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Exploring the Visegrád-Russia Connection: Understanding the Political and Economic Ramifications of Sanction Policies Four Years Later (Preface)

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Introduction

From March 2014 to September 2014, the European Union (EU), in concert with the United States (U.S.) and a number of other nations, enacted three rounds of sanctions against the Russian Federation (Russia). These sanctions were implemented due to the perceived role of the Russian Federation in the Ukrainian Euro Maiden Revolution of February 2014, and the subsequent annexation of the Crimean region. Sanctions, defined, are the “withdrawal of customary trade and financial relations for foreign and security policy purposes.”⁽¹⁾

For the sake of this project, EU sanctions will be the focus. The EU defines their sanctions by five broad categories⁽²⁾:

- 1) Diplomatic measures. This includes the suspension of Russia’s G8 member status.
- 2) Individual restrictive measures (asset freezes and travel restrictions) on 150 people and 38 entities.
- 3) Restrictions on economic relations with Crimea and Sevastopol including a complete ban on imports, investment, trade, and tourism services, as well as a partial ban on exports.
- 4) Economic sanctions. This has limited access to Western capital markets and Russian access to sensitive military technology. Additionally included are complete bans on the trade of arms and military dual-use goods, among other goods.
- 5) Restrictions on economic cooperation. This includes the suspension of access to European development funds.

The second point of EU sanctions, sanctioning individuals and entities, and the fourth point, the economic sanctions are of particular interest. In line with “smart sanctions” theory, by designing sanctions that target specific individuals and entities, the EU has aimed to minimize harmful economic effects for

¹ Council on Foreign Relations: What are Economic Sanctions?

² European Council: www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/#

the general population, while targeting Russian citizens either allegedly involved with the decision to annex/invade Crimea or entities who simply possess significant political or economic power ⁽³⁾. A more comprehensive list of notable individuals and entities sanctioned can be found in the index.

Furthermore, the fourth point of EU sanctions are designed in a similar style to the second, but with a wider, more sectoral lens. Three sectors deemed strategically important to the Russian economy – the energy, financial services, and defense industries – were targeted by the EU. In addition to the brief description found above, a detailed list of sanctioned products within each sector will be discussed in *Essay 1: Econometric Analyses*.

In a retaliatory move, August 2014 marked the Russian response to the implementation of Western sanctions with a set of their own individual and economic counter-sanctions. These economic counter-sanctions differ from EU and Western sanctions by targeting an even wider set still of individuals, entities, and products.

Personal Motivation

Over three years have passed since the implementation of sanctions and counter-sanctions now. No change in the use of these policies seems in sight. Despite this, there has been only a small body of economic research focusing on these sanctions and counter-sanctions. This research has tended to focus on the value of loss trade for EU nations as a result of maintaining this foreign policy stance. Also, the research conducted tends to have an EU-specific focus not particular to any particular region or set of countries within the EU. However this has begun to change. In October 2017 the Prague Security Studies Institute (PSSI) published *Harsh Expectations Versus a Modest Reality – Economic Relations between the Visegrad Countries and Russia Surrounding the Ukrainian Crisis*. To date, this paper is the only significant published research designed to specifically examine the potential loss trade costs for Visegrád 4 (V4) nations, defined as Czechia, Hungary, Poland, and Slovakia. Due to relatively substantial

³ European Council: www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/#

economic growth enjoyed by this region, and my own personal interest, I aim to expand upon the PSSI's work, and further explore the ramifications of 2014 sanction and counter-sanction policies so as to deepen the knowledge of this topic for V4 policymakers.

For each V4 nation, Russia ranks as a top non-European trading partner, due to historical connections and geographic proximity (⁴). As the 21st century geopolitical landscape continues to evolve, one thing is guaranteed – Russia will continue to be a major force in Europe and Eurasia. Therefore, for V4 leaders, it is of paramount importance to understand the economic and political repercussions of the V4's most substantial foreign policy stance towards Russia. Based upon the rhetoric of the day, and the conflicting voices that can be heard between the capitals of Central Europe and in the halls of Brussels, it is clear that the 2014 sanctions are not clearly understood. I feel that due to the dearth of V4-specific research on this topic, and the continued relevance of this topic, there is no better time than the present to undertake this task.

Through a set of six essays, I aim to provide a substantial economic and political overview of V4-Russia affairs over the last seven years, with a particular focus on the 2014 sanctions and counter-sanctions.

The first essay will provide an econometric analysis of V4-Russia trade by affected product. The second, third, fourth, and fifth essays will be case studies exploring the interactions between sanctions and counter-sanctions and targeted sectors (energy, financial services, defense, and agriculture). The sixth and final essay will clearly summarize the main takeaways of the previous five essays before offering a multi-pronged policy recommendation for V4 and EU leaders.

⁴ Observatory of Economic Complexity: atlas.media.mit.edu/en/

Structural Overview

Essay 1: Econometric Analyses – will provide an econometric analysis of trade between V4 countries and Russia in order to identify trends before and after the implementation of sanctions. To accomplish this, monthly trade data has been collected for each V4 country by sanctioned and counter-sanctioned products via Harmonized System (HS) trade code. Using an OLS linear regression model, the general trend of trade will be mapped for each sanctioned HS code before and after July 2014. The differences found for each HS code will then be evaluated for statistical significance.

Essay 2: Energy – Russia’s largest export, and Europe’s largest imported product from Russia, energy is an industry with deep geopolitical roots. V4 nations are especially reliant upon Russian natural gas and oil imports. Taking into account these products and their respective markets and value chains, we will explore how sanctions interact with this critical sector and what the future may hold V4 energy supply security.

Essay 3: Financial Services & Governance – A key facet of Western sanctions was the withdrawal of access to capital markets for Russian companies. How have foreign exchange and sovereign credit ratings moved since the implementation of sanctions? How has the V4 been affected by changes of Russian macroeconomic and financial indicators? Here, the V4-Russian financial and governance relationship will be explored at a high-level.

Essay 4: Defense & Dual-Use – With names like Kalashnikov, Russian defense products are known world-wide. Many additionally suspect that the goods of sanctioned Russian defense and dual-use firms helped support unrest in Eastern Ukraine in early 2014. No other industry is linked to national security like the defense sector. How connected are V4 defense industries to the Russian defense sector? The size of the V4 and Russian defense sectors, the relationships between the two, and the impacts of dual-use regulation will be discussed in this essay.

Essay 5: Agriculture – The V4 nations are some of Europe’s most reliable producers of agricultural products. As Russia is one of the largest purchasers of V4 agricultural products, how have their counter-sanctions affected the farmers of Czechia, Hungary, Poland, and Slovakia? To discover the true effects and costs for V4 farmers, a thoughtful and careful exploration of this topic will be undertaken to better understand how agricultural markets have responded to this demand shock.

Essay 6: Policy Recommendations – Taking into account the previous five essays, policy recommendations will be provided for EU and V4 leaders. This final, and most important piece, will succinctly summarize the findings of previous papers, provide updates on the current EU-Russia relationship, and deliver an 11-point policy recommendation for V4 leadership to consider in the coming months and years.

To you, the reader,

I hope you find these essays informative and helpful. Whether a policymaker or concerned citizen, I hope the following works clearly communicate the complexities of the 2014 sanction and counter-sanction policies for the Visegrád 4. Additionally, while the policy suggestions are just that, suggestions, I hope the underlying message shines through – that creative solutions do exist that can benefit V4 nations while satisfying foreign policy objectives.

Best,

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Table 1. Significant Individuals Named by United States and EU Sanctions

Individual	Employer	Role	Sector	Sanctioning Government(s)	Reason Targeted
Arkady Rotenburg	SMP Bank	Owner	Banking	EU, US	Funded Putin-related projects. Funds Gazprom, and helped with Russian Olympic bid.
Yuri Kovalchuk	Bank Rossiya	Investor	Banking	EU, US	Personal Banker for Senior Kremlin officials. (38% owner of Rossiya)
Nikolai Shamalov	Bank Rossiya	Investor	Banking	EU, US	Personal Banker for Senior Kremlin officials. (10% owner of Rossiya)
Sergei Chemezov	Rostec, Rosoboronexport, Technopromexport	CEO	Defense	EU, US	Firm helped arm rebels. Technopromexport to build energy plants in Crimea.
Vyachelsav Volodin	Russian Federation	First Deputy Chief	Government	EU, US	Thought to have played a key role in annexing Crimea. Led political integration of Crimea. Close Putin advisor.
Igor Sergun	Russian Federation	Director of GRU	Government	EU, US	Assassinated. Managed Military Intelligence.
Sergei Naryshkin	Russian Federation	Speaker of Duma Lower House	Government	EU, US	Leading MP.
Vladislav Surkov	Russian Federation	Presidential Aide	Government	EU, US	Election mastermind and creator of "managed democracy."
Dmitry Rogozin	Russian Federation	Deputy Prime Minister	Government	EU, US	Former Russian ambassador to NATO.
Sergei Glazyev	Russian Federation	Advisor	Government	EU, US	Talked openly about intervening in Ukraine.
Oleg Belaventsev	Russian Federation	Representative of Crimea	Government	EU, US	

Dmitry Kiselyov	Russia Today	TV Anchor	Communication	EU	Anti-west, hostile to Kiev protests that ousted Yanukovich.
Valery Gerasimov	Russian Federation	Chief of General Staff of the Armed Forces	Government	EU	High ranking military leader.
Vladimir Zhirinovskiy	Russian Federation	MP	Government	EU	Ultra-nationalist.
Mikhail Fradkov	Russian Federation	Director of Foreign Intelligence Service	Government	EU	Influential in crafting Anti-Ukrainian policy.
Alexander Bortnikov	Russian Federation	Director of the FSB	Government	EU	Head of Internal Security.
Nikolai Patrushev	Russian Federation	Secretary of the Security Council	Government	EU	Former FSB head.
Ramzan Kadyrov	Chechen Republic	President	Government*	EU	Supported rebels and rumored that his military committed human rights abuses.
Alexander Zakharchenko	Donetsk Peoples' Republic	Prime Minister	Government*	EU	Admitted Russians citizens fought along with soldiers. Rebel Leader.
Boris Rotenburg	SMP Bank	Owner	Banking	US	Funded Putin-related projects. Funds Gazprom, and helped with Russian Olympic bid.
Gennady Timchenko	Novatek, Volga Group, (Gunvor)	Owner, (Investor)	Commodities, Energy	US	Putin possessed investments in his commodity trading firm.
Igor Sechin	Rosneft	CEO	Energy	US	Shares interests with Putin. Rosneft is a leading Russian company.
Sergei Ivanov	Russian Federation	Chief of Staff	Government	US	Governmental Advisor.
Vladimir Kozhin	Russian Federation	Head of Administration	Government	US	Governmental Advisor.
Viktor Ivanov	Russian Federation	Director of Federal Drug Control Service	Government	US	Former FSB head. Served in various advisory roles.
Sergei Mironov	Russian Federation	MP	Government	US	Leading MP.
Dmitry Kozak	Russian Federation	Deputy Prime Minister	Government	US	Trusted Advisor to Putin.

Vladimir Yakunin	Russian Railways	Chairman	Transportation	US	St. Petersburg network friend of Putin. Advisor.
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Bold indicates an individual sanctioned by the EU. '*' indicates a targeted individual associated with government other than that of the Russian Federation.

Source: U.S. Executive Order 13662; European Council Decision 2014/512/CFSP, 2014/659/CFSP

Table 2. Significant Entities Named by United States and EU Sanctions

Name	Sector	Sanctioning Government(s)	Important Details
Bank Rossiya	Banking	EU, US	
Gazprombank	Banking	EU, US	Financial Services arm of Gazprom.
Sberbank	Banking	EU, US	Second largest company in Russia.
Vnesheconombank	Banking	EU, US	Ex-Im Bank.
VTB Bank	Banking	EU, US	
Almaz-Antey	Defense	EU, US	Anti-aircraft, used by separatists.
Kalashnikov Concern	Defense	EU, US	Major arms manufacturer.
United Aircraft Corporation	Defense	EU, US	
Uralvagonzavod	Defense	EU, US	Tank manufacturers.
Rosneft	Energy	EU, US	Second largest energy company in Russia.
Gazprom Neft	Energy	EU	Oil arm of Gazprom.
Dobrolet	Transportation	EU	Spinoff from Aeroflot, airline that flew Moscow to Crimea route.
Transneft	Transportation	EU	Owner of all crude oil pipelines in Russia.
SMP Bank	Banking	US	
NPO Mashinostroyeniya	Defense	US	Influential Cold War rocket-design firm.
Rostec	Defense	US	Includes subsidiary Rosoboronexport & Technopromexport.
Tactile Missiles Corporation	Defense	US	
Gazprom	Energy	US	Largest company in Russia. Often used for geopolitical purposes.
Lukoil	Energy	US	
Novatek	Energy	US	Largest independent Russian natural gas producer.
Surgutneftegaz	Energy	US	

Bold indicates an entity sanctioned by the EU.

Source: U.S. Executive Order 13662; European Council Decision 2014/512/CFSP, 2014/659/CFSP