposed by the West on Russia began the game in which countersanctions and other subsequent actions, such as the expulsion of diplomats by Russia followed by the United Kingdom, and the United States. Thus, the effects of this tit-for-tat game with repeated moves in which both actors are engaged and provoking one another to respond are ongoing and still unobserved. Countersanctions were by far the most important move because they were unexpected and instead harmful for the sender countries. Thus, the investigation between the onset of sanctions and their impact due to multiple moves by opponents in this game complicates evaluation of their effectiveness.

CONCLUSION

Countersanctions were crafted constructively to simultaneously achieve various objectives. In the Russian case, these objectives were to penalize sanctioning countries, develop domestic production, reorient trade relations, and bolster domestic public support. Choosing the food sector as the subject of countersanctions was convenient for Russia because the Kremlin had already undertaken some protectionist measures to improve production and consumption of domestic food products, thereby making Russia independent of Western influence. Choosing oil and gas bans would not be the rational option because the Russian economy is heavily dependent on these exports; jeopardizing further relations with EU members, especially Germany, could be detrimental to Russia's economy.

By examining the dynamics of the domestic agricultural capacity after sanctions, we find that the protectionist strategy has been only partially successful. It helped Russia to reorient trade relations but it did not transform the entire industry into a highly competitive one; protectionist tools ease market conditions (for those under protection) but do not necessarily stimulate internal development.

There also is a broader message from the Russian example of countersanctions. If the target of sanctions is a nondemocratic country, its readiness to be prepared for the sanctions imposition and to fight back should never be underestimated—especially if the target country is an important political and economic player. Before invading Ukraine and capturing Crimea, Moscow should have anticipated that the West would impose sanctions in order to coerce Russia to follow international norms or negotiate a resolution of the Ukraine crisis. Therefore, because sanctions were predictable, the Kremlin should have planned actions that would mitigate possible losses. Benefits to offset future negative consequences were meant to be an increase in production of domestic agricultural goods; formation of a new trade partnership or the strengthening of old ones (i.e., by intensifying trade and increasing the volume of imports from “friendly” countries); and patriotic consumption triggered by propaganda. The main victims of this reconstruction are Russian consumers, who are forced to limit and restructure their food-consumption habits in the face of inferior quantity and quality. However, the media show how Russian citizens “deproblematize” sanctions (Kazun 2016, 327) and continue to support Russian foreign policy, which could be observed as an increase in approval ratings and a “rally-around-the-flag” effect.

For the sanctions literature, this case shows that this can become a tit-for-tat game with repeated moves, in which players follow a course of action consistent with their opponent's previous turn, thereby making the political and economic outcome

difficult to be linked to the initial goal of sanctions. It is important, therefore, to use game theory to explain and evaluate a given move in this game, which we aim to do by providing this explanation of Russian countersanctions.

SUPPLEMENTARY MATERIAL

To view supplementary material for this article, please visit <https://doi.org/10.1017/S1049096519001781>

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NOTES

1. Council Implementing Decision 2014/216/CFSP of April 14, 2014; implementing Decision 2014/119/CFSP concerning restrictive measures directed against certain persons, entities, and bodies in view of the situation in Ukraine. Council Regulation (EU) No. 476/2014 of May 12, 2014, amending Regulation (EU) No. 269/2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty, and independence of Ukraine.
2. For the full version of the Protocol on a Ceasefire and on Launching a Political Process to Resolve the Crisis (i.e., the Minsk I Agreement) and the Minsk II agreement, which was a result of consultation and mediation of the Trilateral Contact Group, signed in Minsk on September 5, 2014, see www.osce.org/home/123257 (accessed July 21, 2017).
3. Council of the European Union (2015) “Declaration by the High Representative on Behalf of the EU on the Alignment of Certain Third Countries Concerning Restrictive Measures in View of Russia's Actions Destabilizing the Situation in Ukraine.”
4. US Department of Agriculture (2014) International Agricultural Trade Report, “Russia Bans Key US Agricultural Exports.” Available at www.fas.usda.gov/sites/default/files/2014-08/russia_ban_iatr_august_2014.pdf (accessed July 13, 2017).
5. “EU28 Agri-Food Exports to Russia and the World by Member State in 2013 (million €).” Available at https://ec.europa.eu/agriculture/sites/agriculture/files/russian-import-ban/pdf/eu-exports-to-russia_en.pdf (accessed July 21, 2017).
6. Available at <http://archive.premier.gov.ru/eng/events/news/11267> (accessed July 20, 2017).
7. US Department of Agriculture (2010), “2/11/2010 GAIN Report Number: RS1008.” Global Agricultural Information Network.
8. For the full text in English, see USDA FAS GAIN Report No. RS1540, “Russian Food Ban Extended Until August 2016, June 25, 2015; Government of the Russian Federation (2014) RF Government Resolution of August 7, 2014, No. 778, “On Measures for the Implementation of RF President Decree of August 6, 2014; No. 560 “On the Enforcement of Selected Special Economic Measures Aimed at Ensuring Food Security of the Russian Federation.” Available at www.aeroflot.ru/cms/files/u12/Resolution_of_the_Government_of_the_Russian_Federation_No.778_from_07_August_2014.pdf (accessed July 19, 2017).
9. See Institute for Agricultural Market Studies, “Russia: Country Report, 2015,” 41–42.
10. US Department of Agriculture (2015), “11/25/2015 GAIN Report No. RFAT0026.” Global Agricultural Information Network. See also “Russia in Figures, Gross Harvest and Yield of Basic Agricultural Crops,” 275, 284.
11. According to the study conducted in 2015 by the Russian Public Opinion Research Center (VCIOM). Available at <https://wciom.ru/index.php?id=236&uid=115517> (accessed July 20, 2017).

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