

Economic Powers That Be
U.S.-Russo Political Actions and Their Affect on the Russian Economy

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Abstract

The United States and Russia currently face political problems that undermine areas of trade and economics of both respective countries despite market forces. This analysis first gives an overview of key events in history to establish a basis of understanding of the foundation of U.S.-Russo political and economic relations. Secondly, an evaluation of the current issues that have pitted Russia and America against one another will shed light on the barriers of further development. Finally, utilizing both the past and present economic impacts forecasts three possible outcomes for U.S.-Russo political relations and the economic impacts that follow as a result.

Keywords: political, economic, U.S., Russia, Putin, history, trends

Political Powers That Be: U.S.-Russo Political Actions and Their Effect on the Russian Economy

While the Invisible Hand moves the markets, governments and politicians guide trade in ways that can either benefit or harm the parties involved and those who are not engaged in politics, but who simply wish to trade. The actions of governments and political parties affect many different spheres of daily life. Whatever decisions the politicians make, their results are seen through the global economy. The decisions can be made to the benefit of the people or the detriment of a political foe. The same can be said for U.S.-Russo relations.

In order to fully understand the nature and the impact that American and Russian politicians have had in regard to the economy and trade, it is necessary to look at the relationship between the two countries from the Post-revolution Era of the 1920's up to the fall of Communism in 1991. Some practices enacted by leaders of both countries caused political and economic relations to improve between the nations, such as Lenin's New Economic Policy and President Roosevelt's Lend-Lease Act, while others like Stalin's pyatiletka (Five Year Plan) and Yeltsin's reforms caused massive problems for the Russian people. However, while previous events has caused hostility between the two nations and have acted as impediments to increasing trade and economic amity, two particular forces cause the most recent disagreements between Russia and the U.S. that have detrimental political and economic impacts; economic corruption and human rights abuse. These two factors do not only halt Foreign Direct Investment (FDI), but also make Russia a very unattractive environment for business. Some of these issues deal with corporate bribery and other violations under the Foreign Corrupt Practices Act. Other

affects such as the unlawful seizure of Yukos Oil also undermine the property rights of national firms and the individuals that own them. While political corruption hurts the country's economic position, human rights issues (especially those championed by Americans) only resurrect Cold War sentiments and seek to drive a wedge between the two countries and detract from meaningful political and economic agreements. Jackson-Vanik and the Magnitsky Act cause such wedges, as well as other recent events such as the 2014 Sochi Winter Olympics and the annexation of Ukraine.

These most recent events coupled with the U.S.'s political actions have already led to sanctions on the Russian Federation. Russia will face many economic difficulties especially in light of the Ukraine Crisis. Some of the economic repercussions include sanctions by the U.S. and the European Union (EU) and increased foreign aid to the Ukraine. While Russia is not extremely reliant on the U.S. in terms of trade the country is heavily dependent on natural resources, oil and gas in particular. These commodities comprise the majority of the Russian economy and therefore increase the risk of recessions occurring if OPEC drops the price below 100 dollars per barrel.

Therefore, the effects of past and present decisions leave three alternative outcomes for U.S. and Russian economic relations. First, the United States and Russia could eventually resume the status quo and return previous economic trade relations. Second, due to the political and economic position of the country and the people's perception of Putin as the champion of the people could lead to an environment that fosters nationalistic ideas culminating in a full-scale war between the U.S. and Russia. However, the final outcome is most credible and supported by history and present inclinations; the emergence of another Cold War, where the U.S. uses its hegemony and

influence to create economic difficulties in order to impede Russia's progress. Therefore, political actions weigh heavily on economic outcomes on a global scale and business professionals should keep track of major current events and political decisions.

Part 1: Past Historical Relations

Post-revolution to World War II

In order to fully understand the present political and economic conditions of the U.S. and Russia's relationship, an examination of the history between the U.S. and Russia must be made starting from after the revolution to the fall of communism. While historians emphasize the "Red Scare" (widespread fear of communism) that U.S. citizens were experiencing in the wake of the Russian Revolution, Americans were investing in newly-formed Soviet Union, since Lenin allowed for certain changes to the Soviet Union economic structure that provided limited economic liberties between Westerners and Soviet nationals after WWI. In March of 1921, Lenin permitted Soviet citizens "some liberal policies, such as private land ownership and trade, but preserved state ownership of heavy industry" (U.S. Department of State, 2009, para. 72). As a result, American foreign direct investment (FDI) came into the Soviet Union, primarily in the areas of mining and development. However, not even Lenin agreed with these practices. According to Volkogonov (1998), Lenin was vehemently against the idea of returning back to a free trade model and only begrudgingly accepted the New Economic Policy (NEP) claiming that he would use it as a springboard to further the communist cause (p. 6). However, during the Great Famine (1921-1923) the Soviet Union received relief aid from the U.S. (U.S. Department of State, 2009, para. 73). Lenin's NEP helped to sustain the new republic if for a while, yet once Stalin rose to power the country would face

drastic changes to both its political and economic structure in the most negative ways, but would actually benefit the U.S. economy with the rise of World War II.

Stalin (1930s–1950s). While the NEP was a deviation from the intended course for Socialist economic theory, government oversight would become tighter in the wake of Lenin's death. Stalin decided to expand upon communist ideas such as collectivization for farms and factories. In order to implement collectivization, he set up the Five Year Plan or *pyatiletka* (Volkogonov, 1998, p. 105). Collectivization was the process where the Soviet government collected the harvests of state-run farms and exported the vast majority of the crops outside of the Soviet Union. This program was a great departure from Western economic models where most crops were owned and harvested by private individuals or companies. The most negative consequence of collectivization was the deaths of 9.5 million Soviet people (Volkogonov, 1998, p. 104). This occurred because most of the grain was exported for hard currency and little was left for the people working the farms or for consumers within the Soviet Union. Shinar (2012) also explains that Stalin implemented “collectivization, forced migration, compulsory requisitioning and heavy rural taxation” (p. 442). The Soviet worker had no incentive to perform well (Shinar, 2012). Also, the government had become increasingly centralized, according to Shinar (2012). As a result, the whole system was inefficient and unsustainable. Shinar (2012) also explains that scientists were essentially cut off from their Western counterparts and therefore cut off from shared learning and exchange of ideas that could have led to improvement in the Soviet Union. As a result, the country suffered socio-economically.

Lend-Lease Act. Despite the economic and political dichotomies between the Western nations and the Soviet Union, the United States played an important role in supplying the Soviets during World War II. The Americans created what was called the Lend-Lease Act. This agreement gave the Russians much needed war-related equipment such as weapons and supplies. According to Hill (2007), very little information is known among the Russian historians about the Lend-Lease Act because Soviet historians did not record much of the information and any information given downplayed much of the involvement that the U.S. had within the process (Hill, 2007, p. 774). However, Soviet records do state that American and British shipments included “401,400 automobiles and 2,599,000 tons of oil products” (Hill, 2007, p. 775). The U.S. Department of State (2009) gives a more detailed account claiming that

Supplies to the Soviet Union included 14,795 aircraft, 7,537 tanks, 375,883 trucks, 345,735 tons of explosives, 2,981 locomotives and 11,155 railroad cars, over a million miles of field telephone cable, \$1.312 million worth of food, 2,670,000 tons of gasoline, and 15 million pairs of boots (para. 80).

Interestingly enough, the payment for the stated equipment and supplies to the Soviet Union was not made on a credit or cash basis, but on a mixture of advanced payments and bartering. This payment for the supplies was supposed to consist of “cash advances on gold deliveries and by supplying raw materials in the future” (Hill, 2007, p. 782). Nevertheless, Congress was initially adamant about leaving the Soviet Union out of the Lend-Lease Act, and the country would have been left out had not President Roosevelt (FDR) convinced them that aiding the Soviet Union was in the best interests of the country (Hill, 2007, p. 782). FDR was correct in two ways: the “sale” helped the war

effort by aiding the allied forces against Hitler and it greatly stimulated the American economy due to the massive demand for weapons manufacturing and supplies following the Great Depression. Therefore, trade between the Soviet Union and the United States was clearly beneficial to both countries, one receiving the military advantage and the other the economic boon for its depressed economy. Political actions spurred trade into a beneficial outcome for both parties.

Cold War Era (1945-1991)

While the U.S. and the Soviet Union were allies during World War II the warm feelings of camaraderie did not last long. From 1950s to the 1970s the U.S. and the Soviet Union fought a series of proxy wars in order to gain and maintain hegemony. The Cuban Missile Crisis in particular gave rise to the fear of atomic holocaust and a potential WWII due to the U.S. and U.S.S.R.'s extensive nuclear capabilities. However, other events, such as the Korean and Vietnam Wars allowed the U.S. and Russia to battle with one another without the repercussions mentioned. Both countries did make some efforts to work together on certain business ventures, usually at the urging of the U.S. For example, after World War II, the U.S. helped to establish the GATT (General Agreement on Tariffs and Trade). Although nineteen countries were invited to join, the Soviet Union declined because it wanted to have a self-sufficient economy (Eckes, 2009, p. 15). This isolationist economic policy would continue and expanded up until 1991, when the practice proved to be unsustainable. The U.S. however, could use its political power and economic strength to place the Soviet Union in a bind by assisting its enemies and driving it into bankruptcy via nuclear deterrence.

There were several reasons while the Soviet Union resulted in a failed communist experiment. The Russians cut themselves off from a vast source of pioneering thought, which likely would lead to innovative destruction, development of new technologies, increased productivity, and national pride. Soviet scientists had been segregated from their foreign counterparts since the 1930s and placed under severe scrutiny by the state. Such practices and paranoia left the scientific community in Russia starved of creativity (Shinar, 2012, p. 446). In order to motivate the factory workers the government gave bonuses to the factory managers that made double the amount of the original products. While this system was supposed to have increased output and productivity it did not create quality products. Shinar (2012) stated that the products had one main problem; the products were inefficient and thus capitalist countries did not want to purchase them because of the extra cost that a Soviet plane, for instance, would incur. Shinar (2012) also states that the Soviet Union had created a bureaucracy that controlled the government, factories, the army, police and social organizations. Therefore, without the freedom to express and create the Soviet Union had injured itself on a cultural and economic level.

Problems in paradise: Post-communism

Yeltsin. In 1991, President Yeltsin wanted to privatize the oil industry (Gustafson, 2012, p. 71). The government made that possibility a reality by giving the Russian people the means to re-invent the country's industries. According to Aslund (2006), this new government either sold or gave away freely its State assets. Aspiring entrepreneurs, usually powerfully connected individuals, took these assets and turned the failing industries around and in a few years' time became billionaires. However, the giant bureaucracy that had permeated during the Soviet Union had grown by 1.7 times under

the new government despite Yeltsin's attempts at reform (Shinar, 2012, p. 450). Shinar explains that "very few Soviet-era industries have been able to meet world production standards of quality and efficiency, thus leading to bankruptcies, layoffs and unemployment" (p. 450). Mosley and Mussurov (2013) also state that during this time the Russian GDP was 68 percent of the U.S.'s. In theory, economic liberation was supposed to create economic growth and prosperity after the fall of communism, but political inefficiencies had carried over into the new system and had less than satisfactory results.

Part 2: Present Issues

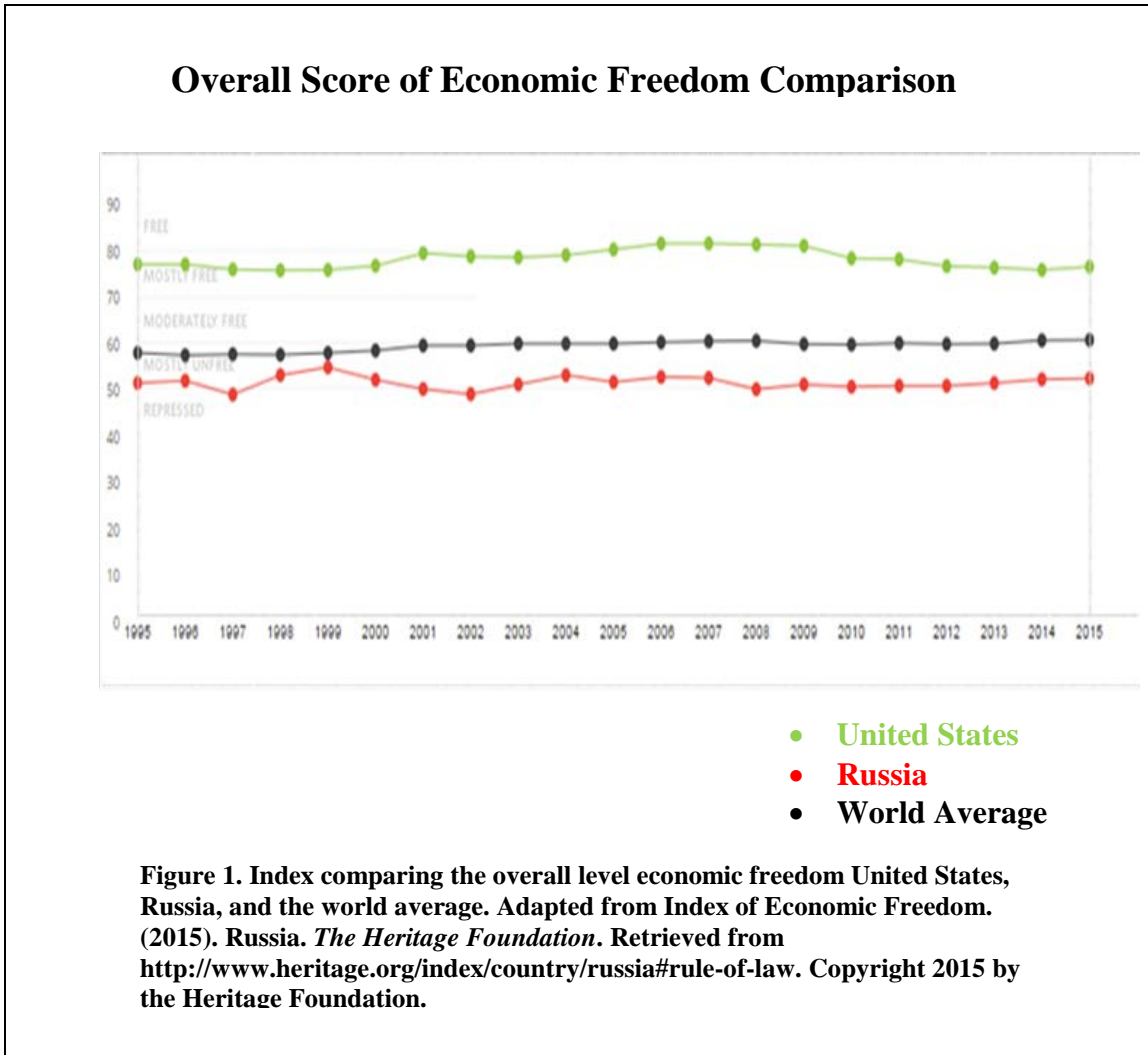
While history clearly shows why Russia and the U.S. do not exactly see eye to eye, current problems arise that make doing business in Russia difficult. Some of the difficulties arise from the different degree of standards and laws by which the respective countries abide by. Others problems are the result of political actions taken by one country or the other. However, many of the current issues come from cultural and ideological differences regarding human and property rights. The most common reason as to why the U.S. and Russia do not have a strong trade relationship is due to the fact that Russia does not have a diverse economy and the fact that most talks that occur between the respective politicians deal with political issues. However, with the rise of the Ukrainian Crisis, the U.S. and Russia will not be engaged in much trade for the next few years or until the crisis is resolved.

Corruption

While foreign policy impacts many of the political and economic interactions of international trade, national laws can regulate certain business practices. Some regulations deal in licensing, franchising, and building codes and impact health and safety

hazards. Others rule out corrupt or unethical actions such as bribery, falsifying records, worker discrimination, and embezzlement. According to the U.S. and the Securities and Exchange Commission (SEC) (2014), the Foreign Corrupt Practices Act (FCPA) generally prohibits the payment of bribes to foreign officials to assist in obtaining or retaining business. The FCPA can apply to prohibited conduct anywhere in the world and extends to publicly traded companies and their officers, directors, employees, stockholders, and agents.

FCPA violations. The FCPA also requires companies to maintain accurate records, as well as, have internal controls to make sure they do not contravene U.S. law (U.S. SEC, 2014). In December of 2012 Eli Lilly and Co., a pharmaceutical company was charged with paying off officials in Russia, Brazil, China, and Poland. The company had bribed several government officials and had paid them using off-shore banking accounts. Total bribes made up \$7.2 million. The company's actions were culpable, and it had to pay total fines of \$29 million (U.S. SEC, 2014). Pfizer, also paid off government officials in many countries such as Bulgaria, China, Russia, and Serbia. Pfizer recorded the bribes as legitimate expenses under "promotional activities, marketing, training, travel and entertainment, clinical trials, freight, conferences, and advertising" (U.S. SEC, 2014). Most of the bribes were made so that the company could then gain the necessary cooperation of the government to do business in the country. In November 2014, Bio-Rad, a research company, paid \$7.5 million in bribes to countries including Russia, Vietnam, and Thailand. The SEC (2014) estimated that the bribes earned the company approximately \$35 million. In order to cover up the bribes Bio-Rad characterized the financial transactions as "commissions, advertising, and training fees" (U.S., SEC, 2014).



According to the Heritage Foundation's Index of Economic Freedom (2015) Russia has walked a fine line between being labeled as "Mostly Unfree" to "Repressed." Russia has drifted three times into the "Repressed" zone. In contrast, the U.S. stayed with "Mostly Free" and "Free" (Index of Economic Freedom, 2015). Figure 1 also reveals that Russia also has remained under the World Average for the past ten years whereas the U.S. has remained well above the World Average. Therefore, the U.S. and Russia would find it difficult to do business with one another since they do not have compatible outlooks on economic freedom.

Yukos Oil. In 2004, one of the oligarchs Mikhail Khodorkovsky, CEO of Yukos Oil, was put under close scrutiny by the Putin administration. According to Gustafson (2012) his company was then charged with fraud and tax evasion. Eventually, the company was assessed heavy fines and taxes and, in 2004, the government eventually seized Yukos. Khodorkovsky was given an eight-year sentence in a Siberian labor camp. Aslund (2006) claimed that “the Yukos affair cost Russia approximately \$10 billion in lost oil output in 2005 alone, a disruption that Russia can’t afford to repeat” (p. 48).

While the Yukos incident was rather grim, Aslund (2006) did not cover another factor in his article. Khodorkovsky was a Russian citizen and a billionaire, yet he was wrongly accused and sent to prison. Therefore, if a Russian national is subject to the whims and charges of the Russian government, a foreigner will most likely fare worse. Likewise, not only do investors risk their property being seized, but their right to a fair trial and just punishment is questionable. The Yukos affair was a major example of Russian economic policy because it proved that no one could escape the government. According to Gustafson (2012), Khodorkovsky tried to save his company by striking a bargain with Chevron to create a merger in hopes that the government would not dare face such an international oil giant. He failed (pp. 297-300). However this situation would not be the last time Putin would seize private property. According to Solomon (2014) Putin seized Russian oligarch Vladimir Evtushenkov’s oil company Sistema in 2014 (para. 14).

Property rights are essential to any free economy, one aspect of business that separates America from the Russian government. Without such rights any national or foreigner has little reason to invest in any project or industry without the assurance that

their assets would remain in their possession or that the company that they have invested in will still retain some physical assets in the case of bankruptcy. In the American market the only parties able to seize any residual assets are the creditors, such as, the banks or private lenders. According to Aslund (2006), although Putin claimed that he wished to root out corruption in Russia's corporate sector; other motives exist for his crusade of the super-rich (p.48). Aslund (2006) gives three reasons. First, he asserts that Putin wished to seize the assets for the state. Second, a deep dislike of the rich permeates in Russia, most of which lies in the belief that most wealthy business owners received their wealth through ill-gotten gains. This made Putin popular with the average Russian. While many in Russia became wealthy due to the collapse of the Soviet Union, most simply took advantage of the sale of state. They then took these failing assets and created thriving businesses from which they received their wealth. Most of these assets were sold cheaply. However, to assume that most wealth was ill-gotten is not an entirely false assumption. However, the third and the final reason fits more with Putin's own ambitions – that of seizing more power.

Human Rights and Culture

Culture is by far one of the most predominant problems that exist between Russia and the U.S. Within the past three years the issue of Lesbian-Gay-Bisexual-Transgender (LGBT) rights in Russia has been discussed in newspapers, blogs, and television. This issue can cause problems for American companies that have anti-discrimination policies in regards to sexual orientation. Yet unlike most of the countries mentioned, Russia's anti-gay agenda is not derived solely from religious or traditional factors, but also stems from historical problems.

Russia has always had human rights problems, but most of them have only gained attention in light of the Sochi Olympics in 2014. However, most business professionals must be aware of the fact that the anti-gay sentiment does not come from Putin directly. Russian culture has opposed homosexuality, transsexualism, and bisexuality and the sentiment is seen through the culture and legal system. Gay parades and protests are forbidden. Same-sex marriage is not allowed and same-sex couples are often not allowed to adopt children. Even before the Olympics started, Putin told gays to stay away from children (Reno, 2014, p. 3). However, Putin did not spearhead the anti-gay movement on his own. Anti-homosexual agendas have long been in place in the Soviet Union. Smith-Spark (2014) claims that Stalin had homosexuality made a criminal offense during his administration. Today, the survivors of the Soviet Union bear resentment toward homosexuality, not because of Stalinist tendencies, but because of the conditions of the gulags. Many who were sent to prison camps experienced coerced sodomy (Smith-Spark, 2014, para. 28). In the recent debate about homosexuality in the U.S. and in other countries, the Church has played an active role. CNN states that the Orthodox Church in Russia has been very vocal about homosexuality, thus giving Putin a moral prerogative to stand up for the church (Smith-Spark, 2014, para. 10). By opposing the gay-rights movement in Russia, Putin does not stand to lose much ground in his own country, since he has powerful backers and is merely reflecting long-entrenched sentiments.

Specific Political Moves

When Communism came to an end in Russia and the country seemed to take a rather strong hold on capitalism, political relations between the U.S. and Russia became more complex, but also rocky. Even twenty years later, both countries share an animosity

for one another. In recent years, President Obama expressed a desire to press the “reset button,” so as to make a fresh start between the two nations with hopes of building a more cooperative and productive future. While the U.S. wants to establish “normal trade relations” with Russia, political actions made by one or the other always manage to impede any trade progress. Three events have led to this assessment: Russia’s granting political asylum to Edward Snowden, America’s implementation of the Magnitsky Act, and Russia’s adoption ban. These actions taken by the two countries have distracted them from pursuing beneficial agreements on trade and economic improvement. Instead of reducing tariffs and increasing opportunities for FDI, the countries have pitted themselves against each other expressing their sentiments in the most passive-aggressive manner.

Edward Snowden. Despite any improvements made between the U.S. and Russia until early 2012, the relationship today remains very temperamental. The case involving Snowden was no exception. In 2013, NSA employee, Snowden, exposed extremely sensitive activities and activities of the National Security Agency. This included pieces of intelligence regarding NSA spying with use of drones and listening in on private phone calls to include national leaders (Starr & Yan, 2013). Snowden received political asylum in Russia following his leaks. In response to the Russian federation’s decision to grant Snowden temporary asylum, President Obama decided to cancel a summit meeting with the Russian government (Collina, 2014 p. 34).

Magnitsky Act and adoption crisis. Specific laws have sabotaged such cooperation and “reset buttons.” For example, when President Obama came into the presidency along with Russian President Medvedev, both decided that this was the beginning of a new era for U.S.-Russo politics. They decided during their respective

presidential terms that they would build a political relationship based on “missile defense and arms control to the establishment of the US and Russia Bilateral Presidential Commission” (Roberts, 2014, p. 2). Yet by implementing the Magnitsky Act their basis for this new relationship became sidetracked. By 2012, the Obama administration talked about repealing Jackson-Vanik since the Cold War was over and therefore such a law was no longer necessary since the Soviet Union had been dissolved for twenty years (Foreign Policy Bulletin, 2012). However, in 2009 a whistle-blower named Sergei Magnitsky was investigating a tax evasion scam while in Russia (*The Economist*, 2013). According to *The Economist* (2013), he “was arrested, jailed for a year in dreadful conditions, and in 2009 died of neglect and abuse” (para.3). The Magnitsky Act required Congress to compile a list of those responsible for Magnitsky’s death and those individuals would be banned from travelling to the United States, unless such travel had prior approval from the President (Public Law 112–208, 2012). In 2012, Obama signed the Magnitsky Act and put a sanction on visas of those labeled as human rights offenders (Voice of Russia, 2013). In the Magnitsky Act, the government put visa-restrictions on those responsible for Sergei Magnitsky’s death as well as froze their assets.

Putin became president again in 2012 and he decided to respond to this bill in a more heart-wrenching manner and banned adoptions by U.S. citizens. Putin denied the accusation that he put adoption restrictions on the U.S. based upon the signing of the Magnitsky Act. He had pointed to the very public case of Tory Ann Hansen. She had adopted a seven-old Russian and then later on placed him on an eleven-hour flight back to Russia with a note stating “I no longer wish to parent this child.” Then Russian Prime

Minister Putin called this a monstrous deed and adoption sanctions were put in place immediately (Cleahane, 2014, p. 1).

Current Market. Despite the fact that the Soviet Union has been dissolved for over twenty years, the U.S. and Russian Federation are not currently engaged in any sort of trade agreements, such as Free Trade Agreements (FTAs), Regional Trade Agreements (RTAs), or Customs Unions, nor are they part of any consequential trade affiliation with the rest of Europe via the EU. The only significant trade connection that the two countries share is that Russia and the United States are both members of the World Trade Organization (WTO) and therefore have some access to each other's markets. However, Russia had only recently joined the WTO in 2011. None of the FTAs that the U.S. and Russia are involved in have any overlap between each other. Therefore, fluid markets are still unavailable to each other. Talks of more economic cooperation occurred between the U.S. and Russia. Wingfield (2013) claimed that the United States and Russia held discussions on a package of agreements. However, these agreements are not supposed to look like an FTA. Instead, these projects will only deal with issues such as investment and regulations.

In 2009, when Russia was seeking entrance into the WTO, several obstacles blocked its path to membership. These include energy pricing, intellectual property rights, and agriculture (Eckes, 2009, p. 102). Intellectual property rights were a major concern especially for the U.S. Since 2006, American companies had lost \$2.1 billion from intellectual piracy by Russia. However, the U.S. also had to change its laws in order to allow the Russian Federation into the WTO. This included repealing Jackson-Vanik, a bill made in response to Russia's ban on Jewish emigration (Eckes, 2009, p. 103).

Russian economy. Russia has grown economically since the fall of communism because of the government's willingness to bring capitalism to the Russian economy and to break with the unprofitable socialist practices that had dominated it during the Cold War period. One of the steps used in converting the country to capitalism involved the privatization of state-run businesses. Currently, Russia has the third-largest number of billionaires (Aslund, 2006, p. 46). In the entire world, Russia owns 13 percent of oil reserves and contains 34 percent of gas reserves (Tsygankov, 2010, p. 46). This amount of natural resources allows Russia to become one of the largest exporters of energy, especially to European markets. In fact, Russia currently supplies 33-34 percent of Europe's gas (Tsygankov, 2010, p. 46). This monopoly over natural gas gives Russia a strong influence over the rest of Europe that extends to the political realm. The GDP was worth about \$500 billion and was in the top six-ranked nations (Zhuplev, 2008, p. 105). Now Russia sits on a \$2.7 trillion GDP, nearly in five times the amount it was six years ago (Index of Economic Freedom, 2014).

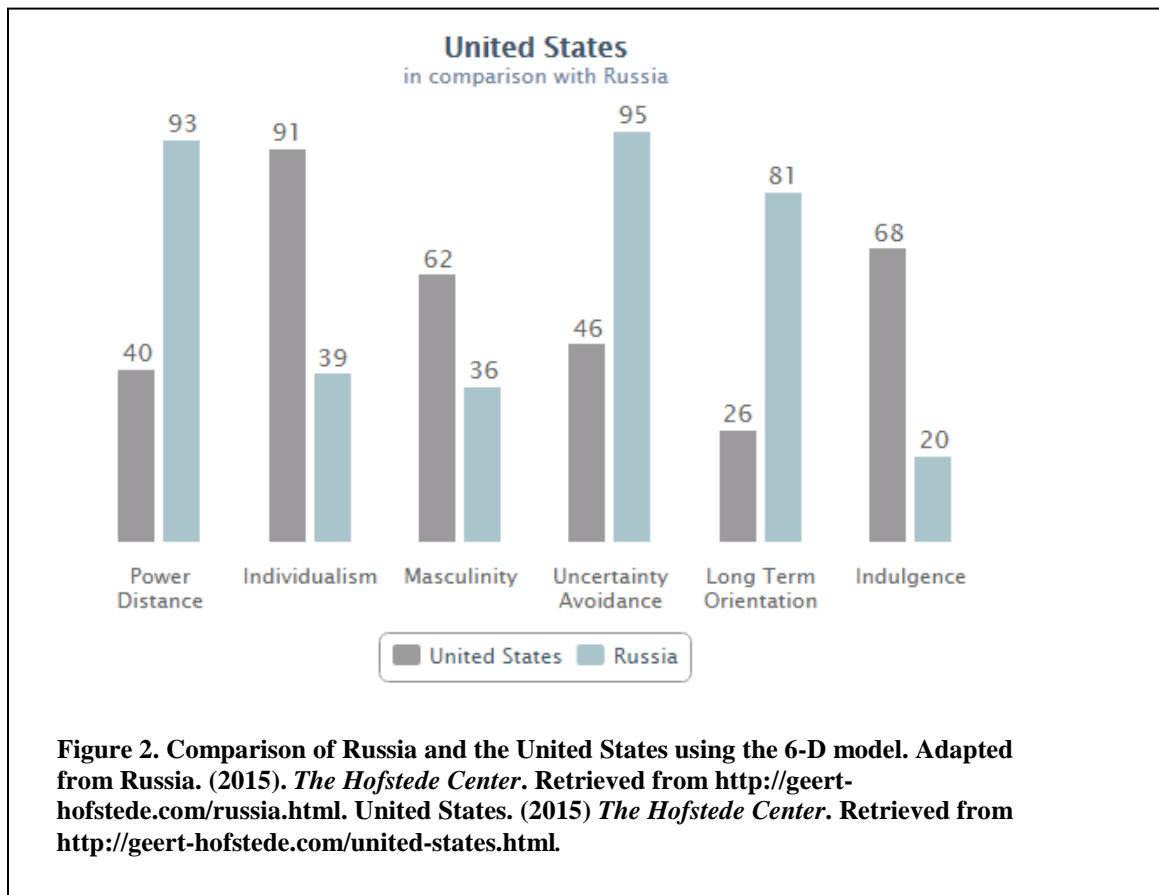
Outcomes of Current Practices

If Russia does not find a way to diversify its economy then the country could be headed backwards and become even more dependent on their natural resources instead of branching out into new industries. Anatoly Zhuplev (2008) lists three scenarios that Russia could follow in the future, based on the similarities exhibited by other countries that resemble Russia. He labels them as the Chilean, Chinese, Venezuelan scenarios (pp. 109-111). In the Chilean scenario, more division between the government and economy, and the world becomes less reliant on Russia's oil supply. Also, democracy becomes more widespread. The Venezuelan scenario has the government in control of the assets in

the country with more dependence on Russia for energy. However, with the Chinese scenario, which lies between the Venezuelan and Chilean model, Russia will still have some control of the natural resources and limited civil liberties. According to these scenarios Russia currently sits in the Chinese scenario, but has shown signs of teetering towards a Venezuelan model because the government has shown increasing control over oil as seen with the Yukos incident when Putin seized the company and placed the CEO in prison.

One could purpose that the U.S. and the Russian Federation could improve their relations if they could utilize their economic capabilities to benefit one another. However, the reason as to why both countries will not utilize their trade capabilities to benefit one another is due to the fact that both of the countries are not matched to perform well together in terms of business. The Geert Hofstede Model (2015) reveals that Russia and the U.S. stand at polarized ends in all six categories of power distance, individualism, masculinity, uncertainty avoidance, long term orientation, and indulgence. Therefore, business opportunities are difficult to operate upon due to the mindsets of each partner. Figure 2 reveals that Russia and the U.S. appear on different sides each category. In fact, average difference of each of the six categories comparing Russia to the U.S. comes out approximately 47 points. The least difference lies in category of masculinity with only a 26 point difference and the greatest difference is 55 points in regard to long term orientation. According to the Geert Hofstede Center (2015), Russia maintains a low score because its masculinity is linked with high power distance whereas in America Masculinity is linked to high individualism. Russians workers (with the exception of the boss), according to the Geert Hofstede Center (2015), “understate their personal

achievements, contributions or capacities” but Americans “will talk freely about their “successes” and achievements in life” (n.p.). This correlation is not surprising and proves that political influence impacts business in regard to organizational behavior. Since communism did not encourage competition or personal accomplishment masculinity (competitive motivation) would decrease in a society, whereas Americans, who mostly value rugged individualism and self-determination, would be more open about success and thus unknowingly increase competition in order to establish the individual’s position as unique. Therefore, the political practices of the past shaped the current workplace practices and attitudes that dominate business behavior in both respective countries and cause difficulties for Russian and American companies to do business with one another.



Ukraine and Crimea.

The situation in Ukraine continues to cause significant problems not only for politicians, but also for investors in Russia and abroad. In 2014, according to Kramer and Gordon, (2014) Russia sent troops to Crimea in order to help pro-Russian dissenters to annex Crimea, though President Putin continues to deny any Russian involvement. However, most in the West doubt Putin's denials, because of the Ukraine's strategic advantage to Russia. The Ukraine has always had an important role in Russian trade and strategy since Crimea borders the Black Sea. Strafor (2012) states the Black Sea is crucial to Russia because of trade routes and military power. While most of the world responded in shock to Russia's actions, China abstained from voting sanctions against Russia in the U.N Security Council. This turn of events was surprising since China and Russia have usually sided together on most issues before. However, China did not wish to veto the sanctions for various economic reasons. China and Russia have a very cordial relationship since China has recently agreed to a \$400 billion gas supply bill and will also provide the funds for the gas development and transportation infrastructure between the two (Anishchuk, 2014, para. 1). However, the United States decided to take a more muted approach to the situation in the Ukraine. They stated that if Russia did not give up its belligerent attempts on the Ukrainian people and if it did not recall her troops in Crimea and Eastern Ukraine then the U.S. would threaten trade sanctions against the Russian Federation. Russia did itself great injury despite gaining access to the Black Sea through the Crimea.

Sanctions. According to Rapoza (2014) the first set of sanctions would include; travel bans and frozen assets, dropped talks with Russia, and increased aid for Ukraine (p.

1). The issue of politics interfering in trade-relations is an old process dating back centuries. The placement of embargoes or sanctions on a country lets a nation show their displeasure at another country in a passive-aggressive manner. Sometimes these restrictions can backfire in the face of the country implementing them. It appears that the sanctions that the U.S. placed on Russia do not materially affect the U.S. economically. According to Rapoza (2014) the U.S. is not heavily dependent on trade with Russia, so will fare well without suffering the loss of some products from Russia, since Russia is only 28th on the U.S.'s list of trading partners. Sanctions have caused Russia's financial status to decrease.

Increased aid to Ukraine. According to Schneider (2015), the International Monetary Fund (IMF) plans to increase aid the Ukraine to offer as a stimulus package amounting to \$10 billion. Therefore, Ukraine now has the backing of a powerful international organization behind them. If the Ukraine receives funds from foreign countries, it will then be able to put aside funds for supplies to send to war effort. Russia however, will have to deal with its volatile markets and sanctions imposed by the European Union and the United States while supporting the rebels in the Crimea.

Economic impacts on Russia. Russia suffers from lack of diversification in its economy. Currently, the economy is heavily dependent on the oil industry (Solomon, 2014, para. 2). However, as recent events have shown Russia puts itself in a very precarious situation by having an oil dependent economy, especially on a commodity whose price depends on outside sources such as OPEC and U.S. gas production from fracking. The recent drop in oil prices due to OPEC's refusal to slow production of oil has been a painful lesson to Russia showing that it cannot depend on its heavy reliance on

oil. According to *CNN Money's* Petroff (2014), Russia could potentially face a recession of its own if oil prices do not rise to their previous levels of the summer of 2014. Many Russians were also complacent and thought that the sanctions arising from the Crimea annexation would do nothing and that the Russians would simply find other markets. According to Solomon (2014) the Ruble had fallen 20 percent against the dollar (para. 4). Solomon (2014) also claimed that Russia could contract further in 2015 and 2016 (para. 5). However, Solomon (2014) also mentions that Russia “has over \$450 billion in international currency reserves” which benefit Russia (para. 7). Also, he mentions that Russia agreed to sell China natural gas of thirty years beginning in 2018 (para. 8).

Part 3: The Forecast for the Future

Based on the historical data and the current developments in U.S.-Russo politics, three possible outcomes are likely to occur in the future; armed conflict between the U.S and Russia, a return to the status quo, or a new Cold War. While these outcomes are the most plausible certain outcomes will have higher chances of occurring than others. War would be the worst possible outcome, while reverting back to pre-crisis relations is most ideal realistically speaking. However, a new Cold War most reflects the most expected result. An analysis of each of the prospects gives support to this theory.

War

While the outcome of actual armed conflict between the U.S. and Russia appears to be very extreme, even dubious consequence history and recent actions give credence to this theory. For example, while the U.S. has not made any formal or even indirect declaration of war, its actions suggests that the country will be ready for a confrontation if need be. The U.S. walks a thin line as it has not only imposed sanctions on Russia, but

has conducted military exercises in Russia's neighborhood of Eastern Europe in April of 2014 (BBC News, 2014). Such actions should not be taken lightly, since the exercises were conducted in Sweden and Poland, the latter of which lie adjacent to Ukraine (BBC News, 2014). While the U.S. usually has conducted military operations in Europe in the past, these particular exercises occurred shortly after the annexation of Crimea. Also, while some skeptics can say that the actions were already scheduled, they were conducted in a country close to a conflict region, and conveniently after the president threatened sanctions on Russia (BBC News, 2014). Such actions send a message to Russia, as if to show that it is not the only country that can enter Europe with armed forces and engage in warfare if need be.

U.S. Military Presence. While sending in paratroopers to conduct military exercises is only one example of war preparations other evidence shows that armed conflict may not be so far off given the economic and political climate of each country. While the U.S. (apart from using the presence of troops to show its take on the situation) has no other inclination to engage in armed conflict with Russia, Russia's present situations proves that the crisis has the possibility to escalate the already tense situation. Currently, Putin holds 83 percent popularity in Russia despite his crackdown on protesters during his election campaign and the Sochi Olympics and all of his other controversial actions (NBC, 2014). Since oil prices are lower than what is needed to keep the economy going. Putin can easily place the blame on the U.S. and claim that he is only trying to annex a region filled with ethnic Russians and that the U.S. is simply trying to push its agenda on the Russian people. Royal (2010) also made the point that during times of economic hardship countries will become more nationalistic. If the U.S. keeps

up its sanctions and the Russian economy suffers further, then the Russian people will not see Putin as the aggressor, but the Americans as the cause of their troubles. Likewise, America sees Russia as a sort of bully as feels that it has the moral prerogative to act against such expansionist tendencies.

Germany Example. History also shows that impoverished nations or nations dealing with economic instability are more susceptible to war and violence. For example, after World War I, Germany had to pay a debt to the Allies in the form of war reparations according to the Treaty of Versailles. Germany not only suffered from high inflation, but also the detrimental effects that WWI had on the country itself. These conditions fed growing discontent and anger of the Germans and laid the foundation for Hitler's ascension to the Reichstag. While it appears to be absurd to compare Putin to Hitler the similar situations are present in the Russian economy. Also, citizens that experience poverty are more likely to act out more violently than nations experiencing prosperity or stability according to Royal (2010). Also, now that the European Union has joined the side of the U.S., despite expectations, in placing sanctions against Russia the situation has become more polarized (BBC News, 2014, para. 1). According to BBC News (2014), "Russian state banks are now excluded from raising long-term loans in the EU, exports of dual-use equipment for military use in Russia are banned, future EU-Russia arms deals are banned and the EU will not export a wide range of oil industry technology" (para. 4). However, BBC News (2014) also states that Europe has left gas out of the sanctions. Now Russia will only have more economic woes to deal with since its largest trading partner is now stone-walling them as them as well. However, while the EU is placing sanctions against Russia, the sanctions do not involve gas due to Russia's influence in the

industry and trade of the resource. Therefore, Russia can still wield its power over the European Union despite its actions since the region is dependent on Russia for energy.

Status Quo

Most ideally, the U.S. and Russia will return to their previous relationship. In this situation the U.S. and Russia will resolve their differences and come up with a solution that both parties can agree on. The sanctions would then be lifted, trade could resume as normal, and Russia would once again receive PNS. However, as stated previously, this scenario is the most ideal, not the most credible or possible. Even if the U.S and Russia were to reach an agreement they would most certainly to the extent of the sanctions Russia will mostly turn a cold shoulder to the U.S. after the crisis dies down.

Cold War

Out of all the scenarios present, Cold War is the most likely outcome. In this world of possibilities, the U.S. and Russia will continue to engage in passive-aggressive behaviors toward one another without getting too involved. The measures include maintaining sanctions against Russia and increasing the foreign aid to the Ukraine. The U.S. hopes that it can also use its own influence in Europe to champion its call. Yet, Europe, as mentioned previously is heavily dependent on Russia for Natural Gas and has therefore not included gas in regard to the sanctions.

It must be stated that the while the option of war is not impossible, this scenario may not be a reality in the immediate future based on a few reasons. First, both parties have the necessary capabilities to start a war with each other, yet they will most likely not engage in any warfare any time soon. The U.S. still has troops in the Middle East region despite defeating the Taliban in Afghanistan and Saddam in Iraq. Also, now with the

emergence of the Islamic State (IS) the country faces even more challenges protecting the region that it controlled as well as its own domestic borders. In regard to Russia, the past twenty years have shown that the U.S. is not willing to fight Russia head on. Also, the fact that both the U.S. and Russia have extensive nuclear capabilities discourages both nations from getting too involved armed combat, or at least limits them to conventional warfare. For example, despite the fact that many leaders did not approve of Putin's war with the nation of Georgia, the U.S. did not engage in any sort of military offense against him. Likewise the U.S. has not made any mention of engaging Russia in combat in the near future. In conclusion, while armed conflict can occur between the two nations it is not the most likely scenario to happen.

U.S. Presidential Election. However, the U.S. will elect a new president in 2016. This development could change the entire future outlook of U.S. and Russia's political and economic relationship. The newly elected president could continue with the current sanctions against Russia, increase sanctions to the extremes that the U.S had against Iran, or completely drop them. Since the president has the power to sign bills into effect he can affect the direction and magnitude of trade between Russia and the U.S. While Russia has always been in the minds of American politicians, Russia, at the present and most probably the in the future, will not be the source of political debate during presidential campaign. The election debates in 2016 will center on the economy, ISIS, and government involvement in the lives of its citizens. Therefore, the future president will determine the course of U.S.-Russo political and economic interaction.

Conclusion

In conclusion, political influences play a major role in the past, present, and future trends of international trade and domestic economies. The U.S and Russia are no exception to this claim. Though markets are guided by the trends of the Invisible Hand as Adam Smith claimed, governments and politicians use economics and trade policies to achieve their own ends. As seen with Russia and the U.S., some of these policies and actions have helped the countries achieve their goals. Unfortunately, trade has been used as a carrot and a stick to get countries to comply with each other's policies. The past has shown that the U.S., while usually at odds with Russia, had tried to use economics to both make peace, as in the case of the GATT and to cripple Russia as in the case of the Cold War.

However, currently most of the political problems that effect trade between the two countries are not a direct effort of the U.S. to hinder trade with Russia, but are the results of culture clashes and the tradeoffs caused by particular events. As mentioned some of the reasons that most investors would and should not do trade in Russia is due to the fact that Russia has had problems with accepting bribes as seen with various pharmaceutical companies. Also, political situations often take away from the discussion table where economic talks could take place as in the case of the Magnitsky Act and Edward Snowden's admittance into Russia. Likewise, Russia's tolerance of human rights abuses and property right violations makes the country a very unattractive place for businesses that embrace gay rights and international companies that need land assets. If the individual rights of a native Russian cannot be protected within the boundaries of the nation then the foreign will not fare any better. However, the Ukraine Crisis has shown

that economics will have detrimental effects in form of sanctions on Russia's economy and will most likely renew a sentiment akin to the Cold War. Business executives as well as importers and exporters should be knowledgeable about the changes around the world in regard to prices in markets, but should also take care not to ignore the political climates, since they will ultimately determine economic policy.

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