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Thailand's Troubled Road Towards Democracy

Marusya Rechetnikova

Russia's Economic Development Since Crimea and Its "Pivot" Towards China

Marusya Rechetnikova
J.D. Candidate 2019
The University of Chicago Law School
International Immersion Program: Russia Trip 2017

INTRODUCTION AND RESEARCH QUESTION

The 2014 Ukraine crisis has significantly changed relations throughout the global community, specifically between Russia and the United States. Although their tense relationship continued following the end of the Cold War, the crisis signified an important shift in international relations and Russia's economic role in the global market. The sanctions issued by the Obama administration represent a strong initiative to condemn Russia's invasion and annexation of the Crimea while pursuing the US's political interests abroad. Furthermore, the four executive orders exercise extraterritorial jurisdiction given their control over multinational transactions, including foreign entities and persons. Several years after the first US sanctions were implemented, the Russian energy and financial sectors are showing negative effects such as profit loss, interruption of projects and devaluation of the ruble, Russia's currency. Additionally, many of the current issues have potential for long term effects that have already initiated a shift in Russia's economic and political structure domestically as internationally.

My question for this research paper is how the sanctions have impacted Russia's economic development since the country has been unable to access Western capital. Furthermore, I will explore how this development has influenced Russia's involvement in global legal issues, particularly in its strengthening partnership with China. Since the sanctions were enforced, the energy sector has explored opportunities for recovery and is establishing closer trading ties with countries outside of Europe and the US. On the contrary, the US dollar dominates the global market, making it difficult for Russian banks and companies to access Western capital for corporate debt payments, loans and approved domestic and international transactions. The prevalence of the dollar in Russia's economy implicates the US's ability to extend laws and regulations abroad. Consequently, the Ukraine crisis extends beyond Russia's invasion of the Crimea region by illustrating the US's strong authority in the international market. On the other hand, it is this authority that has also pushed Russia to "pivot" towards China economically and politically, creating a new global arena.

BACKGROUND

The 2014 Ukraine crisis occurred as a result of protests that were fueled by the actions of former Ukraine President Viktor Yanukovych. On November 21, 2013, Yanukovych suspended negotiations with the EU regarding a deal called the "Eastern Partnership" which would have opened trade and political relations with Europe, promoting inclusion and modernization.[1] Russia's strong opposition to the deal resulted in substantial influence that eventually caused its abruption. Ukraine's strategic location between Russia and Europe makes it a significant factor in international security issues and is also part of the US's foreign policy interests to integrate it into international institutions such as the North Atlantic Treaty Organization. Consequently, the nationwide protests immediately alarmed the international community, specifically Russia, the EU, and the US. After Yanukovych fled to Moscow, Russian troops, that claimed to be local self-defense groups, were spotted on the Ukrainian border. They eventually entered the country and seized airports and government buildings around Crimea, a predominantly Russian speaking region of Ukraine.[2] Pro-Russian figures held a referendum on March 16, 2014 which claimed that 97% of the voters in Crimea wanted to join Russia.[3] Several days later, Russian President Vladimir Putin signed a treaty that annexed Crimea.

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[1] Phil Black and Marie-Louise Gumuchian, "Russia Calls for 'Stability and Order' in Ukraine as Protests Continue," *CNN*, last modified December 4, 2013, http://www.cnn.com/2013/12/04/world/europe/ukraine-protests/

[2] Alan Yuhas, "Ukraine Crisis: an Essential Guide to Everything That's Happened so Far," *The Guardian*, last modified April 13, 2014, http://www.theguardian.com/world/2014/apr/11/ukraine-russia-crimea-sanctions-us-eu-guide-explainer

[3] Ibid.

Russia's involvement sparked outrage among the Western powers and international institutions. On March 17, 2014, Obama condemned Russia's actions stating that "Ukraine's sovereignty and territorial integrity must be respected, and international law must be upheld….the referendum in Crimea was a clear violation of Ukrainian constitutions and international law, and it will not be recognized by the international community."[4] Putin defended Russia's actions by claiming that their help was requested by the Ukrainian government. The US's strict sanctions have clearly demonstrated the Obama administration's strong initiative to act on the matter in relation to foreign policy interests. Now, several years after the first sanctions were implemented, Russian energy companies and financial institutions are recovering but still experiencing negative effects. Companies are losing profits, projects are being forced to stop and financial transactions using Western capital are prohibited. Furthermore, Russia's economy has taken a significant downturn as the ruble has vastly depleted in value while oil prices are contributing to loss of revenue. However, the future of the energy and financial sectors is uncertain since energy companies are now partnering with other countries, such as China, for trade and long term project commitments while the financial sector is having a difficult time recovering due to prohibited access to the dollar.

THE SANCTIONS

A. Executive Orders 13660, 13661, 13662, and 13685

The Russian sanctions in response to the 2014 Ukraine crisis consist of four different rounds. Executive Orders 13660, 13661, 13662, and 13685 were signed by President Obama on March 6, March 17, March 20, and December 19, 2014, respectively.[5] There are two types of

[4] Statement by the President on Ukraine," *THE WHITE HOUSE*, last modified March 17, 2014, https://www.whitehouse.gov/the-press-office/2014/03/17/statement-president-ukraine
[5] "Ukraine-/Russia-related Sanctions," *U.S. Department of Treasury*, accessed April 2, 2017,http://www.treasury.gov/resource-center/sanctions/Programs/Pages/ukraine.aspx

sanctions: Special Designated Nationals, which means that all transactions and activity is prohibited with the listed individuals and entities; and Sectoral Sanctions Identifications List, which means that special projects and transactions are prohibited with the listed individuals and entities.[6] For example US persons or anyone under US jurisdiction, cannot participate in "significant transactions" with specific individuals, such as Igor Sechin, and entities, such as Bank Rossiya which both fall under the SDN's list. As for the SSIL, US persons or anyone under US jurisdiction cannot conduct specific transactions and projects, such as deep water oil drilling, with Russian energy companies such as Gazprom and Rosneft. Collectively, the sanctions target specific individuals of Putin's inner circle and entities that had direct or indirect involvement in the Ukraine crisis by limiting or prohibiting their access to Western markets. Through the findings of the Office of Foreign Assets Control (OFAC) and the Treasury Department, several of the entities include major energy companies and financial institutions such as Novatek, Sberbank and VTB Bank.[7] The operations of the entities and individuals involved expand across multinational borders, specifically Europe. The legality of the sanctions is in compliance with the International Emergency Economic Powers Act (IEEPA) which authorizes the President to:

> regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest by any person, or with respect to any property, subject to the jurisdiction of the United States.[8]

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[6] Kerry Contini and Jasper Helder, "Keeping Up Compliance: US and EU Sanctions on Russia" (presentation , Compliance with Russian Sanctions Conference, Washington D.C., April 9, 2015).

[7] "Announcement of Expanded Treasury Sanctions within the Russian Financial Services, Energy and Defense or Related Material Sectors," *U.S. Department of Treasury,* last modified September 9, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2629.aspx

[8] "International Emergency Economic Powers Act," *U.S. Department of Treasury,* accessed April 5, 2017, http://webcache.googleusercontent.com/search?q=cache:plHwAn2296cJ:www.treasury.gov/resource-center/sanctions/Documents/ieepa.pdf+&cd=5&hl=en&ct=clnk&gl=us

In the context of the Ukraine crisis, this brings up the legal issue of extraterritorial jurisdiction. This is particularly controversial since the sanctions, in relation to the IEEPA, apply to foreign persons and entities that operate internationally, such as Gazprom which has operations based in Europe, the Middle East and several other countries. In 1996, the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act, otherwise known as the "Helms-Burton Act," brought up the question of determining the extent of economic sanctions when they are applied to US companies doing business abroad and foreign branches conducting businesses with US persons or US controlled businesses.[9] One of the main issues arose when a Wal-Mart subsidiary in Canada claimed that the sanctions imposed on Cuba by the US violated the concept of sovereign rights. The Wal-Mart subsidiary was told that it was prohibited from buying Cuban products since it was operating under the control of a US based entity.[10] The US's use of extraterritorial jurisdiction demonstrated the issue of interference in foreign affairs of sovereign states. Similarly, the Russian sanctions use extraterritorial jurisdiction to impose authority over foreign individuals, entities and ultimately states.

B. Justification for Jurisdiction

The intricacies of international business also expand into the scope of jurisdiction over subsidiaries. Some of the most common bases for extraterritorial jurisdiction are the effects doctrine and nationality principle.[11] The effects doctrine authorizes a state to exercise jurisdiction over individuals and activities occurring outside the state's territorial limits because of illegal or

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[9] "Helms-Burton Act: Resurrecting the Iron Curtain," *Council on Hemispheric Affairs*, last modified June 10, 2011, http://www.coha.org/helms-burton-act-resurrecting-the-iron-curtain/

[10] Harry Clark, "Dealing with U.S. Extraterritorial Sanctions and Foreign Countermeasures," *University of Pennsylvania Law School*, accessed April 20, 2017, https://www.law.upenn.edu/journals/jil/articles/volume20/issue1/Clark20U.Pa.J.Int'lEcon.L.61(1999).pdf.

[11] "Extraterritorial Subsidiary Jurisdiction," *Law and Contemporary Problems,* accessed April 13, 2017, http://scholarship.law.duke.edu/lcp/vol50/iss3/5

unacceptable practices within another state.[12] However, as the global community becomes more economically interdependent, territorial boundaries have become difficult to define legally. The nationality principle authorizes a state to have jurisdiction over its nationals regardless of their location.[13] The correlation between these justifications demonstrates a significant ambiguity that is capable of giving a state authorization almost without limits. Section 1(a) of the Executive Orders states that "all property and interests in property that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of any United States person (including any foreign branch) of the following persons are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in."[14] The nationality principle is evident since any US citizen is subject to the order, thus suggesting that their location does not matter. Since defining territory no longer simply constitutes simply identifying geographical borders, this leaves almost a limitless jurisdiction of how the sanctions can be applied.

In Executive Order 13660, Obama stated that Russia's actions in Ukraine have "constituted an unusual and extraordinary threat to the national security and foreign policy of the United States, and I hereby declare a national emergency to deal with that threat in regards to the Ukraine crisis."[15] The applicability of the effects doctrine further makes extraterritorial jurisdiction vague since the limits of how the executive authority will "deal" with the threat are not specified. This is dangerous as it blurs the distinction in handling legal parameters in situations such as having jurisdiction over a domestic company as opposed to a foreign

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[12] Ibid.
[13] "The Nationality Principle," *Chicago-Kent College of Law*, accessed April 17, 2017, http://www.kentlaw.edu/faculty/rwarner/classes/carter/ tutorials/jurisdiction/Crim_Juris_6_Text.htm
[14] "Ukraine-/Russia-related Sanctions"
[15] Barack Obama, "Executive Order 13660," *U.S. Department of Treasury*, last modified March 10, 2014, http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo.pdf.

subsidiary. The repercussions of such obscurity occurred in 1982 when the US established an export embargo on the Soviet Union that included the prohibition of foreign subsidiaries of US companies from directly and indirectly selling oil and gas equipment to the Soviet Union.[16]

THE EFFECTS

A. Energy Sector

Russia's economy is very commodity driven and its energy sector accounts for nearly 25% of its GDP.[17] The energy sector makes up nearly 68% of Russia's export sales. Its main exports are oil and natural gas, accounting for more than 50% of the federal budget tax revenues. Additionally, many of Russia's wealthiest businessmen, such as Igor Sechin who is the CEO of Rosneft, hold strong influence over the government. Russia's significant reliance on the energy sector for revenue makes the integration of government and business inevitable. Consequently, stability of the energy sector is vital for national prosperity as Russia seeks to explore and expand, specifically in oil and gas production. Russia's biggest trading partner is the EU which receives 53.1% of Russia's total exports every year, while the US accounts for only 2.7%.[18] However, companies such as ExxonMobil, Chevron, Schlumberger and Halliburton have established vast relations with Russia's energy sector including Exxon's 20 year presence in the Russian market that has contributed to over $50 billion annual investments coming from US energy companies.[19] Although the energy market has been volatile since 2014, experts predict

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[16] "Extraterritorial Subsidiary Jurisdiction"
[17] "Russia: Overview," *U.S. Department of Energy,* last modified March 12, 2014, http://www.eia.gov/beta/international/analysis.cfm?iso=RUS
[18] Rebecca Nelson
[19] Maria Gallucci, "Oil Services Giant Schlumberger Ltd to Withdraw US, Euro Managers From Russian Projects Amid Western Sanctions," *International Business Times,* last modified September 30, 2014, http://www.ibtimes.com/oil-services-giant-schlumberger-ltd-withdraw-us-euro-managers-russian-projects-amid-1696984

that oil will continue to recover and reach $52.2/bbl which is expected to contribute to economic growth of 1.5% in 2017.[20]

Although the US accounts for a small portion of Russia's exports, Russia's top energy companies such as Gazprom and Rosneft have become reliant on American technology and financial support in sustaining and expanding projects concerning oil and gas. In 2012, ExxonMobil and Rosneft signed an agreement to share technology and "expertise." Part of this included forming a joint venture to explore offshore oil and gas in the Kara Sea and the Black Sea.[21] The following year ExxonMobil and Rosneft expanded their partnership by announcing their plan to "conquer the Arctic for oil and gas" as well as a deal to start a pilot project for development of oil reserves in Western Siberia's shale basins in which Rosneft held a 51% stake and Exxon held a 49% stake. Simultaneously, Russia and the US were in talks of signing a package of trade agreements to increase their bilateral relationship.[22] Another important relationship is Chevron's investment in the Caspian Pipeline Consortium, a multibillion dollar project that began construction in 2011 and now transports crude oil from western Kazakhstan to a designated terminal in the Black Sea.[23] US based companies such as Halliburton and Schlumberger have also been vast participants in Russia's energy sector, serving as top oilfield services providers in Russia's expansion of oil and gas exploration. Russia accounts for 4 – 5%

[20] "From Recession to Recovery," *World Bank Group,* last modified May 2017, http://pubdocs.worldbank.org/en/383241495487103815/RER-37-May26-FINAL-with-summary.pdf

[21] Steve Horn, "Exxon's Russia Partnerships Challenge US Exports as Energy Weapon Narrative," *The Huffington Post,* last modified May 17, 2014, http://www.huffingtonpost.com/steve-horn/exxons-russia-partnership_b_4982223.html

[22] Brian Wingfield, "Russia Seeks Package of Trade Agreements With U.S.," *Bloomberg Business,* last modified December 12, 2013, http://www.bloomberg.com/news/articles/2013-12-12/russia-seeks-package-of-trade-agreements-with-u-s-

[23] "Caspian Pipeline Consortium Marks the Groundbreaking for its $5.4 Billion Expansion," *Chevron,* last modified July 1, 2011, http://www.chevron.com/chevron/pressreleases/article/06302011_caspianpipelineconsortiummarksthegroundbreakingforits54billionexpansion.news

of Halliburton sales and 5 – 6% of Schlumberger's.[24] Halliburton even cemented its presence in Russia when it opened up an employee training facility there in 2007.

Russia's reliance on energy exports has made it vulnerable to the sanctions as projects have had to stop from not being able to get financing and technology. Although the fall of oil prices following the sanctions ensured their effect, the purpose of the executive orders was to stop Russian exploration of deep water, Arctic and shale reserves. Various companies, including Ronseft and Gazprom, were included in the Directives 1 through 4 expansions under Executive Order 13662 in September 2014.[25]

> the following activities by a U.S. person or within the United States are prohibited, except to the extent provided by law or unless licensed or otherwise authorized by the Office of Foreign Assets Control: the provision, exportation, or reexportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory, and that involve any person determined to be subject to this Directive, its property, or its interests in property.[26]

According to Jeff Barnett, Senior Director of Policy and Programs at the US – Russian Business Council, 90% of Russia's technology used in the energy sector, including 30% of refinery equipment, is imported from the US. This technology is not only essential to maintain existing projects but also for exploration and innovation. Although Russia's energy sector is deeply integrated with the European market, its dependence on advanced American technology makes US trade relations essential for oil and gas development. For example, when Chevron signed the agreement with Russia to expand the Caspian Pipeline Consortium in 2011, the

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[24]Toby Melville, "How Sanctions Will Affect the West's $35bn Invested in Russian Oil," *RT*, last modified July 30, 2014, http://rt.com/business/176760-sanctions-russia-bp-exxon/
[25]Barack Obama, "Executive Order 13662," *U.S. Department of Treasury*, last modified March 24, 2014, http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo3.pdf.
[26] Ibid.

company provided the initial $2.7 billion needed for construction to begin.[27] Since that was an existing project unrelated to deep water, Arctic or shale projects, it has not been shut down by the sanctions. On the contrary, ExxonMobil's 2011 agreement with Rosneft, Russia's largest oil company was intended for Arctic Ocean, Black Sea and Siberian exploration. Additionally, the deal gave Rosneft a large stake in Exxon's deep water drilling in the Gulf of Mexico. This would allow Rosneft to learn about deep water drilling and fracking to use at home based projects.[28] Over 20% of Russia's oil comes from deep water or "tight" reserves that are accessed through powerful and mostly US made pumps. Russia's reliance on US technology has delayed urgency to develop its own, making its energy companies vulnerable to the US sanctions. Although Exxon continued drilling in the Kara Sea even after the first sanctions were enforced, in September 2014 the company announced that it was officially pulling out of the project.[29] This means that Rosneft is no longer able to continue exploration of Arctic oil drilling until sanctions are lifted, Russia is able to develop its own advanced technology or get it from somewhere else. Additionally, pulling out of the project signified a set-back in closer US – Russian relations in the energy sector including a potential $500 billion investment loss, with $51.7 billion just in 2015.[30]

Another company that has had to begin pulling out is Schlumberger who partnered with Russia on several projects, including the Achinsk oil refining factory which is owned by Rosneft. Schlumberger laid off nearly 10,000 employees working in the Russian region during 2014 as

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[27] "Russian Fact Sheet," *Chevron*, last modified May 2014, http://www.chevron.com/documents/pdf/russiafactsheet.pdf

[28] "Sanctions Backfire! Exxon May Miss Out on Huge Arctic Oil Find," *Russia Insider*, last modified September 29, 2014, http://russia-insider.com/en/politics_business/2014/11/05/04-27-

[29] Ibid.

[30] David Wethe, "Schlumberger Earnings Cut as Russian Sanctions to Spread," *Bloomberg Business*, last modified August 12, 2014, http://www.bloomberg.com/news/articles/2014-08-12/schlumberger-sees-3q-earnings-impact-from-russian-sanctions-1-

production slowed down.[31] Although it is difficult to distinguish between effects of the international sanctions, Russia's currency crisis and falling oil prices, Rosneft's profit of 1 billion rubles in the third quarter of 2014 as opposed to 173 billion rubles in the second quarter demonstrated a significant loss.[32] Additionally, Rosneft's debt of over $40 billion dollars resulted in severe impact as the company tried to pay it back in accordance with sanction enforcements. However, inability to tap into Western capital has made it extremely difficult for investments and payments to proceed as US regulators are rejecting and freezing finances.

Executive Order 13685 states the prohibition of "any approval, financing, facilitation, or guarantee by a United States person, wherever located, of a transaction by a foreign person where the transaction by that foreign person would be prohibited by this section if performed by a United States person or within the United States."[33] This suggests ambiguity since all worldwide locations are presumed to be under the jurisdiction of the sanction. For example, the launch of the Yamal LNG plant in Russia's Arctic was postponed due to issues with obtaining financial support and technological material from US companies and European partners such as Total, a multinational integrated oil and gas company located in France, as well as the sanctions against Gennady Timchenko, co-owner of Novatek, the controlling shareholder of the project.[34] In September 2014, Total's CFO, Patric de la Chevardière stated that "the effect of U.S.

[31] "Schlumberger Pays $1.7B for Stake in Russian Energy Company," *MSN*, last modified January 20, 2015, http://www.msn.com/en-us/money/companies/schlumberger-pays-dollar17b-for-stake-in-russian-energy-company/ar-AA8nWI9

[32] Alexander Kolyandr, "Russia's Rosneft Says Third Quarter Profit Falls on Weaker Exports, Ruble," *The Wall Street Journal,* last modified October 29, 2015, http://www.wsj.com/articles/russias-rosneft-says-third-quarter-profit-falls-on-weaker-exports-ruble-1414593402

[33] Barack Obama, "Executive Order 13685," *U.S. Department of Treasury*, last modified December 19, 2014, http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo4.pdf

[34] Anjli Raval, "Sanctions Scupper Total/Lukoil Venture," *The Financial Times*, last modified September 22, 2014, http://www.ft.com/intl/cms/s/0/49fba004-424d-11e4-a9f4-00144feabdc0.html#axzz3Q5q9US00

sanctions was that Yamal LNG will be prevented from raising any dollar financing."[35] Additionally, in 2013 General Electric signed a $600 million deal contract to provide key turbo machinery equipment for the project in Russian Siberia but had to terminate the contract.[36] Russia's inability to obtain the necessary US technology to continue construction was another crucial factor that ultimately terminated progress of the Yamal LNG plant. Furthermore, the cancellation of the project illustrates how US dominance in the global market gives it the ability to enforce bilateral laws and regulations onto third parties such as in this case with Total.

Furthermore, in 2015 the world's largest gas extractor company, Gazprom, called off the South Stream Project which was set to run through Bulgaria to deliver gas to Europe. In addition to a lack of Western technology needed for the project, Gazprom was not able to raise the funding needed. Nearly 80% of Gazprom's long term loans come from US banks, including JP Morgan, while the rest are from Europe and other countries.[37] Consequently, the expenses of the pipeline would require Gazprom to take out more long term loans, most likely in dollars. Furthermore, Bulgaria was waiting for a funding approval to participate in the project as well. However, due to sanctions from the US and the EU, Bulgaria was not able to obtain the approval and the project was forced to get called off. As a result, Bulgaria lost nearly 6,000 new jobs and $3 billion in investment.[38] Although not stated explicitly, it is implied that the absence of US technology and funding, in addition to political pressure, was a significant factor that led to the

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[35] Daniel Gilbert and Selina Williams, "Total Looks to China to Finance Russian Gas Projects Amid Sanctions," *The Wall Street Journal,* last modified September 22, 2014, http://www.wsj.com/articles/total-cuts-production-outlook-1411375794

[36] "GE Wins Contract to Build Compressors for Yamal LNG," *Alaska Natural Gas Transportation Projects,* last modified October 3, 2013, http://www.arcticgas.gov/2013/ge-wins-contract-build-compressors-yamal-lng

[37] Kenneth Rapoza, "Banned From U.S. Banks, Russian Oil Giant Turns to Even Bigger Banks in China," *Forbes,* last modified October 15, 2014, http://www.forbes.com/sites/kenrapoza/2014/10/15/banned-from-u-s-banks-russian-oil-giant-turns-to-even-bigger-banks-in-china/

[38] Ramil Sitdikov, "Gazprom Announces Final Nail in the South Stream Coffin," *RT,* last modified January 14, 2015, http://rt.com/business/222619-bulgaria-south-stream-gazprom/

cancellation of the project. Aside from hurting potential profits for Gazprom, the US extraterritorial jurisdiction extended to Bulgaria by forcing them to pull out of the project.

B. The Financial Sector

Although financial investments in energy projects inevitably have affected the financial sector, specific financial institutions and the overall economy have felt the impact of sanctions due to Russia's current isolation from the Western financial market. Although GDP only shrank by -.9% in the first half of 2016 as opposed to -3.7% in 2015, the recession has persisted and higher borrowing costs along with limited growth prospects continue to overshadow the economy.[39] The financial sector remains vulnerable due to negative credit quality and higher pressure to pay back debt quickly.[40] Since 2014, the Russian government has made efforts to execute a policy to fix the economic situation, including decreases in various areas of government spending and continuous withdrawals from the Reserve Fund. As a result of the Reserve Fund depleting, the federal government debt is expected to increase.[41] Additionally, Russia's strong integration between politics and the energy sector has had severe impacts on its economy.

Russia's top billionaires are leaders in energy companies and close allies of President Putin. Bank Rossiya, which is considered to be the "personal bank" of Putin's inner circle, holds nearly $11 billion in assets of Putin's closest friends.[42] After sanctions were enacted, over $640 million in assets of Russian individuals and entities were frozen in US bank accounts, $572 million of which were from Bank Rossiya. Other banks targeted by the sanctions were Russia's

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[39] "From Recession to Recovery"
[40] Ibid.
[41] Ibid.
[42] Jo Becker and Jim Yardley, "Private Bank Fuels Fortune of Putin's Inner Circle," *New York Times,* last modified September 27, 2014, http://www.nytimes.com/2014/09/28/world/europe/it-pays-to-be-putins-friend-.html?_r=0

top lenders Sberbank, VTB Bank and Gazprombank. Sberbank, which holds 30% of Russia's assets, reported a net loss of 20% for 2014 and that its cost of risk went up from 2.3 to 3.5%.[43] This was largely a result of funding costs that have drastically risen since the ruble lost value and Russian banks were cut off from Western loans altogether. Gazprombank also reported a net loss of $260 million during the first quarter of 2015, stating that the bank was forced to put a vast amount of rubles aside to buy dollars and pay for bad loans to the US.[44] Additionally, VTB Bank, Russia's biggest lender, reported that their profits plummeted to $13.1 million during 2014 and experienced net losses throughout 2015, reportedly due to sanctions and the central banks high interest rates.[45] In early March 2015 Chief Executive of VTB Bank, Andrei Kostin, stated, "Sanctions have changed the vector of movement of my bank. Before, I was able to develop it on the free market, to borrow on global markets, sell shares, but the sanctions have made all that impossible."[46] Although it can be argued that both US and EU sanctions are responsible, the VTB Bank's significant partnerships with energy companies such as Rosneft, imply that dollars are essential to the VTB Bank's success and played a large role in its losses.

Due to the strong integration of the energy and financial sectors in Russia, the sanctions have created many secondary effects between banks, companies and foreign investment. Most importantly, inability to complete transactions with the US dollar has caused severe issues for banks and oil companies, especially since oil is globally traded in dollars. The sectoral sanctions

[43] Oksana Kobzeva and Alexander Winning, "Update 3 – Russia's Sberbank Sees Margin Squeeze Worsening in 2015," *Reuters,* last modified March 26, 2015, http://www.reuters.com/article/2015/03/26/russia-sberbank-results-idUSL6N0WS1OE20150326

[44] Peter Hobson, "Crisis Turns Profit to Loss at Russia's No. 3 Bank Gazprombank," *The Moscow Times,* last modified April 21, 2015, http://www.themoscowtimes.com/business/article/crisis-turns-profit-to-loss-at-russia-s-no-3-bank-gazprombank/519439.html

[45] Alexander Kolyandr, "Russia's VTB Bank Sees Profits Plunge in 2014," *The Wall Street Journal,* last modified March 13, 2015, http://www.wsj.com/articles/russias-vtb-bank-sees-profits-plunge-in-2014-1426241464

[46] Ibid.

enforced by the US aimed to cut off Russia's access to Western capital markets, causing Russian banks and companies to turn to the domestic money supply. Derivative 1 of Executive Order 13662 states:

> The following activities by a U.S. person or within the United States are prohibited, except to the extent provided by law or unless licensed or otherwise authorized by the Office of Foreign Assets Control: (1) all transactions in, provision of financing for, and other dealings in new debt of longer than 30 days maturity or new equity of persons determined to be subject to this Directive, their property, or their interests in property.[47]

The "30 day maturity" provision has created numerous issues since long term loans from Western banks are no longer available. Prior to the sanctions, Russian banks took out money from Western banks and redistributed that money in loans to Russian companies. However, now companies, such as Rosneft, are no longer able to take out new loans therefore slowing down expansion of Russian businesses and integration into the world market. Consequently, loans are not able to be refinanced, urging companies and banks to pay back existing loans as soon as possible. For example, Rosneft had about $60 billion in debt and was set to pay about $20 billion dollar denominated debt by the end of 2015.[48] Since the company was not allowed to refinance loans, it was forced to pay its debt at a faster rate which resulted in profit losses and stalled company expansion. Furthermore, toward the end of 2014 the ruble devaluated to its lowest of 80 to the dollar, contributing to rising debt. For example, another major energy company that was hit with the same circumstances was Gazprom for which debt burden increased by 14% in 2015.[49]

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[47] Barack Obama, "Executive Order 13662 Directive 1 and 2," *The U.S. Department of Treasury,* last modified September 12, 2014, http://www.treasury.gov/resource-center/sanctions/Programs/Documents/eo_13662_directives.pdf

[48] Howard Amos, "Markets Alert as Russia's Rosneft Readies $7 Billion Debt Payment," *The Moscow Times,* last modified February 8, 2015, http://www.themoscowtimes.com/business/article/markets-alert-as-russia-s-rosneft-readies-7-billion-debt-payment/515579.html

[49] Aexei Lossan, "Gazprom Declares Alarming Slump in Revenues as Debt as Burden Rises," *Russia Beyond the Headlines,* last modified February 2, 2015,

Since banks have not been able to borrow more money from the US, the Russian Central Bank has had to finance loans by taking out money from foreign exchange reserves. From 2014 to 2015, reserves decreased from nearly $480 billion to $350 billion in less than a year. In 2015, Russia had over $670 billion of corporate debt denominated in foreign currencies, $120 million of which was scheduled to mature later that year.[50] According to Jeff Barnett, since foreign exchange reserves significantly decreased, Russia no longer has a "cushion" to fall back on.[51] Furthermore, the Russian government began using the National Welfare Fund, a section of the foreign exchange reserves that is meant to fund the pension system. Additionally, interest rates have gone up from 5.5% to as high as 17%, making foreign investment expensive and unappealing. Consequently, investor confidence has significantly gone down since the beginning of the Ukraine crisis with the top concern being political risk.[52] In 2014, US investors pulled out nearly $100 billion out of Russia.[53] Since Russia's investment segment is mostly based on dollars due to the energy sector, investment pull out has had detrimental effects on Russia's economy. In early 2015, Standard and Poor's, an American based financial services company, gave Russia a credit rating of "junk status."[54] Aside from resulting in a large investment drop, the rating meant that if Russia tried to borrow money from the global market, its rates were much higher due to "financial risk."

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http://rbth.com/business/2015/02/02/gazprom_declares_alarming_slump_in_revenues_as_debt_burden_rises_43339.html

[50]Chris Matthews, "Russian Ruble's Fall: A Classic 'Currency Collapse'." *Fortune,* last modified December 16, 2014, http://fortune.com/2014/12/16/russian-ruble-currency-collapse/

[51] Jeff Barnett, interview with Senior Director of Policy and Programs at the US-Russia Business Council, May 21, 2017.

[52] Maxim Stulov, "Investor Confidence in Russian Plummets – Poll," *The Moscow Times,* last modified February 10, 2015, http://www.themoscowtimes.com/business/article/investor-confidence-in-russia-plummets-poll/515719.html

[53] Elena Fabrichnaya and Alexander Winning, "Russian Economy Suffers First Contraction Since Global Crisis," *Reuters,* last modified December 29, 2014, http://www.reuters.com/article/2014/12/29/russia-crisis-gdp-idUSL6N0UD0EV20141229

[54] Jason Lee, "Russia's Downgrade by Western Ratings Agencies 'Politicized'," *RT,* last modified February 4, 2015, http://rt.com/business/229219-china-russia-rating-politicized/

DISCUSSION AND EVALUATION OF EFFECTS

A. The Energy Sector

One of the most significant implications of the effects is that the energy sector is deeply integrated with the economy. As a result of the direct correlation between the devaluation of the ruble and the fluctuation in oil prices, vulnerabilities in Russia's political and economic structure have been exposed and emphasized, specifically its dependence on energy exports. Although the oil prices inevitably affected the energy sector, the specific projects mentioned earlier clearly demonstrate the effects of the sanctions. Due to several cancelled projects, Russia has had to start looking for partners elsewhere to help the sector recover. One of the most important partnerships has been with China. In 2014, Russia signed two separate deals with China, including a $400 billion gas deal. The deal consists of Russian oil firm Gazprom supplying China with nearly 30 billion cubic meters of gas over a 30 year period.[55] It also includes construction of a new pipeline that will carry gas from the Eastern Siberia region. Furthermore, the closer ties have the potential of making China Russia's biggest gas market as opposed to Germany.

Russia has also deepened its relationship with Iran by negotiating a deal to build hydroelectric plants and increase oil exports. The multi-billion dollar oil agreement between Moscow and Tehran is set to reach nearly $2.35 billion a year.[56] The contracts with China and Iran illustrate Russia's ability to partially substitute Western markets in energy exports. Although it is arguable that the new deals cannot replace the capacity of the European market and fully help recover the energy sector, it demonstrates that Russia can diversify its energy supply

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[55] Jason Bordoff and Trevor Houser, "American Gas to the Rescue?" *Columbia Center on Global Energy Policy*, last modified September 2014, http://energypolicy.columbia.edu/sites/default/files/energy/CGEP_American%20Gas%20to%20the%20Rescue%3F.pdf

[56] "Sanctioned Russia and Iran sign 5-yr Deal to Ease Western Pressure," *RT*, last modified August 8, 2014, http://rt.com/business/178316-russia-iran-oil-deal-sanctions/

market. Furthermore, Russia successfully changed the South Stream to the Turkish Stream pipeline project since Turkey is not a member of the EU and does not fall under the jurisdiction of the US or EU sanctions. Greece also agreed to invest $2 billion in the project, helping the financial gap created by lack of US dollars.[57] This means that aside from establishing stronger investments in countries such as China and Iran, Russia is still maintaining its presence in Europe for the long term.

In addition to finding alternative trading partners, Europe's dependence on Russian energy has started relieving its sanctions on Russia's top oil and gas companies such as Gazprom.[58] Additionally, despite the EU's strategic transatlantic partnership with the US, it has been hesitant to enforce stricter sanction measures against Russia. Overall, energy exports have continued to flow into Europe since there are no other substantive alternatives and the US is not able to substitute Russia's energy supply. Consequently, Russia's energy sector has not felt significant impact in regards to existing energy trade. However, the US's ban on "exploration" such as deep water, Arctic and shale drilling prevents companies from expansion and growth. The US's vast supply of technology is vital to such projects and has inevitably caused a setback in Russia's plans to expand its energy sector. Currently, 90% of Russia's energy technology comes from the US, 30% of it being advanced technology for deep water oil exploration.[59] This has allowed the US to use extraterritorial jurisdiction by impacting what Russian companies and even its trading partners can or cannot due in the Arctic and other forms of energy development. Additionally, absence of US investment in the energy sector has played a significant role in the

[57] Alexander Zemlianichenko, "Greece to Invest $2 bn in Turkish Stream, Will Sign Memorandum Asap," *RT*, last modified June 1, 2015, http://rt.com/business/264049-greece-turkish-stream-invetsment/
[58] Attila Kisbenedek, "EU Sanctions Relief for Russia's Top Banks, Oil Banks," *RT*, last modified December 4, 2014, http://rt.com/business/211815-eu-russia-sanctions-relieve/
[59] Stephen Bierman and Elena Mazneva, "Russia's Oil Field Actions to Take Edge Off U.S. Sanctions," *Bloomberg Business*, last modified October 9, 2014, http://www.bloomberg.com/news/articles/2014-10-09/russia-to-use-oil-field-auctions-to-take-edge-off-u-s-sanctions

cancelled projects. However, the effects of the sanctions have also given Russia incentive to start developing the necessary technology domestically or obtain it from somewhere else as well as use domestic and other outside resources for financing the projects. Although this will be a long and difficult transition, according to Jeff Barnett, it can be done. Overall, Russia has experienced significant setbacks in the energy sector including inability to expand and replace its dependence on Europe for trade. However, it has been able to find alternatives while raising oil and gas production.

B. The Financial Sector

Although some of the effects of the energy and financial sectors inevitably integrate, significant profit losses in the Russian banking system and issues with long term dollar lending indicate that the financial sector has been hit much harder. The initial asset freezes did not do much damage while continuing problems with the banking system have. One of the main issues is that there are many secondary effects that have potential long term impact. For example, since Russia's reserves are rapidly depleting and its Western finances are vastly cut off, the government does not have a concrete back up if the ruble and GDP continue to fall. Furthermore, diminished investor confidence and the "junk status" rating have caused huge financial issues as investors have persistently pulled out of the Russian economy. A poll indicated that investor confidence fell from 56% in 2014 to 25% in January 2015.[60]

According to Kerry Contini, an associate at Baker and McKenzie LLP, one of the most severe impacts of the sanctions is that investors do not want to work with Russian companies even if they are not sanctioned and the transactions are legal, "Companies do not want to have to do the due diligence or risk the possibility of facing legal repercussions and penalties since it is not always clear exactly who is involved in a transaction and where the final product will end up.

[60] Maxim Stulov

It is simply easier and more cost effective for US companies to pause investment all together."[61] Another consequence is that investor confidence and credit rating are long term effects that are very difficult to get back. Since a vast amount of Russia's investment is dominated by dollars, inability to access Western markets has been detrimental. Rosneft was set to buy Morgan Stanley's oil trading unit last year. However, the sanctions created barriers by making it extremely difficult for Rosneft to find the billions of dollars in credit needed to run the operation as well as approval to let the transaction go through. As a result, the deal was called off in December 2014.[62]

Russia's isolation from Western capital has also prevented its ability to turn to international organizations for help. Typically, countries in situations similar to Russia would be able to request assistance from the World Bank and IMF. However, since the US is a dominant member and contributor to these organizations, Russia cannot use their services because it will most likely be rejected. In March 2015, the US increased its dollar shares in the international reserves to 62.9%, further indicating the dependency of international organizations on the dollar. This also meant that US influence holds a strong presence in these organizations indicating that the World Bank and the IMF would not go against the US, or even Europe, to help Russia.[63] In an effort to reduce dollar dependence, Russia has turned to domestic financial resources for bailout. Aside from using the Russian Central Bank reserves, the government has initiated steps toward creating a national payment system owned by the bank. This has even affected US

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[61] Kerry Contini, interview with associate at Baker and McKenzie, May 8, 2017.
[62] Paul Whitfield, "As Russia M&A Stalls, Company's Founder on Sanctions and Oil Prices," *The Deal,* last modified February 20, 2015, http://www.thedeal.com/content/energy/as-russian-ma-stalls-companies-founder-on-sanctions-and-oil-prices.php
[63] Daniel Bases, "U.S. Dollar Increases Share of Central Bank FX Reserves," *Reuters,* last modified March 31, 2015, http://www.reuters.com/article/2015/03/31/currency-reserves-imf-idUSL2N0WX11U20150331

companies, such as Visa and MasterCard who account for 95% of Russia's payment services.[64] After US sanctions were initially enforced, Visa and MasterCard were forced to freeze its services for a few days, causing major transactional issues. Although the companies were granted permission to continue their services, the incident urged Russia to move towards a national payment system in order to avoid such vulnerabilities in the future. In early April 2015, Visa and MasterCard officially began processing payments inside Russia's domestic system.[65]

Additionally, since the beginning of the sanctions, Chinese and Japanese bank card systems UnionPay and Japan Credit Bureau entered the Russian market. Russia and China also tightened their relations by announcing that they will be using their own currencies for bilateral trade.[66] However, China is extremely dependent on US capital as well. In 2012, 175.6% of China's trade surplus was related to sales to the US.[67] Consequently, despite Russia and China's initiatives to integrate their markets and decrease reliance on the US, both countries depend on the dollar which will be extremely difficult to change. Overall, the dollar's strong presence in the global market has not only affected Russia's ability to access the US financial system, but the European and Asian markets as well. Although these appear as positive opportunities for Russia to diversify its financial market, it will take a while to see the success of the national payment system. Furthermore, this does not substitute Russia's dependence on dollar loans for its energy sector from US, European and even Asian banks. According to the National Bureau of Economic

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[64] Jason Reed, "Visa to Pay $60mn Guarantee as it Misses Russian Data Deadline," *RT,* last modified March 31, 2015, http://rt.com/business/245501-visa-russia-guarantee-fee/

[65] Alexei Lossan, "Visa and Mastercard Join Russia's National Card Payment System," *Russia Beyond the Headlines,* last modified April 2, 2015, http://rbth.com/business/2015/04/02/visa_and_mastercard_join_russias_national_card_payment_system_44955.html

[66] Hao Li, "China-Russia Currency Agreement Further Threatens U.S. Dollar," *International Business Times,* last modified November 24, 2014, http://www.ibtimes.com/china-russia-currency-agreement-further-threatens-us-dollar-248338

[67] Gordon Chang, "China is 175.6% Dependent on the U.S.," *Forbes,* last modified January 22, 2012, http://www.forbes.com/sites/gordonchang/2012/01/22/china-is-175-6-dependent-on-the-u-s/

Research, a large share of dollar denominating lending is done by non-US banks, particularly European banks.[68] Since Russia receives over half of its loans from the EU, the banking system still depends on dollars for lending and transactions, especially for oil and gas. Although this can change, it would take a long time to completely shift Russia's financial structure away from Western capital.

C. Further Implications

One of the main implications of the effects on the Russian financial sector is the consequences of a dollar dominated global financial system and how that enables the US to use extraterritorial jurisdiction. Although Russia's inability to access the dollar is not necessarily the main reason for its economic downturn, it plays an important role considering Russia's dependence on dollar denominated loans and energy trade. Similarly, other foreign markets have had economic issues when US financing was cut off. Considering the integration of the dollar in the European banking system and countries such as China, it can be assumed that without the dollar, the banking sectors would not succeed. In general, the dollar's presence in nearly every market, especially international reserves and lending systems, makes it a vital factor for economic stability and success. Furthermore, the dollar based international system gives the US ability to exert power onto foreign financial sectors and overall country regulations. For example, in 2009 as a result of the US sanctions imposed on Iran, foreign banks, such as London based Lloyds TSB Bank, were forced to pay fines to the US government for clearing dollar transactions on behalf of Iranian banks.[69]

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[68] Victoria Ivashina and Jeremy Stein, "Dollar Funding and the Lending Behavior of Global Banks," *The National Bureau of Economic Research,* last modified November 2012, http://www.nber.org/papers/w18528

[69] Jan Blochliger and Alex Lakatos, "The Extraterritorial Reach of U.S. Anti-Terrorist Finance Laws," *Mayer Brown LLP,* accessed April 20, 2017*, www.mayerbrown.com/.../05_Lakatos_Bloechliger.pdf*

It is arguable that energy dependent countries such as Russia and Iran are especially vulnerable to dollar dominance since oil is globally traded in dollars. Given that a vast amount of Russia's financial sector is designated for lending to Russian energy companies and conducting transactions for energy trade, access to the dollar is imperative and was inevitably what hurt the economy after the sanctions were enforced. Additionally, the dollar's prevalence in the European market gave the US more leverage in establishing a concrete transatlantic partnership with the EU against Russia. However, experts have started to question how much longer the US dollar dominance era will last. In fact, many are arguing that the US sanctions enforced on Russia are backfiring by giving Moscow incentive to partner with countries such as China and Iran in moving away from dollar dependence. Nevertheless, as the dollar has gained strength in the last several months, it is evident that it still signifies power and supremacy in the current financial market. [70] Despite these implications, I would argue that the dollar does not give US leverage in bargaining with Russia in the Ukraine crisis. Despite the effects described in this paper, the sanctions have not been effective in forcing Russia to comply with US demands. As of now, the US does not plan on lifting the sanctions unless Russia fulfills the Mink Agreement by giving back Crimea and Russia does not plan on complying.

THE RUSSIA AND CHINA PARTNERSHIP

As Russia continues to recover and stabilize its economy, China has become a critical ally in Russia's economic development and its participation in international legal issues since the 2014 sanctions. The economic turmoil following the Ukraine crisis pushed Russia to "pivot" its economy towards Asia and form a stronger partnership with its neighboring giant, especially due to Russia's inability to obtain Western capital. Although China has largely remained neutral in

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[70] Michael Schuman, "The Strength of the U.S. Dollar Reflects Global Economic Reality," *Time*, last modified November 3, 2014, http://time.com/3553962/us-dollar-greenback-currency-money-global-economy-treasury-securities/

regards to Crimea, China's alliance with Russia has protected Russia from the full impact of Western sanctions and given the annexation of Crimea international legitimacy.[71] As a result, both countries have taken key steps to influence international affairs through increased economic and political relations.

Russia's lack of access to Western capital has led it to seek a substitute from China through various trade agreements. One of the most profound developments was Russia and China's declaration that they would be using the yuan for transactions. In 2014 People's Bank of China and the Central Bank of Russia signed an arrangement for currency swap worth 150 billion yuan and 815 billion rubles to facilitate settlement in national currencies and boost international trade.[72] Additionally, Russia has begun issuing yuan denominated bonds which marks Russia's return to the bond market since 2013.[73] The bonds have been issued with Russia's state owned Gazprombank which was a large target of the US and EU sanctions.[74] Consequently, China has become one of Russia's largest investors, providing Russia with a substitute since Western investors rapidly started pulling out due to the sanctions.

In 2014, Russia and China ratified the Strategic Partnership agreement from which various substantial trade deals emerged.[75] The most important result was the strengthening of the Sino-Russian energy relationship, including a 40-year gas supply agreement between Gazprom

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[71] Angela Stent, "Russia, China ,and the West After Crimea," *Transatlantic Academy,* last modified May 13, 2016, http://www.transatlanticacademy.org/publications/russia-china-and-west-after-crimea
[72] Bob Savic, "Behind China and Russia's 'Special Relationship'," *The Diplomat*, last modified Dec 7, 2016, http://thediplomat.com/2016/12/behind-china-and-russias-special-relationship/
[73] Ibid.
[74] Liz Mak, "ICBC and Bank of China to help underwrite Russia's issuance of largest yuan-denominated foreign sovereign bond," *South China Morning Post*, last modified April 27, 2016, http://www.scmp.com/business/markets/article/1939043/icbc-and-bank-china-help-underwrite-russias-issuance-largest-yuan
[75] Bob Savic

and China National Petroleum Corporation (CNPC).[76] This included a $400 billion deal to build a gas pipeline which was an important post-Crimea decision. Russia and China had begun the negotiating process before 2014 but were unable to agree on a price.[77] With Gazprom taking a large hit as a result of the US and EU sanctions, Russia sought China's help and this was a key development for creating an alternative for one of Russia's largest energy players. Additionally, Rosneft entered into a deal with CNPC to supply oil worth up to $500 billion from Russia's oil fields.[78] Furthermore, Russia's exports of mechanical and technical products to China increased by nearly 45%, signifying Russia's evolving shift to non-energy products.[79] Finally, both countries have taken steps to integrate Russia's Eurasian Economic Union and China's BRI, which is comprised of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, to establish an "inward-focused trading network."[80] Ultimately, these developments suggest Russia's developing response to the sanctions since oil prices fell and fluctuated, leading to a decline in Russia's GDP, and the need for the country to explore alternatives to help its economy recover.

In addition to stronger economic relations, Russia and China have taken significant steps to strengthen their political relationship by supporting each other, or remaining silent, in current legal global issues. Rather than joining Western powers in condemning Russia's annexation of Crimea, China took a silent position and remained neutral.[81] However, this "neutrality" was a clear signal that China was not going to turn its back on Russia and continue a relationship with its neighboring giant. Additionally, although Russia and China have historically taken an allied

[76] Ibid.
[77] Angela Stent
[78] Bob Savic
[79] Ibid.
[80] Ibid.
[81] Ibid.

approach to veto the United Nations Security Council's legislation concerning the Bashar al-Assad's Syrian regime, this has become even more evident following Crimea as China has taken a more "forward" role in engaging in Syria.[82] In fact, China has provided Syria with military training and humanitarian aid.[83] Furthermore, China and Russia have vetoed key UN Security Council resolutions, backed by Western powers, to sanction Syria over its chemical weapons use.[84] This has signified a huge shift since the 2013 plans by the Russians and Americans to get rid of chemical weapons in Syria and simultaneously shows Russia and Chinas commitment to remain united, pitted against Western powers.[85] Furthermore, China's veto suggested its neutral, if not supportive, position in regards to Russia's involvement in Syria which has been condemned by the West. The countries' also vetoed a UN resolution calling for the crisis in Syria to be referred to the International Criminal Court.[86] As a result, Russia and China have faced strong criticism for allowing the Syrian government to "escape accountability for war crimes and crimes against humanity."[87] Finally, the UN Security Council has become a powerful tool for the neighboring giants in preventing US led global policymaking and the divided interests in addressing current legal issues.

Another area of cooperation has been in the South China Sea, a historically controversial legal issue for China over ownership and interstate conflict. In 2016, Russia and China

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[82] Michael Clarke, "China Is Supporting Syria's Regime. What Changed?" *National Interest*, last modified Sept 17, 2016, http://nationalinterest.org/feature/china-supporting-syrias-regime-what-changed-17738

[83] Mirek Dusek, "Is China Pivoting Towards the Middle East?" *World Economic Forum*, last modified April 4, 2017, https://www.weforum.org/agenda/2017/04/is-china-pivoting-towards-the-middle-east/

[84] Stacy Closson, "The Russia-China Partnership Remains Strong, Despite America," *The Wilson Center*, last modified March 8, 2017, https://www.wilsoncenter.org/blog-post/the-russia-china-partnership-remains-strong-despite-america

[85] Ibid.

[86] "Russia and China Veto UN Resolution to Impose Sanctions on Syria," *The Guardian*, last modified Feb 28, 2017, https://www.theguardian.com/world/2017/mar/01/russia-and-china-veto-un-resolution-to-impose-sanctions-on-syria

[87] Ibid.

conducted an eight day naval exercise, Joint Sea 2016, in the South China Sea, showing Russia's clear support for China's claims in the region and prevention of influence from outside powers, specifically the US.[88] This maritime strategy shows several political motives, including Russia's desire for greater influence in the Asia-Pacific against US attacks. Additionally, it has also contributed to Russia's desire to expand outside of its energy exports by providing military equipment to China and participating in the exercises. As a result, the South China Sea presents a higher overarching issue of international law, which China seems to be ignoring with Russia's support. In December 2016, China seized a US Navy unnamed underwater vehicle in the South China Sea.[89] Combined with Russia's support, this suggests a pattern of disregard among major military powers of international law. If the exercises continue and China keeps testing its boundaries in the South China Sea, this could lead to significant international legal issues with Russia and China being the regional superpowers against the US's interests in the matter.

Another important collaboration between Russia and China since the 2014 Ukraine crisis is their joint rejection of several international institutions. In 2016 Russia withdrew from the International Criminal Court, following the court's earlier ruling that the annexation by Russia of Crimea was an "ongoing occupation."[90] With several African nations withdrawing prior to Russia's announcement, and countries such as China rejecting membership outright, the court suffered a significant setback in its mission to establish global legitimacy and effectiveness.[91] Additionally, China has rejected the ruling of the Permanent Court of Arbitration regarding the

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[88] Bob Savic
[89] Ibid.
[90] Anna Holligan, "Russia Withdraws From International Criminal Court Treaty," *BBC*, last modified Nov 16, 2016, http://www.bbc.com/news/world-europe-38005282
[91] Ibid.

South China Sea in *The Republic of Philippines v. The People's Republic of China*.[92] China has also steered away from abiding by the UN's Convention on the Law of the Sea and threatened to leave the convention.[93] Consequently, this undermines the convention and court's primary methods for resolving disputes. Furthermore, the countries' actions have exposed the fundamental weakness of the process in international law which is that if a state declines to appear in court, the tribunals have no power to make it change its behavior. When such important players pay no regard to an organization's dispute resolution forums, less powerful countries have little incentive to submit to the court's jurisdiction.

In addition to rejecting international law authority, in 2016 Russia and China issued their own Joint Declaration on Promotion and Principles of International Law. The three main principles covered by the declaration is sovereign equality of states, the non-use and non-interference in internal affairs and peaceful resolution of states.[94] An overarching theme of the declaration is countering criticism that both countries have ignored and violated international law, including the South China Sea and Crimea. This entails strong emphasis on the importance of state sovereignty in international law which is likely directed at preventing Western influence. It also discusses state immunity, particularly aimed at human-rights based restrictions. As a result, the countries, again, questioned the legitimacy of international law enforcement and its effect on countries' actions.[95] Although the declaration does not explicitly reject international organizations, the declaration does serve as a joint effort by two major power giants in

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[92] Hannah Beech, "China Will Never Respect the US Over the South China Sea," *Time,* last modified July 7, 2016, http://time.com/4397808/south-china-sea-us-unclos/

[93] Ibid.

[94] Ingrif Wuerth, "China, Russia and International Law," *Lawfare,* last modified July 11, 2016, https://www.lawfareblog.com/china-russia-and-international-law

[95] Catherine Valenzuela-Bock, "Russia and China Issue Joint Declaration on Promotion and Principles of International Law," *American Society in International Law,* June 25, 2016, https://www.asil.org/blogs/russia-and-china-issue-joint-declaration-promotion-and-principles-international-law-june-25

contradiction to the principles promoted by the West. Aside from continuing to undermine the authority of international organizations, the declaration symbolizes both countries' continuous and stronger effort to keep the West, especially the US, out of its regional affairs. Regardless of the legislative effect that this declaration may have, the message is clear: Russia and China are partners and will not succumb to Western demands.

CONCLUSION

In conclusion, the US and EU sanctions following the 2014 Ukraine crisis had a significant and detrimental effect on Russia's economy. Specifically, the lack of access to Western capital severely impacted Russia's energy and financial sectors. Without the US dollar, Russian banks were unable to finance energy projects which are the main source of revenue for Russia's economy. Aside from causing investors to pull out and decreasing the GDP, the sanctions have also pushed Russia to explore substitutes, especially China. Since 2014, the countries have substantially increased trade, including various energy deals and currency swap agreements. In addition to strengthening its economic partnership, China and Russia have also allied politically, largely to resist Western influence in their region. They have also collaborated in military exercises, voting in the UN Security Council and raising legitimacy questions of international organizations. Although the partnership is far from perfect and presents its own issues, China and Russia's most similar interests to maintain state sovereignty and keep the US out of regional affairs suggests that the partnership will continue to grow.