



RUSSIA REFORM MONITOR

The American Foreign Policy Council's Review of
Russian Government Actions and U.S. Policy

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Related Categories: Economic Sanctions; International Economics and Trade; Warfare; Russia; Ukraine

HOW RUSSIA HAS ADAPTED TO WESTERN SANCTIONS

Since the start of Russia's full-scale invasion of Ukraine in February 2022, observers have intently watched the impact of Western sanctions on the Russian economy. Most prominently, Yale University researchers have documented what they say is an unprecedented exodus of more than 1,100 Western firms from the Russian market over the past year-and-a-half. Nevertheless, as the Wall Street Journal has documented (see *Russia Policy Monitor no. 2596*), the Kremlin has found ways to successfully mitigate the most devastating consequences of Western economic pressure. A new report underwritten by the UK Foreign, Commonwealth, & Development Office's Serious Organised Crime & Anti-Corruption Evidence (SOC ACE) program helps to explain how.

The study, entitled *Under the Radar* and authored by scholars from King's College London and the U.S. National Defense University, notes that "sanctions have not cut supplies to Russia but have instead empowered informal trade networks and intermediaries." Specifically, the report outlines that Russia has "been able to soften the impact of Western sanctions through: (1) parallel imports of sanctioned brands, (2) its membership in the Eurasian Economic Union, (3) the willingness of neighbouring countries to trade with Russia, and (4) new, informal trade with Western brands that have formally left the Russian market." In particular, it details, the countries of Georgia and Kazakhstan have assumed major roles in helping Russia to continue to access Western goods – likely engaging in sanctions-busting in the process. The aggregate result has been a more resilient Russian economy, and one more resistant to Western pressure. (SOC ACE, August 2023)

WORRIES OVER A SLIDING RUBLE...

Even so, Russia is now clearly experiencing economic turbulence as a result of Western pressure. In early August, the Russian ruble hit its lowest value against the dollar since the start of the Ukraine war, dropping roughly 30 percent to land at 96:1. The plunge unleashed a flurry of activity on the part of the Russian government, with Russia's Central Bank hiking interest rates in a bid to stabilize the currency. Additionally, Russia's Finance Ministry is now proposing that exporters be required to sell up to 80% of their foreign currency revenue within 90 days of delivery, punishing those that do not comply by denying them government subsidies. Should the proposal be enacted, it would signal the first time Russia has increased currency control measures since Vladimir Putin's full-scale invasion of Ukraine in February 2022. (Associated Press, August 4, 2023; *Financial Times*, August 16, 2023)

...AS EXPERTS TAKE STOCK OF THE RUSSIAN ECONOMY

However, experts are cautioning that – though Russia is in fiscal distress – an economic meltdown isn't necessarily imminent. The plunging value of the ruble "does not imply an underlying economic crisis, it doesn't suggest Russia is about to fall off a cliff," Chris Weafer, CEO of Macro-Advisory Partners, has told the Associated Press. Sergei Guriev of Paris' Sciences Po institute of political studies concurs. According to him, "there is no disaster" in spite of "big problems" now facing the Russian economy, including capital outflows and a reduction in revenue from the sale of oil and gas abroad. Even so, Guriev notes, the declining ruble is creating serious problems for Moscow in terms of purchasing power for its war effort. "If you need to buy (weapon) components in Iran or circumvent sanctions through third countries, you need foreign currency," he explains. "That's why you have the budget deficit." (Associated Press, August 15, 2023)

A DIFFERENT KIND OF COLLEGE EDUCATION

For months now, Russia has struggled to stay on top of wartime production of military materiel to fuel its war against Ukraine. These shortfalls, in turn, are forcing Moscow to increasingly employ underage labor. For instance, Russia's workforce for its new drone factory in Tatarstan (see *Russia Policy Monitor no. 2598*) is now said to be employing students from the nearby Alabuga Polytechnic University. According to Radio Free Europe/Radio Liberty, the students, some as young as 15, have been put to work manufacturing Iranian "suicide" drones in recent months, and doing so through grueling hours and in appalling conditions. The students reportedly must meet onerous production quotas in order to get their salaries, leading them to work unpaid, overtime, and with insufficient time for meals and rest. The students were ordered not to inform their parents of their participation in drone production. (*RFE/RL*, August 12, 2023)