CRS Insights

U.S.-Russia Economic Relations
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Introduction

U.S. sanctions on Russian individuals and entities have been a key part of the U.S. policy response to Russia's annexation of the Crimean region of Ukraine and Russia's alleged ongoing efforts to destabilize eastern Ukraine (see CRS Insight IN10048, *U.S. Sanctions on Russia in Response to Events in Ukraine*, coordinated by Dianne E. Rennack). Following the crash of Malaysia Airlines Flight 17 in Ukraine on July 17 that killed 298 passengers and crew, some policy makers and experts called for additional sanctions on Russia. Secretary of State John Kerry stated there is an "enormous amount of evidence" that Russia was involved in supplying separatists in Ukraine with the weapons used to shoot down the plane and training them to use the weapons.

On July 29, President Obama announced new sanctions in key sectors of the Russian economy: energy, arms, and finance, coordinated with new sanctions by the European Union.

In the debates over U.S. sanctions on Russia, key questions, among many others, include:

- How much economic leverage does the United States have over Russia?
- How would U.S. sanctions on Russia impact U.S. economic interests?

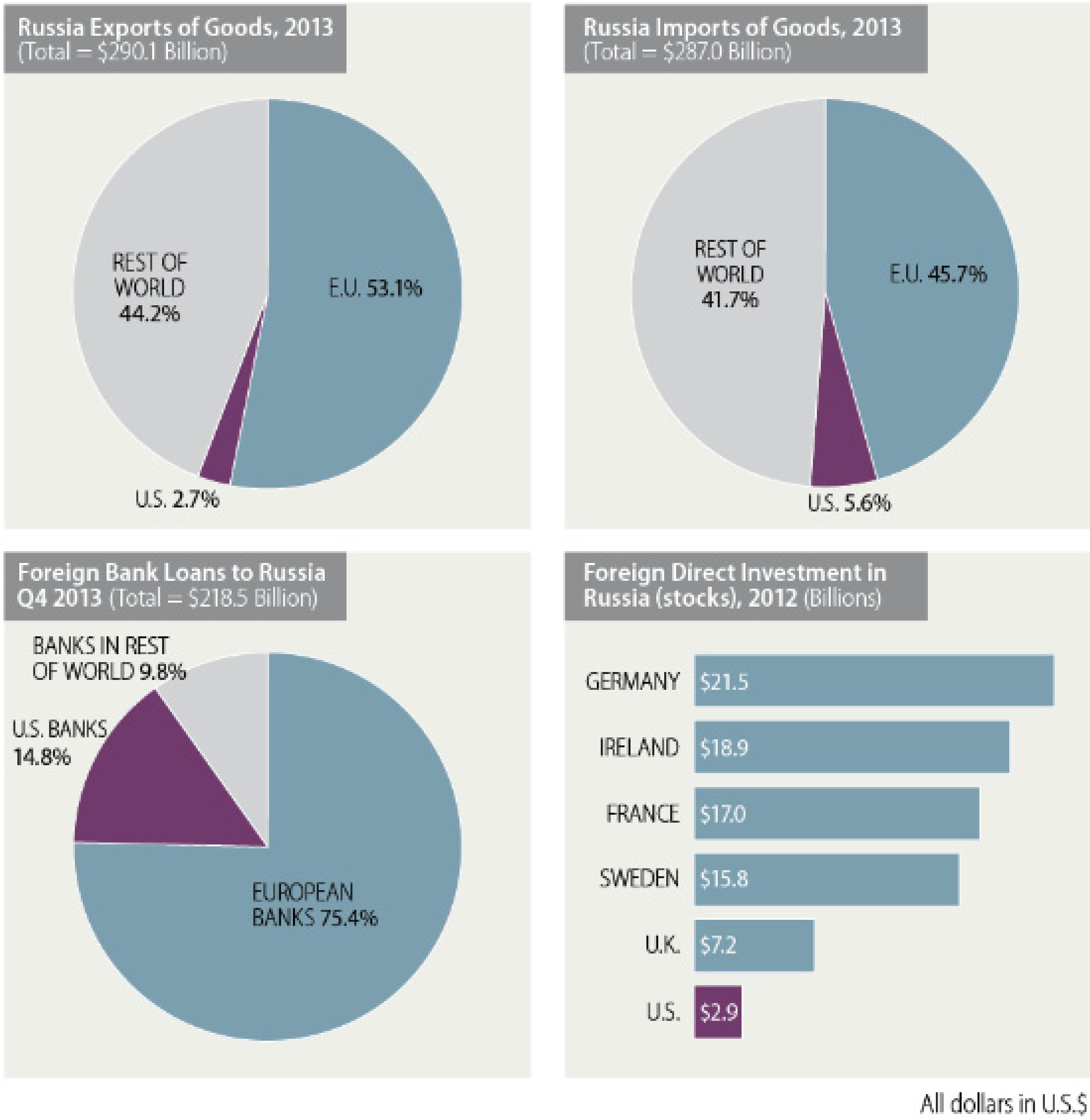
Examining the U.S.-Russia economic relationship can provide insight into these questions.

U.S.-Russia Economic Ties

Russia is an important player in the international economy: it has the world's eighth-largest economy and a population of more than 140 million, and is a major producer and exporter of natural gas and oil. Despite the significance of Russia in the global economy, however, overall U.S.-Russia economic ties are relatively limited. Russia accounts for a small portion of U.S. international economic activity. In 2013, just 0.71% of U.S. exports of goods went to Russia and 1.19% of U.S. imports of goods came from Russia. Less than 0.5% of U.S. overseas investment was in Russia in 2012. At the end of 2013, Russia accounted for 1.1% of outstanding U.S. bank loans overseas.

Likewise, the United States accounts for a relatively small share of Russia's overall trade and inflows of investment. In 2013, Russia imported 5.6% of its goods from the United States and exported 2.7% of its goods to the United States. Of the nearly $500 billion in foreign direct investment in Russia at the end of 2012, less than 1% was from the United States.

Figure 1. U.S.-Russia Economic Relations



Source: Global Trade Atlas; Bank for International Settlements; Bank of Russia.

Even though the overall U.S. and Russia economic relationship is relatively limited, ties at the firm- and sector-level are in some cases substantial. Several large U.S. companies export to Russia, have entered joint ventures with Russian partners, and are reliant on Russian suppliers for inputs. A notable example is ExxonMobil, which in 2011 concluded a strategic cooperation agreement with Rosneft, a Russian oil company, to drill in the Russian Artic, among other activities; initial investments were expected to be worth tens of billions of dollars. Other examples include PepsiCo, the largest food and beverage company in Russia; Ford Motor Co., which recently announced a partnership with a Russian car company (Sollers); General Electric, which has joint ventures with Russian firms to manufacture gas turbines; Boeing, among the top U.S. exporters to Russia; Visa and MasterCard, which provide payment services to 90% of the Russian market; and United Launch Alliance (a joint venture between Lockheed Martin and Boeing), which imports rocket engines from Russia. The U.S.-Russia Business Council, a Washington-based trade association that provides services to U.S. and Russian member companies, has a membership of 230 U.S. companies conducting business in Russia.

Analysis

These indicators suggest that the direct effect of U.S. sanctions on Russia on overall trade and investment could be relatively small for the United States and Russia. However, sanctions could disrupt specific economic activities at the firm- and sector-level, imposing economic costs on specific U.S. and Russian firms and industries. In June, U.S. business groups ran ads in major newspapers warning that sanctions would harm American manufacturers, cost American jobs, and cede business opportunities to firms from other countries. Sanctions could also have substantial indirect economic effects on Russia, including undermining investor confidence. The sanctions to date appear to have contributed to accelerated capital flight from Russia. An economic crisis in Russia could create disruptions in the global economy that could impact the U.S. economy.

Additionally, even though overall U.S.-Russia trade and investment is limited, the U.S. financial system is important in international financial markets and the U.S. dollar is widely used in international transactions. For this reason, some have proposed sanctions that would restrict Russia's financial transactions with U.S. banks and/or attempt to restrict their access to dollars as a way to inflict more "pain" on the Russian economy. The economic effects that financial sanctions would have in practice are highly uncertain. On one hand, some argue that such sanctions could trigger a substantial financial crisis in Russia, particularly since the U.S. dollar has traditionally been used to settle oil transactions and oil is a key export for Russia. Others are more skeptical about the potential effects, arguing that given the complexity of international financial markets, Russia could find alternatives that would allow it to continue its international economic activities.

Finally, a key factor is the extent of multilateral cooperation on sanctions, particularly with Europe. Europe is a much more important economic partner for Russia than the United States (see **Figure 1**). In 2013, more than 50% of Russia's exports of goods went to EU countries, and Russia purchased 46% of its imports of goods from EU countries. In the financial sector, European banks accounted for about 75% of Russia's total foreign bank loans in the fourth quarter of 2013. At the same time, however, Russia is economically important to Europe, supplying the EU with about one-third of its oil imports and more than 40% of its natural gas imports. Sanctions on Russia could have negative economic implications for European countries, which had made it difficult for European leaders to reach consensus on Russia sanctions, although the EU announced new sanctions at the end of July.

Related Issues Before Congress:

- Russia and the Caucasus