

U.S. Sanctions Effects on Russia's Macroeconomic Variables and Business's Decision to Stay or Leave: What Did We Learn?

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Abstract:

The U.S. authorities have imposed several sanctions on Russia's economy since 2014, mainly due to the war against Ukraine, which has affected not only its macroeconomic variables, but several businesses' decisions to trade with Russia. However, despite the severity of sanctions imposed on violations, several western businesses continue to trade with Russia and have stayed in the country; including Agran, Air China, Alibaba, Auchan Retail, Benetton, Boggi, BPW, Clarins, Coface, FS Mackenzie, Patreon, Riot Games, Veolia, etc. (For a complete list you may refer to Yale University list provided in the references). Unexpectedly, some of the European and American companies are still operating in Russia despite the sanctions. The question that remains to be answered is what drives businesses' decisions to comply or decline the U.S. sanctions? Those drivers are important from the viewpoint of policy makers as they can neutralize the adverse effects of sanctions on the Russian economy.

The goal of this paper is twofold. First, we try to estimate the adverse effects of sanctions on macroeconomic variables of Russia, including GDP growth, foreign direct investment (FDI), inflation, and trade balance. Second, we try to shed lights on the drivers of businesses' decisions to stay or leave Russia, at the micro level. In this regard, we look at several indices that can affect businesses' decisions. Using Logit/Tobit model (one for the businesses that stay and 0 for the businesses that leave Russia) we relate businesses' decisions to indices such as property rights, corruption perception index, Global Sanction Index (GSI), and Global Military Index (GMI) to find out whether those forces are important to businesses' decisions.

Keywords:

Political economy, yuanization, micro effects, global sanction index (GSI), global militarization index (GMI), Tobit model.