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THESIS

BUDAPEST BUSINESS SCHOOL
FACULTY OF INTERNATIONAL MANAGEMENT AND BUSINESS

INTERNATIONAL RELATIONS MA PROGRAMME

Mode of study: Full-time program

EUROPEAN-RUSSIAN RELATIONSHIP UNDER MUTUAL SANCTIONS
DURING 2014 - 2020

Internal advisor: Dr. Gyene Pál

BY DARINA MOZGOVAIA

Budapest, 2020

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INTRODUCTION

International trade and integration are the most important foreign economic and foreign policy tools of every state. Imposed actions on the eve of and during the Ukrainian crisis in 2014 have led to difficult times for the Russian-EU relations. A serious change in cooperation was dealt by sanctions, which is why this work is devoted to the transformation of two sides during the period of sanctions from 2014 until 2020. The dissertation analyzes the current state of relations between the European Union and the Russian Federation, its main reasons and consequences of the “freezing” bilateral cooperation. In the research, a detailed analysis of the current contradictions and trends in the development of cooperation between Russia and the EU is playing a big role. As well as the identification of the main difficulties and the search for possible solutions to existing problems and contradictions has a significant place in the master’s thesis.

At the present stage, the EU is a strategic partner of Russia, since both of them are interested in building constructive relations. During a crisis (economic crisis, pandemic) and political transformation (BREXIT, new President of the USA etc.) period, the EU and Russia need to adapt to the new European political realities in order to pursue a constructive and profitable foreign policy. Therefore, the study of the current political situation in the world and the interaction of the EU and Russia are of fundamental importance for determining further ways and trajectories for the development of cooperation and possible ways of its slowdown.

The applicability of the research subject consists of the fact that today economic sanctions are an important tool of foreign policy and international diplomacy. In the modern world, the tendency to apply economic sanctions is growing. At the present moment, the stable position of the state can be determined by the level of development of its economy and the position of the country in the political arena. In this regard, the termination or limitation of economic relations can have serious consequences for the normal functioning of the state. Taken for a certain period, sanctions can have a long-term effect, and the economy fully feels their effect not immediately, but after an indefinite time as well. It is important to note, that the lifting of sanctions is always slower than their imposition.

According to what has been mentioned above, the aim of this research is to analyze the consequences and prospects of cooperation between the EU and Russia. The objective is to see how the Russian Federation and the European Union are coping with limited partnership in modern conditions. The object of the research is the Russian-European partnership at the present stage, considered in the context of mutual sanctions.

To accomplish the goal, it is necessary to work out on the following tasks:

1. to examine the chronology and essence of the sanctions imposed on the Russian Federation by the countries of Western Europe, the reverse sanctions, and
2. to determine the sanction's impact on trade and economic relations of both countries the Russian Federation and the EU;
3. to identify the prospects for the development of the Russian Federation in the context of the sanctions of the countries of Western Europe.

The methodological basis of the research. The empirical basis of the study is made up of articles from the Internet, reflecting the chronology of events related to the process of imposing sanctions by the countries of the European Union, as well as the imposition of countersanctions by the Russian Federation.

The comparative method was used to analyze the effects of the sanctions and its impact on the EU and Russia during 2014 - 2020. The analysis of the level of effectiveness of the sanctions was carried out using the method of statistical data presented in the public domain by research centers to determine the scale of the consequences of the sanctions. Besides, the systematic approach was used in the studying of the phenomenon of "sanctions". In the final chapter of the work, forecasting method was used to draw up future scenarios of the European-Russian relationship in the international arena.

The theoretical relevance and practical aspect of the topic of the final qualifying work are due to the need to generalize the sanctions and counter-sanctions chronology, as well as to analyze the impact of sanctions on the economy of Russia and the EU.

The chronological frame is associated with the beginning of the Ukrainian crisis (2014), as a result of which the Crimean Peninsula was annexed to Russia. The year 2020 has

been chosen as the end point for the analysis of situations that are going on at the moment of writing the thesis. During the research, the following definitions were used: "sanctions", "embargo", "counter sanctions", "import substitution".

The research questions arise:

1. What is the outcome of the Russian countersanctions to the country's economy in 2020?
2. How effective was it to impose sanctions for the EU against Russia?
3. How have changed the economic trade during 2014 and 2020 between Russia and the EU?
4. What is the relationship between the EU and Russia in 2020?

The degree of scientific elaboration of the problem of the chronology of sanctions and countersanctions imposed by the EU and Russia: the consequences, as well as forecasts of relations and cooperation, is not fully explored in the international area, in contrast to the essence of the sanctions as such. That is why, the theoretical basis of the research includes the authors from Russia; both the EU member states and non-EU countries such as Baldwin, David A. (1998), Kaempfer W and Lowenberg A.(1999, 2007), Godovannik E (2015), Kurdyukov G. (2001), Keshner M. (2015), Ponomareva E. (2010), etc. who studied the nature of sanctions and their effectiveness in the modern world.

The regulatory framework of the research is based on both the European Laws and the Russian Federation laws. The documents and agreements regulating the development of cooperation between Russia and the EU have been studied. Among them, it is necessary to note the "Agreement on Partnership and Cooperation between Russia and the EU" as the legal basis for Russian-European relations, as well as the "Joint Political Declaration on Partnership and Cooperation between the Russian Federation and the EU".

At present, the attention of researchers is focused on studying the consequences of the sanctions, as well as future scenarios for the development of relations between the

European Union and the Russian Federation. The empirical basis of the study is made up of articles of Glazyev S. (2015); Mezin V, Kudryashova V. (2014); Shepelev I. (2014); Aivazov A. (2013), etc. Moreover, data obtained by the Gaidar Research Institute (2019), the French Research Center (2016), and European leadership Network Survey (2016) were used. The work also analyzed articles from media channels such as DW, Kommersant, RIA, RBC, BBC News, etc.

An analysis of existing works in the field of the research problem shows that the role of sanctions in the modern world is increasing, and therefore there is a need for a more developed scientific basis in order to identify the impact and effectiveness of sanctions using examples of certain cases.

Provisions for Defense:

1. An analysis of the chronology of the application of sanctions against the Russian Federation since 2014 revealed that these measures are the most frequently used tool of politicians and are introduced as a means of pressure and conflict management.
2. Analysis of the impact of sanctions on trade and economic relations between Russia and the EU led to economic losses and the beginning of the search for alternative partners.
3. A successful policy of import substitution can lead to an increase in the internal potential of the Russian Federation and ensure a complete transition to cooperation with Eastern countries.
4. The proposed scenarios for the development of relations between Russia and the EU show that stagnation in relations is the most likely outcome in the next 5 years.

The Master's thesis consists of the introduction, three chapters divided by two paragraphs each, conclusion, the review of the source. In the first paragraph of the first chapter, the concept of sanctions and its essence is considered, the goals of sanctions and the effectiveness of their introduction are also considered. The second paragraph of the first chapter is devoted to the reason for the emergence of sanctions, as well as the chronology of the events of the imposition of sanctions against Russia and countersanctions against the EU.

The second chapter is devoted to relations between the EU and Russia, their strengths and weaknesses, and also examines Russia's relations with non-European countries. The chapter discusses the major changes in trade between the EU and Russia since 2014, when sanctions were imposed in connection with the Ukrainian crisis.

The final chapter is devoted to how Russia copes with restrictive measures within the framework of sanctions, how the course towards import substitution is being pursued and the turn of cooperation to the Eastern countries. In addition, the chapter describes possible future scenarios in EU-Russia relations, and concludes with the main findings and results of the work.

ABSTRACT

The mechanism of economic and political sanctions today is one of the most frequently used instruments in the foreign policy of states. This is primarily due to the fact that sanctions restrictions are a modern alternative to the use of military force to resolve international conflicts or interstate disagreements, which requires much lower costs and does not require human sacrifice. As an example of the intensive use of the sanction's mechanism in international relations, this paper considers the practice of applying the sanctions imposed on the Russian Federation, as well as countersanctions introduced by Russia in relation to the European Union.

Master's thesis is devoted to the investigation of the impact of the sanctions imposed by the European Union and countersanctions from the Russian Federation. The paper examines the theoretical and historical aspects of the application of sanctions, examines the losses and benefits of sanctions, and also answers the question about the effectiveness of sanctions. The paper also analyzes the import substitution policy of the Russian Federation and pays attention to making forecasts for the future relations between the Russian Federation and the EU.

The main aim of this research is to assess the damage from the imposed sanctions for both Russia and the EU. The objective is to see how countries' economies have changed under mutual sanctions. The main research methods are systemic, structural-functional, comparative analysis, which helps to reveal the content of the case.

The findings of the research contributed to understanding the impact of the imposed sanctions as well as possible future scenarios in partnership between the EU and Russia. Based on the analysis, the losses of both sides, losses in the economy were revealed. The search for alternative sources has become one of the main new courses for both international players.

Keywords: sanctions, Russia, the EU, import-substitution, restrictions, Ukrainian crisis

Chapter 1. THEORETICAL ASPECTS OF STUDYING SANCTIONS

1.1 The concept and essence of economic and political sanctions; its goals and principles of the application of trade and economic sanctions

In international documents, there is no precise and comprehensive definition of economic sanctions: each specific case of their application is considered separately, as a result of which a certain set of measures of an economic impact on a given country is determined. The term sanction according to the French dictionary means reactions adopted by the States (unilaterally or collectively) against the perpetrator of international law with an aim to follow the performance of a right or obligation accepted by the international community (Salmon, J. 2001). Over the past decades, opinions have changed on the question of when the imposition of sanctions is justified and appropriate to impose. From the outbreak of WWI to the end of WWII, sanctions were used primarily to try to prevent military intervention (Pronin, A. 2014).

In the modern world, sanctions are deeply connected with the setting and maintaining norms. Hence, in a crisis, sanctions are imposed almost automatically as a reaction of a particular state. Sanctions exceptionally fit into a liberal perspective of the world view, emphasizing connections and cooperation between the European Union and the Russian Federation. Currently, economic sanctions in the 21st century are the main instrument of international diplomacy. By international economic sanctions, it is needed to understand a set of measures of a political, economic, or legal nature, with the aim to force, restrict, or deterring the activities of a particular state, its institutions, and branches of the economy (Kurdyukov, G. 2001). Sanctions are characterized by the fact that they are taken for a certain time, although they can be easily extended. Assumingly, sanctions can be effective as it creates bargaining power which can lead to the changes. In this case, the demands of those who are imposing the restrictions should have concrete objectives that can be aimed at certain political changes. If all opportunities for economic sanctions can be exhausted at the first stage, the use of military force becomes the only remaining choice. In such a situation, economic sanctions become not a separate way of punishment but become a precursor for military force. In modern realities, all countries are trying to avoid using military force as this measure violates many rules, especially Human Rights.

Today, economic sanctions are a crucial tool for powerful countries to respond to geopolitical challenges. It can be assumed that the term sanctions can be defined as a reaction of a certain subject (an international organization, a state or groups of states) to the commission of an international crime by another state; which implies the imposition of restrictions (Keshner, M. 2015). As a rule, sanctions cover all sorts of aspects of a state's international activities, from diplomatic (for example, recalling an ambassador) to cultural (denial of admission to international events).

Kaempfer W. and Lowenberg A. (1999) considered the problems of the effectiveness of multilateral and unilateral sanctions through the prism of the theory of public choice, according to which the results of foreign and domestic policies directly depend on the pressure exerted on the political process by groups that defend their interests in the process of achieving domestic political equilibrium. Researchers have tried to challenge the widespread assertion that sanctions are more effective the more economic costs are borne by the sanctioned party, and that multilateral sanctions in general cause more economic damage than unilateral ones. They concluded that unilateral sanctions can be successful in achieving political results, even if they reflect the interests of small groups in the countries imposing the sanctions and are not underpinned by international political agreements. Kaempfer W. and Lowenberg A. (2007) have also shown that unilateral sanctions tend to sever ties between countries representing both sides that have close cultural, historical or strategic relationships, which should potentially lead to political consequences.

As for multilateral sanctions, their political effect, as these researchers have shown, can often be weakened due to difficulties arising in the process of organizing and implementing cooperation within the alliance of countries participating in the sanctions process. The more significant changes in the terms of trade for the countries of the alliance, the more willingness for these countries to act bypassing sanctions and take advantage of the opportunity to benefit.

Overall, Kaempfer and Lowenberg (2007) concluded that multilateral sanctions have a greater effect on intercountry trade and cause more damage to the economy of the authorizing country than unilateral ones. However, the political effectiveness of such sanctions decreases if the government of the sanctioned state, as in our case, Russia,

establishes control over economic activity, as a result of which economic agents in their activities are completely reoriented to the domestic market. According to the study of sanctions by Hufbauer G. (2009), sanctions should be in place for a sufficient period to be counted as successful. In more than half of the cases in which a sanctioned country subsequently changed its policy, the sanctions lasted for two or more years.

The extent of sanctions damage depends on the number and size of countries maintaining economic relations with the authorizing entity. Thus, unilateral sanctions create less negative effect on trade volumes than sanctions with a large number of participants. With the introduction of an embargo on several categories of goods, damage is caused to the country that imposes and receives the sanctions, since in both economies there is an increase in prices for imported goods and a decrease in prices for exported ones.

As stated in the neoclassical theory, the redistribution of factors of production (both in anticipation of sanctions and after their introduction) within a certain time interval can reduce the losses caused by sanctions. It is obvious that the country, in the conditions of restrictive measures, may take some time to realize the real threats and start the country to adapt to the new conditions. The process of awareness begins immediately at the moment of the announcement of intentions to impose sanctions, while the process of adjustment can begin immediately, or it can begin only when, in the perception of politicians, the perceived benefits of adjustment exceed the estimated costs of adjustment (the redistribution of factors of production). C. Bergeijk and P. Marrewijk (1995, p.77) concluded that sanctions that do not bring the expected rapid change on the part of the sanctioned object may work in the future, provided that the damage was done outweighs the benefits. The constant and prolonged increase in the costs of the sanctioned state increases the likelihood that it can better understand the firmness of the intentions of the countries that imposed the sanctions, which do not intend to change their position.

It is worth noting that diplomatic or political sanctions are aimed at reducing the legitimacy or authority of the violating country, and economic sanctions should urge it to abandon the actions that led to their imposition by inflicting material damage on it. The behavior of the elite will be determined by how financial losses of the country they

will compensate during the new realities. This aspect is important for both those who are from the sanctioned country and those who imposed the restrictions. Quick actions are significant for the publicity because it shows how the country is ready to accept the challenges and to solve it. Otherwise, the sanctions will show all the weaknesses of the states.

Anyway, the main purpose of both economic and political sanctions is for the target country to change the course of its vision regarding the situation that caused the imposition of the sanctions. Thus, the economic sanctions are a set of measures of a trade and economic nature, designed to put pressure on a particular country. Economic and political sanctions are interrelated and harm the violator's country, its political and economic systems.

It is worth defining the term embargo as this measure is directly related to the sanctions. Professor Ponomareva, E. (2010, p.136) defined an embargo as a prohibition on the import into or export from a particular country of a certain amount of goods. This measure is used as a means of economic pressure and is a coercive factor.

The most relevant question which appears analyzing a particular sanction case is what is the effect of the imposed sanctions? In 1998 Professor Baldin, D. (1998, p.198) shared the idea of a «sanction paradox» which means that due to the increasing role of sanctions as a restriction measure the positive outcome is rare. Despite the fact that this measure is quite popular and widespread in the modern world, it is very rare to find an example when the sanctions brought any result. Using the example of Russia and the EU, it is worth checking this paradox and understanding whether there is an effect or not. Sanctions are the better way to show your position rather than to be involved in a military conflict.

According to Brzoska, M. (2014, online article) sanctions in a modern world became the most popular way of the state reaction to a crisis situation. If there is no visible effect of using the sanctions, why the number of imposed sanctions is growing every year? This tool used by international players may not change the system or cause a global change however it can significantly damage the whole economy of the country or a particular economic sector of that country who was affected by the sanctions. Sanctions

are the most used method of resolving any disagreements, since they reduce the risk of human casualties, in contrast to wars, and also lead to significantly lower financial costs. It is worth recalling that sanctions can be introduced both pointwise and locally. Thus, sanctions can be imposed on (Brzoska, M, 2014, Ibid):

- a) on the country's economy as a whole;
- b) on the competitiveness of certain sectors of the economy and industry
- c) on the political regime of the country or on the politicians and diplomats in power;
- d) on the interests of individual groups and companies.

Kaempfer and Lowenberg (2001, p.17) distinguished two main types of financial sanctions imposed with the aim of forcing a certain state to change its policy. First, it is the limitation of the possibilities of obtaining loans and trade crediting in the world capital market. This type can be successful if the government of the authorizing country actively loans in international markets and these restrictions become an obstacle to its effective work. Secondly, this is the freezing and seizure of accounts, transactions, and accounting documents (This type is more inherent in the Russian Federation).

The goals pursued by states and international organizations under various types of sanctions can be divided into several groups (Musatkina, A. 2014):

- 1) Forcing another state to change its policy following the interests of a particular state or international society and international standards
- 2) Displacement of the leadership of the state without changing its political system or changing the political regime as a whole. The use of measures of this kind is caused by the desire to create an unstable situation in a particular country. Let me note that this goal is radical in nature and violates the sovereignty of another country.
- 3) Application of the method of deterrence, that is, preventing the country from repeating a certain action in the future.
- 4) The imposition of sanctions as moral pressure on members of the international community. The more influential countries are imposed sanctions, the more likely that countries will follow the sanctions policy of the leading country.

In order to get a complete picture of the use of the sanctions mechanism in the context of the foreign policy of the Russian Federation, it is necessary to mention a concept of countersanctions. Counter-sanctions - measures of a political, economic, and social nature, which are introduced by the state in response to unilateral socio-economic sanctions applied to it (Ibid). The main goal of the introduction of countersanctions is the abolition or weakening of the sanction restrictions. In the work it will be mentioned these measures which were used by the Russian side.

In addition, in foreign economic relations between states, such types of restrictions as embargo, economic isolation, boycott, freezing of financial resources, etc. can be applied. The work will pay attention to the retaliatory measure on the part of Russia - an embargo, which is a complete or partial prohibition of trade with any state. It is important to note that trade embargoes harm both the economies of the countries imposing the sanctions and the economy of the sanctioned state.

Therefore, sanctions are the most common tool of politicians and their number is only growing every year. However, the economic effect of the imposition of sanctions has an impact on the population of the violating country rather than on the political power of the country. Thus, under the democratic structure of the country, such sanctions will be a signal for the authorities that it is time to change the situation in the country, since their potential electorate is in danger. How politicians cope with the problem will depend on their future political future. The next chapter will examine the chronology of events, where it will be possible to track the effectiveness of the sanctions and how both Russia and the EU have changed under the new realities.

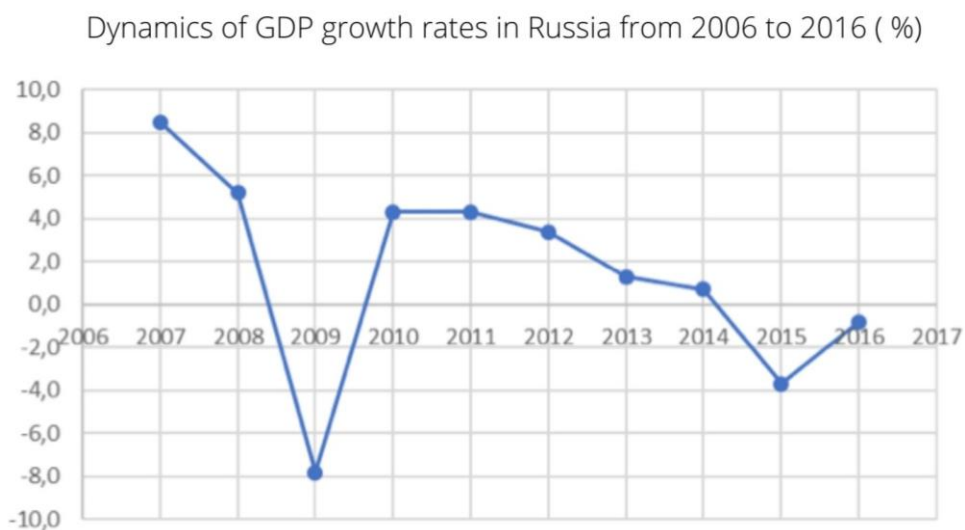
1.2. Chronology of the application of anti-Russian sanctions in 2014 - 2020

Nowadays Russia-EU relations are going through difficult times. A serious blow of mutual relations was dealt with the sanction's decisions of the European Union against the Russian Federation. Sanctions can be caused by various reasons and have a different focus. A distinctive feature of these sanctions is that they are not imposed on the entire state as a whole, but individuals and legal entities, on commercial structures and industry-forming enterprises. The second feature is that they emanate not only from individual states, but also from extraterritorial organizations.

It is worth paying attention to the EU sanctions against the Russian Federation preceded the Ukrainian crisis to better understanding the background. In the 21st century, the first restrictive measure dates back to August 2008, when the issue of imposing trade and economic sanctions against Russia was considered in Brussels in connection with the events in South Ossetia (Portyakova, N. 2008). However, several European countries said it was premature to impose the sanctions, so they were not implemented (Ibid.). It is important to highlight, that before the sanctions had been in force, in 2013, EU trade relations with Russia suffered significantly from the financial crisis in Russia. According to statistics, due to the sanctions and other external factors which weakening the economy of Russia, European exports to Russia decreased by 21 % between 2013-2016. As a comparison, between 2009-2013 EU export had increased by 20 % per year (Fritz, O; Christen, E, 2017). This means that not even during the sanctions period, exports began to decline.

The main factors of the growth rate of the Russian GDP can be considered the share of oil and gas sales, government tax reforms, as well as the level of foreign investors. This trend was relevant until 2007 (see Table 1 below). However, the 2008 economic crisis had a rather strong impact on the economies of both Russia and the countries of the European Union. The level of the GDP growth rate in the Russian Federation was reduced to -8% in 2009. This crisis also had serious consequences for the European Union. In 2016, we may notice a slight increase in GDP due to the introduction of an import substitution policy and a redirection of the policy to the East.

Table 1.



Source: Fritz, O; Christen, E, 2017.

In order to understand how events unfolded from 2014 to 2020, we need to pay attention to the chronology of events. Talking about the sanctions it is important to define the immediate reason for sanctions. In our case, it is the annexation of Crimea. It was a starting point after which the first sanctions were imposed. However, it is important to see the background picture of why Russia maintains a historical claim to the Crimean Peninsula. During the ruling of Catherine II, the Russians colonized Crimea and created the main port and the city - Sevastopol. After back in Soviet times, Crimea was still the Russian peninsula but after 1954 Crimea became a part of the Ukrainian Republic. Despite the fact, that Crimea has the majority of Russian people when the Soviet Union fell in 1991, the existing states signed an agreement regarding the borders of all the states without any claims.

In 2014, against the background of Ukraine's rapprochement with Western countries and NATO and mass protests on the Maidan, Ukraine's President V. Yanukovich was forced to flee the country. At the same time, Russia was concerned about the Russian majority living on the peninsula, and therefore in March 2014 in Crimea, with the participation of Russian influence, a referendum "on the status of Crimea" was held (Godovannik, E. 2015). Thus, by its action, Russia has violated numerous treaties, including the Helsinki Final Act (1975), Treaty on Friendship (1997), etc.

As a result of the referendum, most people voted for the annexation of Crimea. It is worth noting that a referendum was not held in Russia for the citizens of the country on whether they want Crimea to become part of the country, which is why, after the end of the referendum, not all Russian citizens shared the government's position. The turnout in the referendum, according to this data, was 83% (Crimea realities news, 18.03.2019). According to the final protocol of the Autonomous Republic of Crimea Commission for the "referendum", 95% of voters voted for "reunification with Russia as a subject of Russia" (Ibid). Since there are numerous videos on the Internet with falsifications in the presidential elections in the Russian Federation, it should be assumed that the manipulations with the ballots were also carried out during the referendum.

The world community did not recognize the annexation, and already in 2016, the UN General Assembly adopted a resolution in which the Russian Federation is designated as an "occupying power" and the peninsula as a "temporarily occupied" territory (DW, 30.10.2020). Most countries in the world, including Turkey, did not recognize Moscow's actions. According to the Law of Ukraine "On ensuring the rights and freedoms of citizens and the legal regime in the temporarily occupied territory of Ukraine", the territory of the Crimean Peninsula as a result of the Russian occupation is considered to be temporarily occupied territory (Ibid).

What do we have now? The enmity of the once friendly peoples, separation of families, anti-Russian propaganda. Besides, Russia has allocated just a huge amount to Crimea and for the construction of the bridge, even though most regions of Russia are drowning in poverty. Now Relations with Ukraine have been undermined, and Crimea is still a topical issue and now it is difficult to imagine that something will change while President Putin is in power. The conflict with Ukraine and the transition of Crimea to Russia taught a painful response in the international arena, and if initially the United States and the EU used restrictive rules, then subsequently the sanctions expanded. Subsequently, a period began that continues to this day and is the strengthening of sanctions. After conducting my research, I have identified three main types of sanctions applicable to the Russian Federation:

1. Aimed against specific individuals or legal entities (personal sanctions). The actions of these persons did harm or could potentially harm Ukraine (Ibid.), and therefore,

there were attempts to restrict their activity. Persons were banned from entering the EU. At the same time, all their assets in the EU were also “frozen”.

2. Aimed at a certain sector that can cause damage to the country's economy. In this case, it did not matter whether the sector or its persons belonged to the crisis or not. Firstly, in April 2014, a scandal followed with Visa and MasterCard payment systems when there was a disconnection of the cards of a number of Russian banks (Eremina, A. 2020). This change touched the general public and revived conversations about the creation of a national payment system in the Russian Federation. In June Russia launched a new card system – Mir - which started to spread in the country. As a fact, since July 2018, people cannot receive salaries and other payments from the budget to accounts to which cards of international payment systems are linked: the account must be either without a card at all, or with a «Mir» card. Secondly, the sanctions affected the oil and gas sector (Rosneft, Gazpromneft, Transneft). A ban was imposed on the supply of these companies with equipment for oil production and for the search for new deposits (Eremina, A. 2020, Ibid). Thirdly, the military-industrial complex was also affected by sanctions and a ban on the export of dual-use goods was introduced. Financial sanctions were imposed on such companies as Kalashnikov, Izhmash, Basalt, Almaz-Antey, etc (Mezin,V; Kudryashova,V. 2014).
3. Termination of joint cooperation both on the territory of the EU and the Russian Federation. For example, Russia was suspended in the process of admitting to the OECD (Klinova, M; Sidorova,E. 2014). We can conclude, that those Russian companies and industries in which the country is competitive were banned, mainly in the oil and gas industry; nuclear power; aerospace; banking; - nuclear energy; military-industrial complex, etc.

In 2014 the Minsk agreements on a ceasefire and practical steps to normalize the situation in eastern Ukraine were signed After that, US President Barack Obama and European Council President Herman Van Rompuy announced (Ponomareva, E. 2013) their readiness to lift the sanctions in connection with the stable situation in Ukraine. However, despite this, on September 12, 2014, the sanctions still came into force. In connection with the aggravation of the situation in the east of Ukraine, the Boeing 777

accident in the Donetsk region (the charges fell on the rebels allegedly supported by Russia) led to the result that by the end of 2014, the Russian currency (ruble) significantly weakened (Mezin, V; Kudryashova, V. 2014). The collapse of the ruble can be explained by the following reasons: low world oil prices, sanctions environment, ineffective policies of the Central Bank and the Government of Russia in the field of external and internal economics. In 2014, certain sectors of the Russian economy were also affected: a ban on EU companies from investing in transport, energy, and telecommunications, in oil, gas, and mineral resources. The low cost of the ruble made the owners of TNCs worry. According to the Bloomberg Billionaires Index (RIA News, 2014) in the first crisis days, the twenty richest Russian billionaires lost about 10 bil. \$.

In response to the sanctions, Russia imposed a food embargo in 2015, which included a ban on the import of various products into the Russian Federation. The restricted measures affected meat and dairy products: fish, fruits, vegetables, and nuts from countries such as the EU, the US, Canada, and Norway. More than 27 thousand tons of products illegally imported into the territory of Russia were destroyed (Glazyev, S., 2015). The destruction of prohibited products was carried out by tractors and other equipment and was broadcast on the media. It should be noted that the Russian Federation after the embargo was adopted, began to get rid of forbidden products in very radical ways, which caused a wave of negativity among the public. It should be emphasized that the standard of living of an ordinary citizen of the Russian Federation is below the average in Europe. The destruction of products could be distributed to those who were in need however the government decided just to get rid of the tons of products that caused the effect when citizens were confused with the governmental actions. However, the ban on the import of imported products had a beneficial effect on the domestic agricultural sector, but the industry turned out to be in the red. Among other things, food prices have gone up.

Referring further to the chronology of events, the most important points should be shown.

2014: Firstly, Russia has been suspended from G8 participation (Shepelev, I. 2014). Secondly, the European Parliament adopted a resolution calling for the abandonment of the construction of the South Stream gas pipeline in the EU (Ibid.). Thirdly, on August NATO completely ceases cooperation with the Russian Federation.

As retaliatory sanctions on the part of Russia, a ban on the import of vegetables and fruits (embargo) was introduced, which ultimately hit the export sectors of the European Union as they lost a large supplier - Russia. As an example, according to researcher (Morozenkova, O. 2017, p.236), Poland lost about 450 million euros in trade with the Russian market (the country supplied fruits, berries, vegetables). Most of all, the consequences of the retaliatory Russian sanctions' measures affected the enterprises producing dairy products, fruits, and vegetables. Thus, in 2014, direct losses of European farmers from lost profits on the Russian market amounted to about 7-8 billion euros (Ibid).

2015: The sanctions were extended for a whole year. During the same period, Greece came out in favor of lifting the sanctions. During the first months of 2015, the sanctions lists were constantly updated. Several non-EU countries have joined them. Moreover, the sanctions directly affected the Crimea: on the import of goods produced on the peninsula, as well as a ban on investments.

However, it is important to highlight that in 2015 the level of German investments into the Russian economy increased and about 1.8 billion euros were invested (Mishchenko, O. 2019). In this case, why the export is still growing and how can we connect this growth? The answer lies in the fact that the demand for German cars among Russian citizens has begun to gradually recover. For example, sales of Volkswagen increased by almost 4% (Ibid). It can be assumed that German large companies are under pressure, since, on the one hand, they have to fight against EU sanctions, and on the other hand, they have to deal with the search for circumvention of sanctions for further cooperation with Russia. German researchers suggest that German corporations will have to significantly cede their share in the Russian car market to Korean manufacturers if the dialogue is well established (Vedomosti, 2017). Besides, according to the Austrian Institute for Economic Research, the European Union lost 17.6 billion euros in 2015

due to sanctions and countersanctions, and about 400,000 jobs were cut in EU countries (Ibid).

As we can see from Table 2 below, Europe since the beginning of the 21st century had been a significant trading partner of Russia. Since 2014, the sanctions have significantly affected trade with the European countries, therefore, the trade turnover has significantly decreased by 3.3%.

Table 2.

Trade turnover of Russia with European countries from 2000 to 2015 (mil. \$)

	2000	2005	2010	2011	2012	2013	2014	2015
Total	111545	288558	534651	698203	717756	729724	687714	460262
Eu countries	63702,5	181735,5	290347	369704	383543	385200	345075	216597

Other EU countries:

Norway	281	1433	2171	2976	2701	2562	2086	1379
Switzerland	4128	11649	11131	138789	13520	11776	6934	4670
Total for Europe	68111,5	194817,5	303649	511469	399764	399538	354095	222646
Total (%)	61,1%	67,5%	56,8%	73,3%	55,7%	54,8%	51,5%	48,4%

Source: Surinov, A., Baranov, E. (2016).

It is obvious that the decrease in trade due to sanctions and countersanctions negatively affects the economies of both Russia and the EU.

Since the beginning of 2016, the second Minsk Agreement, a set of measures agreed by the Normandy Four at the summit in the capital of Belarus, has been formally terminated, and the EU sanctions were extended again.

2017- 2018: In 2017 - 2018, the sanctions were extended, some countries expanded the ban lists for individuals and legal entities. One of the reasons for the extension of the sanctions, in addition to the above, was the poisoning of the Skripal's family in England by the «Novichok» poison. Russia denies all accusations and has repeatedly offered cooperation, including in the investigation of the Salisbury incident (RIA News, 2020).

2019: The EU extended the sanctions for the future year again. German Foreign Minister Heiko Maas said that the time had not yet come to lift the sanctions against Russia. The embargo was extended by Russia for another year with the same conditions (RBC News, 2019).

2020: Both sanctions and countersanctions have been prolonged by both parties until the end of the year. The President of the Russian Federation made amendments to the law on countersanctions, which has been applied since 2014. Under the new law (Ibid), transit shipments of sanctioned goods through Russia are allowed only on the condition that the tracking of the transport route is carried out. In addition, the import of sanctioned goods by individuals for personal use in limited quantities was allowed.

During 2020, the EU prolonged sanctions on chemical weapons against Russia for one more year (Bakin,I; Shcherbak I. 2020). In October, a spokesman for the Union for Foreign and Security Policy of the EU confirmed information that the foreign ministers of the EU countries unanimously agreed to impose sanctions against individuals and legal entities involved in the alleged poisoning of Alexei Navalny by Novichok (chemical weapon).

According to this recent news, it is important to mention «North stream – 2». This is a joint Russia-EU project to build a gas pipeline from the Russian coast to Germany. The length of this highway is 1234 km, which will pass through Russia, Finland, Sweden, Denmark, and Germany (DW News, 2020). The completion of the project was scheduled for 2019, but the United States imposed sanctions on the companies that worked on the project, in connection with which the deadline was postponed. The United States believes that the project will make Europe vulnerable and more dependent on Russia. At the same time, the German Chancellor is in favor of continuing the construction of the highway (Ibid). At the moment, diplomats have come out in favor of blocking construction in connection with the poisoning of Navalny. It is difficult to talk about forecasts, but it can be assumed that construction will be completed, the question is only about time.

It should be noted that a significant dependence of Western European countries on Russia is the export of Russian energy resources. According to statistics (Kravchenko, L. 2014), the distribution of oil sales in Russia is 68% in Europe, 17% in China, and 6% in the United States. According to the distribution of consumption of international oil in Europe, Russian oil and gas companies account for 46% (Ibid). Thus, we can conclude that the entire European community is aware that sanctions against Russia are also detrimental to the European population. In a short time, it is quite difficult to find new sources for supplying European countries from other regions. Also, researchers concluded (Bakin,I; Shcherbak I. 2020) that the gas industry in Russia is almost completely focused on the countries of Europe and the CIS; this is how 65% of Russian gas goes to Europe, and 28% to countries of the former Soviet Union. The USA uses gas from Canada, and the US is likely interested in Europe gradually switching to American shale gas. It should be noted that the cost of shale gas is much more expensive compared to Russian pipeline gas. Switching to the supply of this gas requires significant costs and time for the equipment of port channels.

Despite the continuing sanctions, many European countries are questioning the EU's policy, the level of dissatisfaction in the countries is only increasing since the rupture of economic relations with Russia is making itself felt not from the advantageous side. According to a report by the French research center, a total loss of 27 countries from EU sanctions between 2014 and 2015 was found, which amounted to about \$ 60 billion (FlashNord News, 2016). Germany (27%), France (6%), Great Britain (4%) suffered the most from the sanctions imposed by the EU and in Russia, the volume of supplies of European goods fell by 13 %, while the decline in Russian goods in the EU fell by 25% (Ibid). Based on the data, we can conclude that the European Union countries have suffered more than the Russian economic system. For instance, Italy in 2014-2015 lost 665 million euros and took second place after Germany among those who were most affected by the sanctions (RIA News, Losses of Italian farmers, 2016). The country has lost Russian orders in the fields of energy, mechanical engineering, agriculture. Slovakia supports the lifting of the restrictive measures against the trade with Russia due to the fact that the country is highly dependent on Russian energy and with the sanctions it is hard to implement a stable work (Ardaev, V. 2016). Austria also does not support the current EU policy, as the country suffers from losses in the banking, transport, agricultural sectors, and the export of products (Ibid).

To sum it up, since the middle of March 2014, significant events occurred in the geopolitical arena. The overthrow of power in Ukraine, the transition of the Crimea to Russia, the flight of President V. Yanukovich, the outbreak of armed clashes in the South-East of Ukraine, the Malaysian "Boeing" shot down, the aggravation of the armed conflict - all these events have become catalysts for action by the EU to impose new sanctions against Russia. Many countries also suspended military and military-technical cooperation with Russia, which significantly affected the country's national security.

Prior to this time, mutual cooperation between Russia and the EU has been going on for 26 years. In 2014, the USA initiated the idea of sanctions for the purpose of international isolation of Russia. As the US is a powerful player, many countries joined the sanctions. These restrictions were also supported by the G7 and some other countries that are partners of the United States and the European Union. The situation in connection with the Ukrainian crisis led to the "freezing" or cancellation of negotiations, joint projects, which led to the loss of both parties: the EU and the Russian Federation.

It is obvious that in the future, economic sanctions will retain their importance as a means of pressure and conflict management not only in the policy of the United States and Russia but also in the activities of large international organizations. Thus, it can be said with a high probability that the lifting of sanctions against Russia is not expected in the near future. It can be assumed that some restrictions in the sphere of cooperation will be lifted, but one should not hope for a complete lifting of the sanctions. It is noteworthy that the West has repeatedly stated that they are ready to lift the sanctions if the Russian side fulfills the terms of the Minsk agreements.

The advantages of the applied sanctions are still under the question mark. However, sanction restrictions in a particular country can lead to the search for alternative solutions in order to make the situation in the country more or less stable what was the case with the Russian Federation. In the case of EU sanctions against Russia, the volume of trade has changed. Restrictions on the import of European products shook the Russian economy, but the Russian side immediately focused on domestic and the creation of analogs. Russia in response to the sanctions imposed an embargo on the import of

products from the West, which automatically led to the need to develop the country's internal economy.

The development of the economy has always been a priority task of the state, in which small and medium-sized businesses can play a key role. In this regard, it is important to ensure a more active implementation of technological and managerial innovations, the creation of modern goods and services in the domestic market. The success of such work directly influences the improvement of the quality of life of people and the strengthening of Russia's competitive position in the world market. The Russian government provides state support for the export of industrial products using trade and economic, organizational, and financial instruments. Russia has taken the vector of scientific and technological progress in order to expand the range of Russian products that hold a strong position in world markets and have the status of "world-class products". In connection with the sanctions, the diversification of Russian exports, which is a national project of the country, has significantly slowed down.

With the advent of sanctions, the Government has set a course for an investment-oriented model of growth in the Russian economy. Given the fact that the workforce will only shrink in the coming years, and the utilization of production capacities is already quite high, an increase in productivity remains the only possible source of economic growth, and it requires investment. But it is more interesting to understand what kind of investments are needed and from where. The problem is that in Russia there is a lack of not just investments, but smart investments that would not only provide an injection of financial resources into the economy but would be associated with attracting new technologies and increasing productivity. Numerous studies show that foreign investment is one of the most important sources of this smart money, and from the point of view of increasing productivity, foreign direct investment is most useful - for example, in the form of new ventures.

The question arises - who is investing in Russia? Germany took first place in terms of the number of FDI in Russia, China and France shared the second and third places, and the United States dropped to fourth place according to statistics for 2018. In 2018, the share of foreign investors from Europe in the ranking was 48%, and in 2019 it increased to 60%, mainly due to a decrease in the number of foreign direct investments from the

USA, Japan, and South Korea and an increase in activity in Germany and France (Enikolopov, R., 26.11.2019). Despite the importance of foreign direct investment, the issue of attracting them in recent years has practically dropped off the agenda as irrelevant. Their sharp drop is usually attributed to geopolitical, primarily sanctions, risks, and these restrictions are taken for granted, with which nothing can be done.

It is also worth noting that currently, the position of small and medium-sized businesses in Russia is particularly sensitive to political decisions. On the one hand, the Western countries' maintenance of economic sanctions against Russia and the response to anti-sanctions create problems for the economy, but at the same time, they open up new horizons for the development of domestic business. In my opinion, the result of the sanctions against Russia, undertaken by the EU and the USA, suffered more than state banks and companies as expected. For example, the economic losses of Hungary from the anti-Russian sanctions imposed by the EU in 2014 and the response of the Russian government amounted to more than \$ 6.5 billion (Trading economics Journal, 2018).

There is a danger of an escalation of EU sanctions, which will allow for a more consolidated policy towards Russia. In particular, the EU may push for the introduction of sanctions on the topic of "interference in elections" in European countries. In addition, the EU can expand the lists of sanctioned persons and companies when the sanctions are extended every six months.

Despite the fact that many European countries have significant losses in their economies due to the retaliatory Russian restrictive measures; Italy, Germany, Greece, Austria, Cyprus, Hungary are still trying to cooperate with the Russian Federation. Thus, we can say that the sanctions were a reaction that could not have been avoided, as well as mutual losses. It remains to accept the fact that both the EU and the Russian Federation must adapt to the new realities and create trust.

Chapter 2. ANALYSIS OF THE INFLUENCE OF SANCTIONS ON THE DEVELOPMENT OF THE RUSSIAN FEDERATION AND THE EU

2.1 Positions of the non-EU countries on sanctions against the Russian Federation

Foreign trade provides great opportunities for the formation of the country's economy and its development. Deepening economic cooperation and international economic integration is one of the most popular courses in the politics of many countries, especially for Russia. However, it is important to highlight that the structural problems of the development of foreign trade of the Russian Federation:

1. the problem of the decline in real incomes of the population and the devaluation of the ruble led to a decrease in consumer imports, due to the decline in economic activity - the import of equipment;
2. the problem of obsolete equipment, lack of qualified workers, lack of investment does not allow considering certain industries as competitive;
3. the problem of increasing the cost of extraction and supply of raw materials (export) undermines the strategic position of the country.

That is why, the Russian Federation is open to foreign trade especially during the restriction environment caused by sanctions.

The reasons for the current struggling situation between the EU and Russia belong to the beginning of the Ukrainian crisis. This situation has demonstrated the fundamental disagreements between the parties, especially in such an important issue for modern international security as the ways and methods of forming modern international relations. In 2014, the political conflict between Russia and Western countries, which occurred due to the conflict in Ukraine and annexation of the Crimean Peninsula created a new international reality when imposed economic sanctions by the EU, USA and other Western countries against Russia had been implemented.

Before considering non-EU positions, it is worth noting one key role in the relationship between the Russian Federation and the EU - this is the creation of a special economic space, where sectoral dialogues are carried out with the participation of both parties. For example, there are energy, transport, industrial, information, agriculture, space,

financial, etc. (Matsepuro, D. 2008). Obviously, in the light of the sanctions after 2014, cooperation in many dialogue areas has stalled. The only area that is developing and is a conflict-free zone is the educational space. Scientific cooperation, educational projects still continue to function. That is why the countries, in our case Russia, faced with problems in other spatial dialogues with the EU, tried to replace cooperation and change course. In this paragraph, I would like to note the non-EU countries that support or not the sanctions policy in order to understand which dialogues were replaced by new players.

Foreign economic sanctions and strained foreign policy relations served as a starting point for a change in existing foreign trade relations. In the middle of March 2014, after the annexation of Crimea, in addition to the EU, the United States, New Zealand and Australia introduced the first package of sanctions which included freezing the assets of certain individuals, tightening business relationships, etc. (RIA News, Chronology, 2015). Canada included in its sanctions list Russian defense and resource companies and their lending (Ibid). Starting in 2014 and until now, the United States, disagreeing with Russia's actions during the Ukrainian crisis, imposed sanctions on high-ranking Russian politicians, banned them from entering the United States and blocked assets. Initially, the EU hoped that Turkey would join the sanctions regime, but Ankara immediately abandoned this due to closer cooperation with Russia (Ria News, 2020.02.03). Despite the fact, that Turkey didn't impose sanctions, the country does not recognize the reunification of Crimea with Russia. Serbia is an additional player which is on the way to joining the EU but nevertheless tries to maintain friendly relations with Russia and therefore tries not to spoil relations with Russia by imposing sanctions against the country (Regnum news, 2020.10.14).

The CIS countries are strategically important partners for Russia - this is an important sales market for Russian non-primary goods and services, primarily machinery and equipment, a priority platform for Russian investments for many years. The priority areas of economic cooperation between Russia and the Commonwealth countries for the coming period include the formation of common labor markets, transport services, interregional and cross-border cooperation, the creation of joint ventures and corporations. That is why, despite the sanctions, cooperation with CIS countries remains the same.

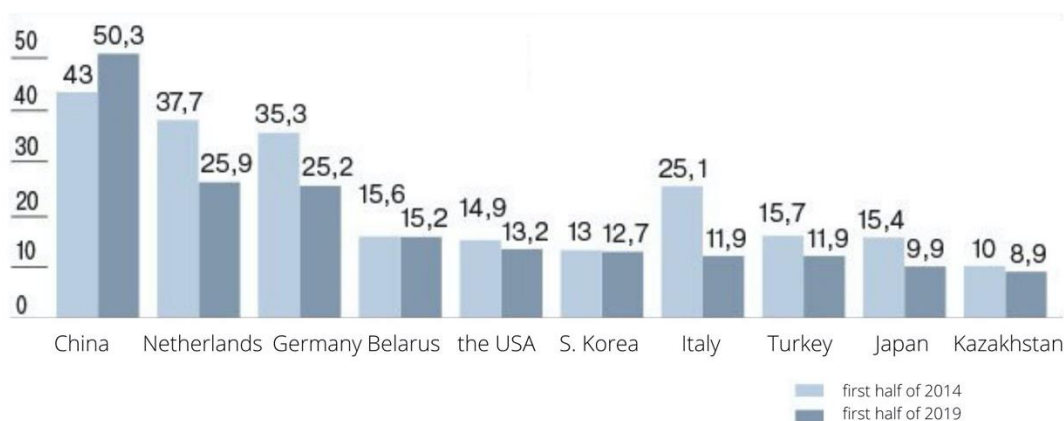
It is worth noting that the candidate EU (Montenegro and Albania) as well as members of the European Free Trade Association (Iceland, Liechtenstein, and Norway) and Ukraine, joined the decision of the EU Council to impose sanctions against Russia. Following these countries, Georgia also joined the anti-Russian sanctions. After the official announcement of the European Union that Georgia supported economic sanctions against Russia, Georgian officials hastened to deny this information. As a result, Georgia supported the sanctions only on Crimea and Sevastopol (Falyakhov R, Romanova K.2015). It is noteworthy that Russia, according to the statistics service of Georgia, ranks fourth among the leading trading partners after Turkey, Azerbaijan and China, so the country will do its best not to lose cooperation and will act with caution (Ibid).

Moreover, China also joined the aforementioned countries in imposing restrictions. For example, Chinese banks stopped issuing loans to Russian enterprises, as there was a danger for the Chinese enterprises themselves (Misnik, L. 2020). However, the Chinese-Russian cooperation is more mutually beneficial in the modern arena despite the restriction in lending as it was mentioned above. After the sanctions, trade turnover fell by 35 percent, but despite this, China is still the leader in terms of mutual trade with Russia, especially in the energy sector (Chizhov, V. 2015). Trade with Japan illustrates a positive pattern in the light of latest changes in the international world. Trade with this country increased by 33%, although the country of Japan has also joined many sanctions against Russia. The bulk of the growth in trade comes mainly from exports (plus 93%), while imports fell by 39% (Ibid).

Comparing the data between 2014 - 2019 (see table 3 below), it is fashionable to see how there was a decline in trade with 9 key partner countries, but only with China did trade increase. This table shows that Russia has decided to turn its policy eastward in the face of limited trade with the EU.

Table 3.

Foreign trade turnover of the Russian Federation with major partners (billion \$)



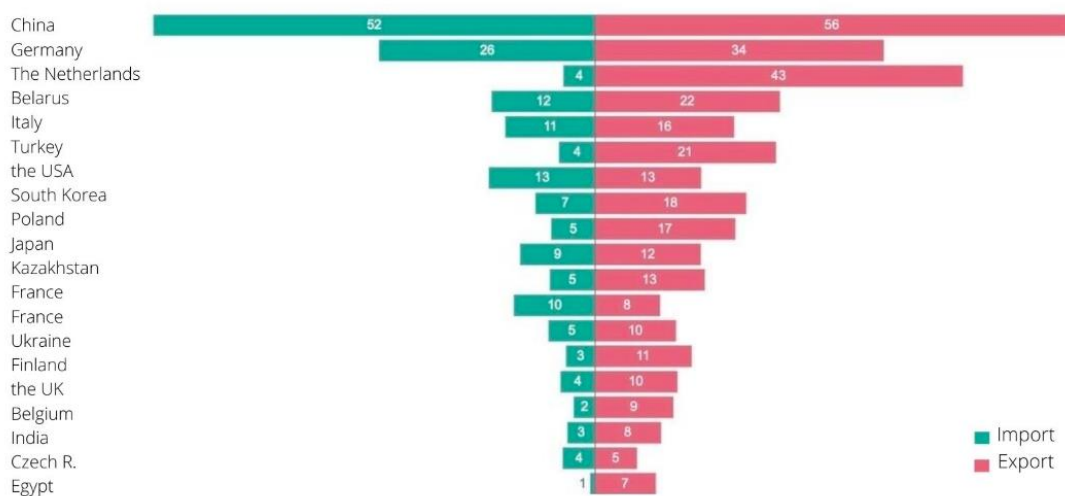
Source: Federal Customs Service of Russia (2020).

China is a key partner for the Russian Federation and the heads of state regularly announce achievements in the field of mutual trade and investment, but the real facts look much more modest. At the moment, the level of Chinese investment in Russia is below the pre-crisis level. Chinese businesses are not sure about the safety of their money in Russia and consider the Russian market not stable enough. Successful projects are implemented only with high-level political support. China invests hundreds of billions of dollars in other countries' economies, ranking second in the world in terms of outgoing investment. According to the data of the Trade Representation of the Russian Federation in the People's Republic of China, the main spheres of Chinese investment in Russia are energy resources, agriculture and forestry, and the production of building materials. For example, the Yamal LNG is the largest investment project in Russia over the past 5 years, actively implemented with the participation of Chinese companies. The condition for entering the project was the attraction of financing, which was provided by a syndicate from Chinese banks headed by the State Development Bank of China. The total investment amounted to about \$ 20 billion (Bazhenov, O, 2017).

For example, as for the exports and imports China also occupied a leading position, followed by exports is followed by Holland, then Germany in 2018 (See Table 4 below). Thus, China indeed has a key position in relations with Russia and plays an important role in mutual cooperation based on Table 3 and Table 4.

Table 4.

Trade turnover of Russia with the partner - countries in 2018 (billion \$)



Source: Federal Customs Service of Russia (2020).

The investment mechanism used by Beijing includes several stages. At the first stage, the Chinese government and corporations enter the country with financing, offering concessional loans at rates significantly lower than market rates, or buying stakes in large systemically important enterprises. In the second stage, they begin to attract additional partners from China, thus increasing the share of Chinese capital in the project. At the final stage, a wide range of instruments (soft loans, investments, etc.) are used, thereby companies and banks from China finally gain control over the project, leaving small shares to resident investors. It should be assumed that the passion for joint projects with China will not help much the development of the Russian economy. The policy of using money as "soft power" pursued by Beijing is more likely to acquire control over the natural resources of the recipient country, and the funds are still returned to China - one of the conditions of the contracts is to attract Chinese suppliers.

It is worth emphasizing that China is also actively developing its presence in the Russian Far East, where forest cooperation is being carried out since China is one of the largest forest buyers in the world. The cooperation between countries works because China needs Russian land, natural resources, and markets. From the Russian side, they need money, Chinese labor resources, and technologies. As a fact, Russia gave 1 mln. hectares of Russian forest land to China for deforestation purposes (Gess, M, 2019).

Currently, we have a massive sale of wood at low taxes to China and the lack of reforestation policy from the Russian side. In the future, it can lead to a global environmental problem.

For China, cooperation with Russia and the allocation of concessional loans is beneficial, since as a result, China's presence in another country increases, and assistance is provided to its manufacturer. When the sanctions led to market restriction, Russia began to seek loans from China more often, at least in the case of state-financed projects. However, tensions in Russian-Chinese business relations continue. The negotiations on the Power of Siberia pipeline, which ended after the imposition of Western sanctions, are still troubling many officials in the Kremlin, as China was able to achieve significant concessions on pricing. Moscow is presumably happy to apply to Beijing for funding in difficult times or for politically expedient projects. However, Russia is afraid to be dependent on Chinese funding, but so far there are no alternative options.

The sanctions imposed on the Russian Federation have become a kind of incentive for strengthening and developing close ties with some BRICS member states. For instance, cooperation with Brazil has significantly strengthened, which shows that the country is turning into an important partner in the field of food security (Davydov, V. 2014). The circle of strategic partners includes China, as mentioned above, as well as India in the field of defense and nuclear energy. Regarding Latin American countries it is important to mention that such countries as Brazil, Argentina, Uruguay, Ecuador, Paraguay refused to sign the UN resolution on the territorial integrity of Ukraine (Chernyshev, A. (2014). Several official trips were made to these countries by the Russian Federation in order to find new trade partners and food suppliers to the Russian market in connection with the food embargo imposed by the Russian government on the states that imposed anti-Russian sanctions. Colombia, Mexico, Costa Rica, Guatemala, Honduras, Panama, Dominican Republic signed the resolution. The Eurasian Economic Union (EAEU), which includes, in addition to Russia, four more countries: Armenia, Belarus, Kazakhstan, and Kyrgyzstan also refused to impose sanctions due to strong cooperation. Tajikistan, as a representative of the Collective Security Treaty Organization, also supported the policy of the above-listed countries.

Relations between Russia and the United States have a rich and contradictory history, therefore, not to delve into all the details of the relationship that require a separate analysis, we will pay attention to the US reaction to the events that took place in 2014. However, it is worth noting that large-scale sanctions against Russia had been imposed in April 2013 due to the death of Russian auditor Sergei Magnitsky (Moshes, A, 2017). After that, in 2014, the United States did not recognize the results of the ongoing referendum in Crimea (Ibid). and was an ardent supporter of the imposition of sanctions.

It is noteworthy that the countersanctions of the Russian Federation also affected the United States, therefore, restrictions on goods were introduced, although it was emphasized that this ban does not apply to vital goods, the analogs of which are not produced in Russia or other countries. Then and now, many American politicians believe that economic pressure on Russia should be increased. Now the relationship between Russia and the United States will depend on how the dialogue between the new US President and the Russian President will be built. It should be assumed that in the near future the sanctions will not be lifted, but on the contrary, their number may be increased.

To sum it up, on the one hand, some countries despite imposed restrictions continued bilateral cooperation. On the other hand, after the introduction of the first sanctions in 2014, Russia began to focus even more to develop trade relations with Asian, African, and Latin American countries in order to build new trade alliances. Currently, Russia dropped sharply out of trade relations and received a sharp decline in exports and imports of goods. The leading Western countries also continue to wage a "sanctions war" against Russia, to which Russia responds by continuing countersanctions. It should be assumed that the subsequent dynamics of the development of relations between the once strategic partners will directly depend on the extent to which the Russian Federation seeks to restore peace in Ukraine by stopping "its actions" on the territory of a sovereign state, but this will be analyzed in more detail in Chapter 3.

2.2 The impact of sanctions on trade and economic relations between the EU and Russia

International economic relations are complex and dynamic systems which are vulnerable to many events and actions. If there is an imbalance in the system, then their restoration requires considerable time and effort. At the same time, it is necessary to take into account the ongoing political and economic processes in order to restore stability. The involvement of a country in foreign economic relations with other countries, organizations, unions is an integral part of the country's development, export and import trade. Events in the geopolitical arena in 2014 changed Russia's foreign trade policy. The Russian Federation has become an object of pressure from both the EU and the United States, as well as other non-European countries. As a result, the European Council has been extending economic sanctions every 6 months since 2014 as a result of the events between the Russian Federation and Ukraine.

The key goal of Russia in foreign economic relations with European countries is to build a strategic partnership based on scientific, technological, industrial, transport and energy cooperation. Within the framework of this partnership, it should be ensured, on the one hand, the attraction of investment, technological potential and management experience from European countries to create an innovative economy in Russia, on the other hand, the joint participation of Russia and Europe in global competition based on complementarity and the use of competitive advantages in the areas, of common interest.

Thus, the priority areas of interaction with the European Union can be identified as follows:

- strategic partnership in the energy sector;
- access to European technologies and investments;
- cooperation in research and development; development of cooperation in the field of transport (formation of joint transport corridors).

These priorities and the others will make it possible to fully realize Russia's national economic interests and ensure long-term economic security in its relations with its largest trading partner as the EU.

For Russia's effective participation in foreign trade, the structure of both exports and imports needs diversification. It is necessary to take a set of measures that will reduce the volume of exported raw materials and increase the volume of sales abroad of finished products. These measures include:

- increasing competitiveness;
- decrease in the share of imported goods that can be produced in Russia;
- modernization of existing sectors of the Russian economy (for example, aircraft construction, space technologies) to ensure a breakthrough in the markets for high-tech goods;
- attraction of the necessary technologies through the creation of alliances with the world's leading companies; improving conditions for promoting Russian products;
- stimulating the attraction of advanced foreign technologies and foreign investments, etc.

Nowadays cooperation with Russia can be risky because of the unstable economic environment. The expansion of economic sanctions, drop in oil prices, etc. affects many areas. The refusal of the leading developed states and groups of states to discuss with the Russian side-draft agreements in key areas, joint trade and investment significantly reduces the prospects for the development of new forms of interaction, incl. in the export of goods, services, technologies from Russia. Analyzing the industrial structure of sanctions against Russia, we can notice that the sanctions are directed against the key competitive sectors of the Russian economy: the oil, gas, nuclear and military industries, as well as against Russian banking capital. However, in the annual Message to the Federal Assembly, the President of the Russian Federation noted that the sanctions regime only helps the country to develop its economy (Sputnik news, 2019.02.20). The Russian government is responsible for banning the importation of European production, but it is extremely sensitive to the main agents of influence of the global economy - foreign companies operating in Russia. The 50 largest of these companies were included in the regular Forbes rating where first three places shared by American, German and French companies. Forbes noted that these companies increased their total revenue by 3.3% (Popov, I, 28.11.2018).

According to the Russian Central Bank, in 2017 the investments entering the country amounted to \$ 27.9 billion, which is 14.5% less than in 2016 (Kholyavko, A. 2020.01.19). The majority of the funds are coming from Cyprus, the Bahamas, Bermuda offshore

companies. In the top 50 foreign companies in Russia, the most positive indicators in terms of annual revenues were for engineering companies, which are in the majority in the rating, food industry enterprises are second in terms of representation, and trade is the third one. The Russian division of the Swedish Volvo increased its revenue by 115%, 3.7 times more than the growth of the annual revenue of the entire global company. The Korean KIA growth was 36%, a little less at Hyundai - 34%. Ten rating companies increased revenues by 20%, among them seven engineering companies, two high-tech - Chinese Huawei increased revenues by 70%, American Apple - by 23% (RBC, 2020.09.23). Currently, the owners of many large European companies do not support the imposed sanctions against Russia and the current course of the political elite of their countries. Investors who have invested in emerging market funds have felt the consequences of growing tensions between Russia and the United States. We can suppose, that sanctions harm not only the Russian Federation but also those countries with which Russia has collaboration.

It is worth mention that after the imposed sanctions in foreign trade there was a noticeable drop. This happened due to the fact that both exports and imports, which were caused by the introduction of sanctions from both Western countries and Russia's response measures, had been declined. Analyzing certain countries of the European Union and the consequences of sanctions, as mentioned above, trade with Germany decreased by 42.5%, Italy by 24.6%, Poland by 47.7%. oil trade between Russia and Holland fell by 40% (Emelina, I. 2016). The damage to Russia from Western sanctions is estimated by experts at the level of 1-1.5% of the country's GDP(Ibid). This amount is formed from the volume of capital outflow abroad, rise in the cost of loans, as well as other losses, including lost profits. In addition, the general state of deterioration in the Russian economy and finances, which creates an even greater negative effect. Supposing, Russia's economy relies on natural resource exports – largely to the EU. Also, its economy lacks the modernity of European technologies and the tools.

As an example of sanctions that threaten Russian's economy as a whole is the ban on oil exports for European countries. It is a well-known fact, that the Russian Federation is a major supplier of energy to the EU. At the moment, Gazprom – a Russian transnational energy company, where more than 50% of the shares are owned by the state - has only four major European pipeline gas customers - Serbia, Hungary, Austria, the Czech Republic (Zholkver, N. 2019). It should be noted that these countries are not large markets for

Russia, and these countries may soon find an alternative replacement, which they are trying to do in order to reduce their dependence on the Russian Federation. For example, Hungary is planning a contract with Qatar for liquefied natural gas (LNG) supplies via Croatia.

However, in the case of Hungary, Russia agreed to finance and construct an Atomic Power Station in Paks (Hungary) and to make the bilateral cooperation of both countries stronger (Seogan, 2017.02.02). The construction is based on Hungarian and Russian investments. The Power Station was built over 30 years ago with the participation of Soviet specialists.

In January 2014, an intergovernmental agreement was signed on cooperation in the field of the peaceful uses of atomic energy, envisaging the construction of two new power units by Rosatom (Budapest Business Journal, 2019.05.13). What is more important, that in April 2015, the construction of the nuclear power plant was approved by the European Commission (Valero, J, 2017.03.07). The total project cost is estimated at \$12.5 billion (Ibid.). Currently, gas is transported through the Soyuz gas pipeline through a gas metering station on the Ukrainian-Hungarian border and a gas pipeline on the Slovak-Austrian border. Nowadays cooperation with Russia seems risky because of the unstable trade environment. The expansion of economic sanctions is very vulnerable and can affect many areas. However, the largest Russian TNCs' investors (Gazprom, Lukoil, Rosneft) are still cooperating with Hungary. Both countries maintained their cooperation through joint projects and investment projects.

Russia is trying to use economic leverage to gain a foothold in EU countries. Cyprus is a major and the most popular offshore destination for Russian companies because of the lowest level of taxes and flexible trade policy (Mankoff, J, 2009). Greece, after the crisis, can be a potential aim country for Russia to involve import and export of the products as well as the gas industry because of the lack cooperation ties in the country. Thus, these countries are eager to continue their mutual cooperation with Russia despite the sanctions. That is why, for example, in 2016 natural gas supplies to the EU increased to a record high even despite the restrictions (Gazprom official website, 2019).

Consequences of an economic crisis in 2008, the oil price started to drop in 2013-2014, Ukraine crisis, Crimea peninsula, sanctions affected output growth and have led to (Mitchell, A., Kelemen, D., 2017):

- increase in the inflation rate (food and gasoline prices increased);
- an economic decline: GDP growth decreased by 0.7 % in 2014, after falling down by 2.8 % in 2015;
- ruble depreciation by more than 55 % against the US dollar in 2015;
- outflow of capital, investments.

The economic sanctions are the most powerful tool for influencing a country's international position. As a rule, the state on which sanctions are imposed faces a restriction on the import and export of goods and investments. The results of these restrictions are almost always the stagnation of economic growth and a clear decline in the development of the national economy. The sharp decline in oil prices, the instability of the ruble exchange rate, the acceleration of inflation, the surge in interest rates, and other problems have negatively affected the business and investment climate in Russia since 2014. Currently, due to various conflicts between Russia and Ukraine, Russian support for Belarus, and so on, Western countries continue to apply sanctions and do not plan to reduce their volume. It is also important to add that to better understand the impact of sanctions for the EU and Russia it is worth mentioning how the sides were interpreting the events which were occurred in 2014. The moment is important when the states presented their citizens with news about changes in the geopolitical arena.

From the Russian side, the situation with Crimea was named as a «historical reunion» (Zhegulev, I, Sivtsova, A, 2017), «accession of the peninsula» (Ibid) which was translated by the local TV channels. Such phrases as «annexation», «occupation Crimea», «illegal intervention» (Mitchell, A; Kelemen D., 2017) were not used by the Russian Media although were used by the EU and non-EU sources. What we have now is the Russian government made the situation when two nations started to hate each other but the problem is that both nations were not involved in a decision-making process. The government should be responsible but not the citizens. However, now there is a big hatred that only arises through the work of the media.

Now we can assume that in order to establish interaction at the same level between Russia and Europe, it is necessary to reach a compromise on several of exciting issues. Russia's claims to the European Union can be attributed to (Arbatova, N., 2014):

- anti-Russian sentiment of some EU member states;
- concern about the structural crisis in the European Union itself;
- indigested migration policies of the EU member states;
- infringement of the rights of the Russian-speaking population in Latvia and Estonia;
- attempts by the EU to resist Russia's foreign policy influence, mainly in the post-Soviet space, etc.

The main claims of the EU against Russia at the moment concern:

- Violation of the Ukrainian territorial integrity;
- Russia's intervention in conflicts in the post-Soviet space (the Georgian-Abkhaz conflict, the South Ossetian conflict, the Azerbaijani-Armenian conflict);
- Attempted murder on the life of the Russian opposition leader A. Navalny, etc.

Despite the mutual claims of the EU and Russia, they still continue cooperation and do not plan to limit or stop it at all.

Being under sanctions, Russia is experiencing difficulties in obtaining advanced foreign technology, which it desperately needs, but not as before to equip its backward industries, but to eliminate dependence on raw materials, i.e. for the processing of oil, gas, metals, wood, chemical raw materials within the country and the sale of finished products abroad. To do this successfully, modern machines and technologies are needed, which the Russians must produce themselves, to use them for industrial modernization and technical equipment of the entire economy, as well as in the interests of their own safety.

Consequently, the development of domestic mechanical engineering, as well as attracting investments and personnel, can and should become new drivers of growth. Finding itself under tough and, most likely, indefinite sanctions, Russia has no choice but to develop mainly on its own base, using mainly domestic funds, attracting, of

course, partners from abroad who are ready to participate in the implementation of projects and receive economic benefit.

In conclusion, the effect of the sanctions on the Russian economy has both positive and negative outcomes. Despite the fact that it imposed a significant blow on the economy of the Russian Federation, the government is still trying to close the resulting gaps by introducing new measures. The EU has more transparent institutions and the whole mechanism of decision making is more flexible that is why the EU was able to adapt to new realities quickly.

From the Russian side lack of a good long-term strategy shows flaws in the system however the government is trying to hide it. The European Union also lost a lot from the introduction of sanctions and counter-Russian sanctions, but it is trying to find alternative ways to replace the sources supplied by the Russian Federation, and some EU countries still continue to cooperate despite the restrictions. In general, the state as well as the businesses can adapt to sanctions and even learn how to bypass them, as opportunities for new business and cooperation arise in the context of sanctions. The Russian government is trying to develop measures to counter sanctions and reduce losses, but in the end, they are based on the concept of proclaiming a new course of foreign economic policy “turn to the East”, creating a national payment system, import substitution policy and so on, which will be discussed in more detail in the third chapter.

Chapter 3. PROSPECTS FOR THE DEVELOPMENT UNDER THE CONDITIONS OF SANCTIONS

3.1 Import substitution as a restorative measure for the Russian economy under sanctions

Given the negative impact of international sanctions, several areas can be identified that will help Russia minimize damage and adapt to the new sanctions' realities:

- Diversification of trade and economic ties, especially in industries affected by trade restrictions. The “turn to the East” is becoming a fundamentally important task;
- Russian companies need to more actively integrate into the world economy;
- It is necessary to consistently raise the issue of the illegality of unilateral sanctions in UN institutions;
- Implementation of import substitution policy.

The implementation of import substitution requires significant financial investments, which is complicated by the current restriction of companies access to world capital markets, the current decline in foreign direct investment in Russia, and high-interest rates on loans from domestic banks. Restricted access to world capital markets resulting from the imposition of sanctions also negatively affects both the volume of the resource base of companies within the country and the effectiveness of the use of available funds. Import substitution may become a way out in this situation, but then there is a problem of demand for Russian import-substituting products.

The process of import substitution is not fast in those industries where the share of imports is large: there is a time gap between the current market needs with the realized risks of rising prices for imported products and the release of Russian analogs of products. It can be from 2 to 5 years, depending on the complexity of the products being manufactured, the availability and need for new technology, and the availability of a resource base. Moreover, it is not yet clear whether the products created as a result of import substitution will fully correspond to the best world examples in terms of quality properties.

In Russia, individual industries are currently largely dependent on the import of final goods, or components that have no analogs in Russian production. In these industries, an increase in prices for Russian products may be due to an increase in prices for foreign components or domestic goods produced using imported raw materials and equipment. In addition, currency fluctuations create additional risks for companies that are more or less dependent on imports, which ultimately leads to additional price increases.

Thus, based on the foregoing, it can be assumed that the processes of import substitution in industries that depend on imports will contribute to the emergence of new goods and industries in the economy. However, in this case, the policy of import substitution will rather be a response to the current situation in the economy, rather than a way to prevent similar cases in the future. After all, the production of Russian analogs of certain types of products does not at all guarantee its competitiveness.

The course of import substitution was announced in Russia after the introduction of a food embargo as a response to sanctions. This measure made it possible to release a part of the domestic Russian market from imported products, and the resulting niche began to be filled by domestic manufacturers. Import substitution is a type of economic strategy and industrial policy of the state, the purpose of which is to replace imports of industrial goods that are in demand in the domestic market with domestically produced goods.

The main goal of Russian import substitution is related to strengthening economic and food security. Thus, the goods and raw materials do not go outside the state, especially in the context of sanctions restrictions. In addition, among the goals, one can single out ensuring the growth of employment, and as a result, a decrease in unemployment and an increase in living standards. The more production facilities at the country level will function, the more offers are observed in the labor market. The Russian economy has all the necessary production resources for the development of import substitution: fuel and energy, metals, agricultural land in different climatic zones, freshwater, chemical fertilizers, etc. Consequently, the bulk of state support for import substitution will fall on a certain circle of companies, types of production, products, i.e. to areas where there is an opportunity to achieve the highest results. The limited resources for financing import substitution by domestic manufacturers and its state support require a reasonable

selection of import substitution points and the concentration of funds for the implementation of selected import substitution projects. An example of state support for such projects can be low loans, state guarantees, and other preferences typical for each selected project.

As strategic mechanisms for achieving the efficiency of import substitution in order to ensure the innovative and industrial development of the Russian economy, the following can be distinguished:

1. incentive measures mainly for local businesses;
2. customs and tariff regulation measures;
3. activation of innovative activity;
4. introduction of additional benefits and preferences for the businesses;
5. improvement of technical regulation.

The import substitution strategy should include the development of all production, improve the quality of manufactured goods, technologies used at enterprises, and develop innovations. This program is extremely important for Russia since the technological lag of the Russian Federation from the leading world economies in certain areas and technologies has been observed for many years. Due to the imposed sanctions in Russia, imports of products have sharply decreased, thus the country has a huge opportunity to modernize domestic technologies in order to replace or completely get rid of the dependence on imported goods. However, despite the fact that the country's geographic location facilitates access of goods to all world markets, the location of most of the enterprises is disadvantageous, they are located far from ports, and this affects transport costs and affects competitiveness.

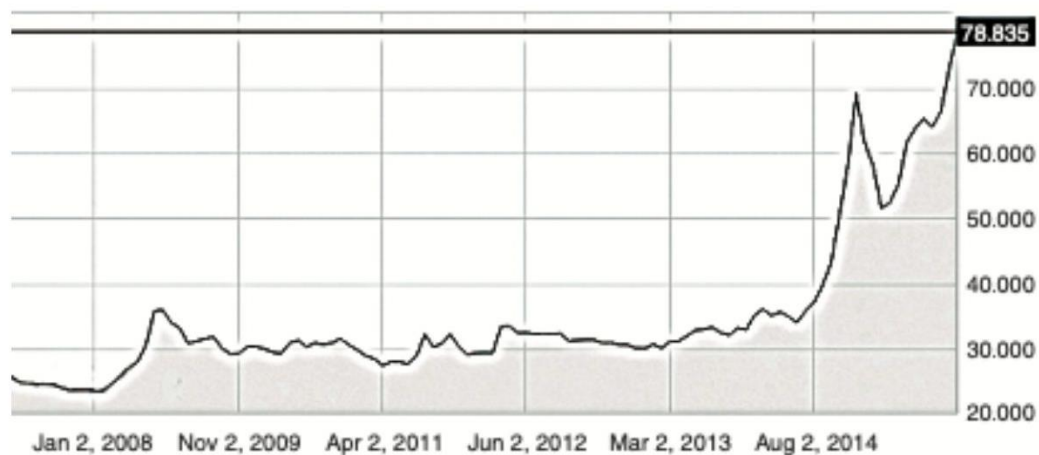
It is necessary to include the most important sectors of the economy that are in dire need and have prospects for import substitution in the Russian Federation (Fedolyak, F., 2015):

1. medical industry and pharmaceuticals (share of imports 74%);
2. heavy engineering (72%);
3. machine tool industry (over 88%);
4. electronics (85%);
5. light industry (80%).

Russia has a good source of raw materials for the production of many products (with the exception of drugs) and can implement import substitution in a relatively short time, and in conditions of a low ruble exchange rate, even increase exports.

Table 6.

Dollar to ruble exchange rate from 2008 - 2016



Source: Archive of the US dollar exchange rate according to the Central Bank of the Russian Federation.

The table 6 shows how the dollar exchange rate changed sharply in 2014 against the background of the imposed sanctions, and since then it has been rising. Changes in the dollar exchange rate lead to an increase in prices for clothing, cars, medicines, digital equipment. Besides, a sharp drop in the value of the ruble leads to the fact that food prices in the country rise in price, and due to the fact that the incomes of the population do not grow, the difference between segments of the population in the country becomes even greater. Poverty is one of the main internal problems of the country, with which the authorities are not fighting. That is why many Russians do not delve into the problems between the EU and Russia, as they believe that the problems in the country are much more important than what is happening outside it. The tendency for the ruble to fall every year is only increasing, it can be assumed that against the background of sanctions and the coronavirus pandemic, with a further fall in oil prices, the growth of the dollar could reach 100 rubles.

The substitution of import of medicines by domestic ones is possible only for certain types of drugs. As a result of the concentration of considerable financial and scientific forces on the development of new drugs, Western pharmaceuticals are largely ahead of domestic ones. Refusal to use imports of these species would negatively affect and affect the health of the population. That is why now in the medicine of the Russian Federation there is a shortage of vital medicines, which leads to criminal cases against citizens who order medicines from abroad.

At the beginning of 2015, the Russian government banned state medical institutions from purchasing some foreign goods, the list then included 608 drugs, of which only 282 were produced in Russia (Alikin, A., 2019). In the summer of 2019, the government expanded the list of prohibited goods by 14 more items, and some imported drugs have completely disappeared from the Russian market. In general, the import substitution program in the medical field was criticized by many structures (Ibid). It can be assumed that it will be difficult to radically improve the situation with the production of medicines in Russia, since the production of medicines is an investment-intensive process, and due to the fact that the country cannot provide investments, the whole sphere of pharmaceutical medicines suffers.

The imposition of sanctions affected the entire agricultural sector of the Russian Federation and had a twofold effect on it: on the one hand, industry business suffered, on the other, there was an incentive to strengthen and increase the efficiency of production of national agricultural products. There are several factors for the stable state of this industry: firstly, the bulk of building materials are domestically produced, secondly, the Russian market is mainly focused on domestic demand, and thirdly, there is the almost complete absence of Western investors in this sector. Despite the imposed food embargo, as well as accession to the WTO, which were supposed to be an incentive for Russian agriculture, its growth prospects are not so high. Growth in non-resource exports is planning to estimate at only 13% until 2030 (Ministry of Economic Development, 2020). It is associated primarily with fertilizers, grains, and feed. Others have potential directions - meat, fruits and vegetables, sugar, flour, but their deliveries will increase only to neighboring countries. Growth prospects products are largely based on export support programs as well as the growth in consumption of some agriculture goods in the world. It is important to highlight, most of the leaders of local Russian

enterprises who noted the positive impact of sanctions measures were among those employed in the field of agriculture (BBC, 2019). Russia annually exports food and agricultural raw materials to the world market in the amount of about \$17 billion (Gusev, M, 2018). However, import substitution is hindered by insufficient domestic production and low product quality. To develop and modernize production, Russian business has to import Western equipment and machinery, since there are simply no local analogs of some equipment.

Fertilizers are one of the main articles of the Russian export. The physical volume of trade in this product in the world has increased over the past 8 years by 25% due to the needs of agriculture in many developing countries (RBC, 2019). Russia has successfully occupied a niche in the world market, accounting for 13.6% of world fertilizer exports (Ibid). Russian fertilizers very competitive, since all types of raw materials are produced on the territory of the state. According to the plan, the increase in fertilizer exports by 2030 should amount to USD 5.25 billion, a large share of the growth will be accounted for by an increase in supplies to Latin America and Southeast Asia (Ministry of Economic Development, 2020). That is why, because of the positive results the Ministry of Agriculture considers the results of import substitution successful.

In 2014-2015 the Russian auto industry has increased the production of passenger cars from 1 to 2.5 million rubles in the year (Glechyan, G., 2017). The growth was achieved mainly due to the production of foreign cars in Russia with its partial localization. The need for import of foreign cars has correspondingly decreased, i.e. import substitution took place, although the population still prefers foreign cars to domestic ones.

Despite the active policy of import substitution, the share of machinery and equipment in the commodity structure of imports remained practically unchanged: according to state statistics, in 2013 it was 48.6%, and in 2018 - 47.3% (Tsukhlo, S., 2019). Besides, according to a survey by the Gaidar Research Institute, in fact, 30% of enterprises were engaged in substitution of imports of machinery and equipment (in their purchases) in 2015, and substitution of raw materials and materials - 22% (Tsukhlo, S., 2018). In other words, they, to one degree or another, bought Russian goods instead of foreign ones. By the fall of 2018, the share of such enterprises decreased to 8-9%, after which the monitoring was terminated. Based on the research, import substitution in 2015-2018

showed that the scale of import substitution was small, and over time they began to fade (Ibid). In addition, at the end of 2018 (BBC, 2019), Western Europe retained its leadership as an equipment supplier, and India and China became the main beneficiaries of the Russian import substitution policy, from which part of the industry switched to purchases goods.

At the end of 2015, the share of meat and meat products in consumption produced in the Russian Federation reached 89%, which was a record for the last 10 years (Glechyan, G., 2017). The sharp increase in the share of domestic products in the consumption structure was mainly due to the reduction in the total volume of the consumer market. The decrease in consumption of off-season vegetables and greens in Russia in 2015 amounted to 16.4% (Ibid). A similar picture is observed in the segment of fruits and berries, milk, meat and meat products, fish. At the end of 2018, the share of domestic grain, sugar, butter, meat and meat products increased to 80-99% (BBC, 2019). In many areas, both domestic production and export volumes increased. In the next area, electricity, there was a strong recession due to a reduction in supplies to the markets of the main CIS countries - Ukraine, Belarus, as well as a decrease in supplies to China. Now Russia supplies electricity mainly to Eastern Europe and Asia.

It is worth noting that the Russian consumer always expects more pleasant prices from domestic products than for imports. And this is still the biggest problem of import substitution if we talk about consumer goods. It should be assumed that the growth in the share of domestic products in the domestic market cannot be a determining criterion for the success of import substitution. For example, if a certain product has been successfully replaced by a Russian one, but its retail value has increased as a result of this replacement, the import substitution cannot be considered valid.

Thus, according to data published in the fall of 2019 by the Center for Macroeconomic Analysis and Short-Term Forecasting from 2013 to 2018 significant import substitution took place only in the production of meat and meat products (import's value decreased by 15%), pharmaceutical products by 10%, and in metallurgical engineering industry by 9% (Astafieva, T., 2020). At the beginning of 2019, the machine tool industry still depends on imports by 93%, medicine - by 73%, light industry - by 78%, timber industry - by 87% (Ibid).

The question arises - What are the reasons for the actual failure of the import substitution plan? The answer is simple: the Russian domestic market does not provide sufficient demand. The dependence on imports remains since it is easier to buy from abroad in the required volume than to produce "to the warehouse". Moreover, with a weak and small market, it is necessary not only to replace imports but to increase the competitiveness of your products in foreign markets. Russia's initial strategy - to replace and then export - does not work, since it is difficult to grow to the level of global players in the small Russian market. Even China, refusing the traditional Russian imports of chemical products, ferrous metals and timber, and paper products and replacing them at home, immediately enters foreign markets in much larger volumes, exporting to other countries and crowding Russia there.

The main obstacle on the path of import substitution is the lack of production in the territory of the Russian Federation of equipment, components, and raw materials necessary for enterprises. The low quality of domestic products and old-fashion equipment also can be a problem of the substitution policy. At least this is the difficulty that the import substitution policy has faced, and it has not yet been overcome. It takes time and investment to create a production facility for Russian analogs of machinery, equipment, and components, not to mention drugs, but they don't. For example, for the production of drugs, taking into account the time of testing and launching to the market, it takes at least 7 years and several million dollars for research.

If we turn to the statistics on imports, we will see that the maximum decline occurred in 2015 and according to the statistics, around 33% of enterprises reduced purchases of equipment from the West and around 20% raw materials had been decreased as well (Ministry of Economic Development, 2016). In addition, pork, poultry, and tomatoes are the only three commodity groups in which import substitution took place in Russia (Ibid). The growth of domestic production of these goods made it possible to ensure a decrease in prices for them to a level below the pre-sanctioned 2013. In general, import substitution led only to a temporary reduction in purchases abroad.

With regard to future plans, in early December 2020 in Moscow, CNews will hold an online conference "Import Substitution 2020: Results and Forecasts" where statistics of the current economic policy under the sanctions regime will be published. Now it is

difficult to sum up the results of 2020 with regard to how the sanctions and countersanctions affected the EU and Russia in connection with the emergence of the coronavirus, however, clearer data and statistics can be obtained in 2021. It is worth emphasizing that the Russian authorities have set a course for doubling non-primary non-energy exports by 2024. Growth is expected in all the same industries as before: metalworking, mechanical engineering, food, chemical production. Great importance is attached to the growth of exports of services - educational, medical, tourism, and transport (Zolotarev, M, 2019).

Besides, it is planned to increase grain exports by 2030, which is estimated at 3.4 billion US dollars, mainly due to an increase in the supply of goods to the Middle East and North Africa (Kortunov, A, 2020). The growth factor will be an increase in the intensity of agriculture. As well as an increase in the export of fish and seafood due to an increase in supplies to East Asia and Western Europe. At the moment, Russia is one of the three largest exporters of fish, but it loses noticeably in terms of cost since it supplies to the markets mainly frozen fish or other products of a low degree of processing. In addition, Russia provides 25% of the world's defense industry exports. It is expected to grow by 3.8% by 2030 (Ibid). The most promising markets for increasing exports are the Middle East with North Africa and South Asia, as well as Southeast Asia and Latin America. Certainly, expectations in the future are positive, but whether this can be done is still a question.

In conclusion, the US and EU sanctions forced to reorient the Russian economy from West to East. Since Russia has suffered serious losses due to the imposed sanctions and the fall in oil prices, the country is in an urgent need to find new sources of funding and income. The rapidly growing and emerging markets of Asia are seen by the Russian Federation as the only way out of this situation. Recently, China has become one of Russia's strategically important partners. This is not only about reorientation towards China, but also about expanding relations with Asian countries, including expanding interaction with East and Southeast Asia. However, it cannot be said with some certainty that this direction will bring advantages to the Russian economy since a sharp turn to new markets will take a sufficient amount of time and the process itself will proceed very slowly. The European Union will remain Russia's most important and largest trade and economic partner. And most probably, if in the future geopolitical tensions in the

country subsidy, if all bans and restrictions are lifted, then Russia will not hesitate to return to its previous state and will continue active cooperation with Europe.

The most significant export potential of the Russian Federation is possessed by oil products, precious metals, fish, and seafood, and the country's most significant trading partners at the moment are China, South Korea, and Japan. At the same time, the largest growth in deliveries is expected in the countries of Southeast Asia: Vietnam, Singapore, Thailand. There is traditionally a great demand for certain types of Russian goods with a high raw material component: oil products, steel, fertilizers, non-ferrous metals, as well as for weapons. Nowadays, import substitution has had only a marginal impact on the growth of the Russian economy and the redistribution of factors of production. Apparently, this is due to the relatively low level of spare production capacity and limited labor supply. In some sectors of the manufacturing industry, positive dynamics were recorded, in particular, in the production of foodstuffs, the textile industry, the production of machinery and equipment, rubber products, timber, and the chemical industries. The low level of diversification is also reflected in weak investment activity and limited growth in non-energy exports.

For the growth of the Russian economy and an increase in the level of economic security, it is necessary to create new capacities based on modern equipment, which it is desirable to produce in Russia. In this regard, an important task remains to increase the competitiveness of products in the domestic engineering industry and increase products with high added value in it. This will help develop the Russian production base and reduce dependence on equipment imports from abroad. Five years of import substitution policy led mainly to higher prices, a shortage of goods for industry, and a shortage of drugs.

One of the main conditions for the implementation of technological modernization in the country is qualified personnel. The reforms carried out over the past 25 years have pushed into the background the solution of such a fundamental problem as the preservation and development of domestic science, which ensures the technological renewal of production processes and the release of competitive products in demand in the modern market. All this led to the destruction of scientific and technological

potential, a drop-in production, an increase in technological dependence on the West, and an outflow of young specialists abroad.

Thus, to overcome the negative consequences of the sanctions applied to Russia, to ensure a consistent increase in the efficiency of the Russian economy, it is necessary to develop the national production infrastructure, gradually transfer all industries to the latest technologies and expand the training of qualified personnel capable of supporting the technological renewal of production at a modern level. Due to corruption at the regional and federal levels, the process of overcoming the consequences of the sanction will take a long time and most likely will never come to a positive result.

3.2 Scenarios of relations between the EU and Russia

The Ukrainian crisis has become a major centrifugal factor in relations between Russia and the European Union, which has led to changes in the relationship between these two international players. It is obvious that the sanctions policy has created a platform for the implementation of alternative options for both Russia and the EU in the areas of export and import. The offending country is trying to survive in the new conditions imposed by the sanctions and that is why it generates new opportunities. Of course, in this case, the state must have the resources for this, which Russia has, but the technologies for processing resources and the labor force are the weak link in this chain.

Despite the noticeable economic damage inflicted by mutual sanctions on some EU countries, the EU Council extends and maintains sanctions against the Russian Federation to which Russia responds with countersanctions. It goes without saying, that the only option for lifting sanctions on the part of the EU is to fulfill the requirements of the second Minsk agreements, which implies the return of full sovereignty to the territory of Ukraine, which Russia, for its part, refuses to comply with, since this means the return of the Crimean Peninsula. It is obvious that even with a successful outcome of the crisis in Ukraine, the EU and Russia will not return to their former relations. The main thing to remember is that the efforts of the European Union are aimed, first of all, at the maximum weakening of energy dependence on Russia, especially in gas imports. Having found an alternative source, the EU countries will be able to reconsider their attitude to partnership and cooperation with Russia, since the former dependence will no longer exist.

The peculiarities and direction of the internal processes taking place in the European Union and Russia will undoubtedly have an impact on bilateral relations. The EU is influenced by the agenda of Western European countries, as well as the influence of the United States. The new US president and his policy towards cooperation with both the EU and Russia can both aggravate the sanctions policy and weaken it. For Russia, the main factor of uncertainty remains the level of socio-political tension in the country and the peculiarities of the authorities' reaction to this tension. If the level of tension continues to grow throughout 2021, this may be reflected, for example, in an increase in the number and scale of protests in the country which will destabilize the atmosphere

inside the country even more. And if the reaction of the authorities to this activity intensifies (violent crackdowns, preventive detentions and searches, trials and harsh sentences as is happening in Belarus), then the European Union will be forced to react to the new situation in one way or another. This will inevitably create additional obstacles to dialogue between Brussels and Moscow and will activate forces that do not want to conduct any dialogue with Russia at all. Thus, the question arises what prospects and scenarios can we expect in the future from countries and their cooperation?

In this situation, the Ministry of Economic Development of the Russian Federation has developed a project "Main directions of export development for the period up to 2030". They were developed within the framework of the roadmap "Support for access to foreign markets and support for exports" (Ministry of Economic Development, 2016). The document is primarily created to ensure the formation of effective practical implementation of the innovative model of export specialization in Russia. In other words, it is planned that non-resource exports will increase, the volumes of supplies of goods of a sufficiently high degree of processing will increase, and mainly, the export of technically and technologically complex products will increase. The primary main reference point is Russia's entry into the top five world exporters due to high-tech, science-intensive goods, and services. To achieve this goal, it is necessary to form domestic conditions, such as an increase in investment and consumer demand; expansion of export potential in the service sector; increasing the competitiveness of the industry. It is assumed that the main importers of Russian products will be the CIS countries (a significant share of which falls on the countries of the Customs Union), the Asia-Pacific region, the countries of the Middle East as well as Latin American countries.

Three hypothetical scenarios can be imagined in Russia-EU relations in the near future. The key factor is the possibility of a change in the Kremlin's thinking policy since it is worth assuming that without this any other changes (softening of the EU position or a "deal" with the new US administration), in all likelihood, will not guarantee a successful resolution of the crisis. The first scenario is a stable normalization of relations, which would imply some combination of progress in the following areas: the resolution of the conflict in Ukraine; the state of affairs in Syria; an agreement in the field of energy, as well as the transit of Russian gas; cooperation in general. For its part, Russia demands

a change in NATO's policy, which is now aimed at "containing" Russia and building up its military potential in Eastern Europe. Besides, according to representatives of the Foreign Ministry of the Russian Federation, normalization of relations is possible if the EU does not give in to US pressure since Europe's policy should become more sovereign and independent (Moshes, A, 2017).

The next scenario may be the deterioration of relations. The new US administration can negatively influence the EU, and thus the sanctions can acquire a new character and size, thereby Russia will also react to new measures with not very pleasant countersanctions, thereby relations between them will only get worse. It can be assumed that Russia will intensify military activity on its western borders, propaganda in the media will acquire an anti-European character and the search for alternative collaborative ties with other countries will intensify. NATO's European members will respond by increasing defense spending, which will gradually make military confrontation a major factor in relations. The media will also acquire a more massive anti-Russian sentiment. It should be assumed that there may be restrictions on entry to Europe, as well as the suspension of the issuance of Schengen visas for Russian citizens.

The last but not the least likely scenario is stagnation in relations between Russia and the EU. In my opinion, this is the most possible scenario for the future 2-5 years. Due to the development of a pandemic around the world, countries have directed all their efforts to fight the virus, which is why relations are currently in stagnation mode. Currently, the European Union decided to extend the sectoral economic sanctions against Russia until January 31, 2021 (RBC, 2020). Presumably, the sanctions and countersanctions will be throughout 2021, and the EU and Russia will continue to cooperate with each other, adapting to the new realities. A number of European countries will make efforts to get rid of their critical energy dependence on Russia. Russia, in turn, will remain committed to the proclaimed "Asian Pivot" regardless of its real benefits.

It is worth focusing on the most promising areas of cooperation between Russia and the European Union, on which, under a favorable set of circumstances, it is possible to achieve some practical results already during 2021-2022:

- Mutual cooperation in the framework of the coronavirus will become large-scale and will help to reduce the number of sanctions.
- Progress in resolving the conflict in Eastern Ukraine will ease sanctions.
- New German chancellor in 2021 can also change the agenda of relations with the Russian Federation, since now, for example, Angela Merkel is in favor of the continuation of the construction of the Nord Stream, but it should be assumed that her replacement may have a completely different idea about this project.
- Russia and the European Union occupy not identical, but close positions on such issues as Iran's nuclear and ballistic programs, Iran's role in Syria, and the region as a whole. Given the ongoing escalation of the Iranian-American and Iranian-Israeli relations (this trend is likely to continue in 2021 -2022), more active coordination of the efforts of Russia and the European Union in the Iranian direction seems not only possible but also extremely important.
- Due to the recent terrorist attacks in France, the EU and Russia are cooperating in countering terrorist attacks and further directing their efforts to combat them.

It can be assumed that the new agenda of relations between Russia and the EU will be aimed at climate change problems, prospects for energy cooperation between the European Union and the Eurasian Economic Union, issues of energy security and energy efficiency, training and exchange of experience. According to the main findings of the survey which was published by the European leadership network (2016) the top three zones of potential EU - Russian security cooperation can be identified in such areas as:

- Crisis in the Middle East. The main tasks of both Russia and the European Union in the Middle East are the fight against terrorism, stopping the flow of refugees and stabilizing the region. It should be noted that the Ukrainian issue leaves a negative imprint on the interaction between Russia and the EU on issues of Middle East cooperation due to the existence of sanctions restrictions on this basis.

- Non-proliferation of weapons of mass destruction via implementation of common project.
- Terrorism prevention and deactivation. The European Union is interested in cooperation with Russia on a number of issues, including the fight against terrorism. Thus, this direction is key in the framework of modern cooperation between Russia and the EU. Russia pays great attention to interaction in the antiterrorist sector with leading international and regional associations, in particular European partners, studying their experience in the field of antiterrorism.

Therefore, we can assume that despite the sanctions, cooperation and negotiation in these three main areas will continue.

It is worth noting that it will be difficult to make a common opinion on behalf of all EU countries. One can single out supporters of soft and hard approaches to further interaction with Russia. Countries with relatively soft policies include Italy, Austria, Germany, France, Hungary, which are trying to expand their economic and other ties with Russia due to the fact that these countries will benefit more from cooperation. It was these countries that suffered the greatest losses due to the sanctions. Countries with "tough" intentions see Russia as a threat and rather oppose cooperation with it. As an example, we can include countries such as Poland, the Baltic states, etc.

The noted favorable changes in foreign trade reflect the impact of high oil prices and the strengthening of the ruble. In an unfavorable combination of circumstances, a foreign trade crisis may in the future lead to a decrease in export indicators and, accordingly, imports. The country's development course should be aimed at an innovative way of development, at achieving an increase in the level and quality of life of the population, by reducing military spending, increasing investment in the country's economy, weakening the country's economic isolation, and increasing attention to the country's internal problems, rather than external ones.

Now in international cooperation, we have as a result - thousands of missed opportunities to achieve more in politics, economics, social development, international affairs. The realities of the sanctions have resulted in the interests of both sides being

affected, resulting in a zero-sum game. Hopefully, one day it is possible Russia and the European Union will create a new platform of political relations with such principles as good neighborliness, openness, mutual respect for values, etc. Mutual understanding of the parties and the ability to negotiate is the most important key element in cooperation. However, international players with different views on certain things are often not ready to yield to each other.

Throughout 2021, it is difficult to expect the lifting of EU sanctions against Russia, even if there is progress in resolving the Ukrainian crisis. It should be understood that the disagreements between Russia and the EU are connected not only with specific issues - Ukraine and Syria but also with differences in world politics, political regimes, and the direction of domestic politics. Until these differences are overcome, relations between Moscow and Brussels will remain largely competitive. Consequently, the immediate common challenge for Russia and the European Union is to cut costs and reduce the risks inextricably linked to this rivalry. However, the achievement of even modest progress in relations throughout 2021, the creation of an atmosphere of positive dynamics would already be a very important result.

CONCLUSION

The thesis work has attempted to present the current relations between two significant players on the international stage - the Russian Federation and the EU. Besides, this research introduced to the current situation, the advantages and disadvantages of the sanctions, as well as future prospects. Economic sanctions are restrictive measures of an economic nature applied by a country or group of countries to another country with the aim of forcing the governments of the target countries to change their policies. These sanctions consist of a complete or partial prohibition on the export and import of goods and can also take the form of restrictions on financial transactions, including, but not limited to, investments and international settlements. The imposition of sanctions changes the priorities of the state, and also limits the range of some opportunities, but promotes the establishment of ties with new partners and revises the internal structure of the economy. The Russian-European relations have mutual strategic and geopolitical interests that lead to close interaction. At the same time, the sanctions policy created new conditions under which the Russian Federation and the EU were forced to adapt.

In 2014, the events that took place in Ukraine became the catalyst for "decisive" actions by the West and the United States, and the first sanctions were imposed against Russia. Companies and industries in which Russia is competitive, such as the oil, and gas industry; the banking sector; military industry; nuclear power, and aerospace industry. The sanctions imposed on Russia by Western countries and the EU indicate that in this way the countries want not only to damage the Russian economy but also to oust it from the Western European market.

The imposition of economic sanctions could not fail to provoke retaliatory actions from the Russian government and countries such as the EU countries, the USA, Australia, Canada fell under the embargo. The main goal of this decision was not only the need for response but also to stimulate the economic activity of its own producers. Emphasis was placed on the development of their own agriculture and fishing; Creation of your own payment system; development of own technologies and logistics network; development of relations with Asian and Latin American countries.

Regarding the negative outcome of the Russian countersanctions to the country's economy we can mention the following:

- Inflation growth over 10%; Reduced oil and gas revenues;
- Slowdown of the inflow of foreign investments into Russia, 75% of which go to the EU countries. Closure of foreign companies as well as withdrawal of foreign assets.

Before the introduction of the food embargo, Russia was the second-largest market for agricultural products for the EU member states. However, after its introduction, the export of EU agro-industrial products to Russia decreased significantly. It is important to emphasize that the main burden of the import substitution policy is shifted to the population of the country, which has received increased food prices, the use of domestic analogs of medical products, which sometimes cannot replace foreign ones. On the EU side, some EU countries have suffered losses due to the fact that they closely cooperated with Russia and now the countries are trying to circumvent the sanctions in order to continue to implement cooperation. In addition, the EU is trying to find alternative energy sources for cooperation with other countries in order to be less dependent on Russia. Among the external factors that will affect relations between Russia and the European Union in 2020, the most significant are the results of the US presidential elections in November 2020. J. Biden's victory will lead to at least partial restoration of the former transatlantic solidarity and will increase the level of policy coordination between the USA and EU in the Russian direction. Moscow will have to once again face the "consolidated West", which will inevitably limit the freedom of maneuver for Russian politics. Also, the situation with coronavirus affects all countries of the world and their cooperation, therefore this also applies to the development of relations between the EU and Russia, which, under the influence of a global problem, can both improve and worsen.

Import substitution in the Russian Federation has become the main means of achieving lost food security and is currently one of the most important strategies for the economic development of the state. In today's conditions, the Government of the Russian Federation is actively implementing an import substitution program for various types of economic activity, and the Central Bank is preparing scenarios for the development of the Russian economy in order to predict possible threats and consequences. Of course,

the sectoral sanctions imposed have been negative, but positive aspects can also be identified in this situation:

- Expansion of export of technologies to the countries of the East, Africa and Latin America;
- Improving the technological capabilities of Russian own production;
- Development of our own meat production, fish and dairy production.

Solving the problems of import substitution in the industry of the regions, the principles of international economic integration cannot be denied. Russia does not need to fence itself off from the world but needs to conduct a dialogue with foreign partners as openly and transparently as possible to attract foreign investment.

Experience clearly shows that there are no winners in the wars of sanctions since irreparable economic damage must be borne both by the countries against which the sanctions restrictions directed and by the countries initiating their introduction. On the part of the EU, the German economy was among the leaders in terms of losses. Before the restrictions were imposed, Germany and Russia had one of the largest trade turnovers in Europe, which was represented by high-tech goods from the German side, and large German enterprises took part in joint projects with Russia. At the moment, most projects are frozen. As a result of the imposition of sanctions restrictions, German companies received a serious blow. At the same time, the biggest damage occurred to automobile enterprises. In addition to Germany, losses from sanctions affected the economies of France and Great Britain. Concerning Russia, according to various estimates, the damage from the imposition of sanctions is \$ 140 billion. Although the import substitution policy helped to draw out certain areas in the Russian economy, it still did not have a large-scale positive effect on improving the state of the country.

In the event of a further unfavorable combination of circumstances (doubling of sanctions), the foreign trade crisis in the future may lead to a significant drop in both export and imports in Russia as well as and in the EU. It should be added that the Coronavirus has dealt a serious blow to the economies of all countries of the world. The work of a huge number of enterprises was suspended. Small and medium businesses were seriously affected. Therefore, the global pandemic is an additional factor that has a negative impact on the economic growth of both Russia and the EU. It is difficult to

predict when the virus will stop and when the trade situation will improve, so it's a matter of time.

In Russia, the country's policy should be aimed at an innovative way of development, at achieving an increase in the level and quality of life of the population by reducing military spending, increasing investment in the country's economy, weakening the country's isolation and increasing attention primarily to the country's internal issues, and not to external.

The sanctions of a number of Western European countries and the response to them by the Russian Federation have an ambiguous impact on the economy at the present time. In general, the economic sanctions against Russia in 2014-2020 can be characterized as a desire to reduce the level of Russia's influence on the global economic and political system, that is, the use of economic methods to achieve political goals. Already now, we can conclude that the problem field associated with the topic of sanctions and countersanctions will require further sufficiently deep and comprehensive study both in the short and long term, since these realities are happening now and are changing depending on changes in the international arena.

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