Economic Determinants of Russia's International Position

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Abstract:

Purpose: The purpose of this article is to analyze the economic determinants of the international position of the Russian Federation. In addition, the authors attempted to juxtapose the roles played by Russia in international relations with the political strategies that were created and implemented based on its potential (not only economic) and raw material resources.

Design/Methodology/Approach: The authors applied the theory of international roles in their research due to its descriptive, exploratory and predictive methodological qualities. The authors used decision analysis, systemic analysis, comparative analysis, and analysis of found data.

Findings: After the collapse of the Union of Soviet Socialist Republics, the Russian Federation had to deal not only with the problems of political system transformation, but also with changes in the economic system and the implementation of free market mechanisms. Its raw material resources became a "bargaining chip" in relations with the "near abroad" states and with the West, which enabled Russia not only to aspire to, but also to have a real prospect of returning to the role of a regional (and in the long term also global) power.

Practical implication: A look at the domestic and foreign policy of the Russian Federation through the prism of political strategies, international roles and opportunities provided by its strategic resources, e.g. energy resources, which facilitate not only the choice but also the implementation of a specific role in accordance with the strategic goals and national interests of Russia.

Originality value: The author's attempt to analyse economic determinants by applying the theory of international roles.

Keywords: Russian Federation, international roles, political strategies, energy potential.

Paper Type: Research study.
1. Introduction

The purpose of this study is to analyse economic determinants and their effect on the international position of the Russian Federation. Hence, the study used theoretical issues concerning the position of the state in international relations and the qualitative scope of links between the position and role of the state in international relations. Due to its unquestionable methodological descriptive, exploratory and predictive qualities, the theory of international roles was adopted as the theoretical inspiration for argumentation. In research procedure, it can become a kind of ‘link’ or ‘bridge’ enabling the synthesis of research on a foreign policy of the state with research on international systems because, in this approach, the international role can be considered simultaneously as an exit from the state system and an entrance to the international system, which in the case of the Russian Federation is quite characteristic.

As the main elements constituting the global geopolitical space, both states and international organisations play specific international roles in this three-dimensional stretch. The main reason for this is that states and international organisations, depending on their geographical location, are always in a specific changing geopolitical environment. Hence, it is necessary to choose a specific strategy for dealing with this environment, such as formulating one's raison d'être, defining the directions of foreign policy and specifying the role that the state wishes to play in the international environment.

As mentioned above, this study used theory of international roles as the theoretical inspiration for the argument. The international role is a function of both the international environment and the internal environment of the state, as well as an expression of the international position achieved by the state. The prerequisites of international role are, therefore, the internal and external determinants of state foreign policy. The first group includes determinants of a socio-material, demographic, axiological, geopolitical, military and subjective nature, whereas the second group includes determinants of a structural, functional, and structural nature (Pietraś, 1986). All in all - depending on external pressures or the state's intentions - the state may play a whole range of international roles.

Despite some internal problems and crises of various kinds, including economic, the Russian Federation continues to be an important force in international relations. The country, despite considerable territorial losses, still occupies a huge area. This predestines Russia to exert influence on regional and global power balances. In practice, this means a multiplicity of declared and played international roles by this state, which in turn led the authors to use in their analysis the classification of international roles based on the criterion of the level of effectiveness. This is due, among other things, to the fact that the economic situation in Russia conditioned in a very important way the conducted actions, both in the internal and foreign policy of this country.
Thus, it influenced the intentional and declarative dimension and the actual role of the Russian Federation in the regional and global dimensions. It should also be noted the complexity of the roles played by Russia in the post-Soviet space and in relation to Western states. In both cases, the qualitative nature of the declared, imposed and actual roles is affected by the economic factor. The analysis of the effect of economics on the conceptual and practical aspects of domestic and foreign policy was conducted based on the research approach represented by Ziemowit Jacek Pietraś.

According to the author, an international role is ‘a coherent system of actions chosen by the state in its external relations’ (Pietraś, 1989). A role understood in this way is a function of the determinants of state policy (both internal and external); the concept, i.e. the way of concretising the political strategy and national interests and the practical implementation of the state's role; - evaluation based on the degree of optimisation of the decision-making process and implementation of specific actions. Thus, the systemic approach allows us to distinguish the following types of roles that the state can play in international relations, a declared role, a chosen role, an imposed role and an actual role.

It is still worth noting the correlation between the international role and the international position of the state. Such correlation results from the fact that the international role is expected by the international environment behaviour of the state, resulting from a certain position of the state in the international community. Thus, based on the correlation between international role and international position, it would be safe to say that there are systems of interdependent international roles and positions. Both systems of international roles and systems of similar positions and the couplings between them should be treated in a dynamic way (May, 1992).

When classifying international roles, we have encountered two approaches in the literature. Some authors adopted an empirical-inductive approach, while others adopted a traditional deductive approach. Among the former, the most noteworthy is Kalevi Holsti, who, after analysing the official statements of the leaders of 72 world states (formulated between 1965 and 1967), identified more than 900 different concepts of international roles (Holsti, 1987). A representative of the deductive approach in studying the issue of international roles is Steven Walker. He distinguished the following six basic international roles: consumer, producer, warrior, conciliator, provocateur, and hegemon (Pietraś, 1989).

In the 1990s, a new generation of scholars emerged in the discipline of international relations who applied international role theory to their research approach in a highly dynamic way. These include, among others, Richard Adigbuo, Lisbeth Aggestam Michael Barnett, Marijka Breuning, Cristians Cantir, Sebastian Harnisch, Cornelia Frank, Julieta Kaarbo, Hanns Maulal and Cameron G. Thies.
2. The Strategy of Real Pragmatism - The Primacy of Declared and Imposed Roles Over Chosen and Actual Roles

When analysing the issue of the effect of the economic factor on the role of the Russian Federation in the system of international relations, it is impossible to separate it from strictly political issues. As noted earlier, the collapse of the USSR posed a challenge to the Russian political establishment not only in terms of the transformation of the political system, but also in terms of the implementation of free-market mechanisms and the move away from a centrally planned economy. Breaking away from the system of an anarchic economy with a low level of satisfaction of social needs and quality of production, Russia began its accession to join global economic processes.

As Michal Dobroczynski emphasised, ‘Until recently, the Soviet Union was one of the two superpowers [...]. However, the peculiarity of this great superpower, unlike all other previous powers, was that the country was not among the world's leaders in economic terms. In principle, Russia had to be, and still can be, classified as an intermediate developed country’. (Dobroczynski, 1994). The first announcement of a return to international economic life on universally recognised terms was undoubtedly the admission of the Russian Federation to the International Monetary Fund, which took place in the spring of 1992. Among the main directions of the state's activity in economic activity, Russian political strategists during this period included (Gosudarstvennaya strategiya Ekonomicheskoj bezopasnosti Rossiyskoy Federatsii):

a) legitimising the reforms and creating an effective mechanism for monitoring compliance with the laws of the Russian Federation;
b) developing and implementing measures to overcome the consequences of the economic crisis;
c) preservation and development of scientific, technical and productive potential;
d) transition to a phase of economic growth with a simultaneous reduction in the level of technological disasters;
e) gradually increasing the competitiveness of industrial production and creating a single economic space of the CIS countries.

As in the case of military reforms, the Western countries expressed their readiness to give substantial support to the change of economic system in Russia. This was evidenced by various promises and decisions to provide substantial aid and defer debt repayments, amounting to $80 billion. The World Bank and the European Bank for Reconstruction and Development even created a special fund to support market reforms, mainly for the operation of small- and medium-sized enterprises and restructuring of the energy industry, restructuring of the Russian debt and creation of a ruble stabilisation fund, and export guarantees. (Bieleń, 1993).
The overriding and fundamental objective of the systemic transformation in the Russian Federation in the early 1990s was to lay the foundations for a market economy. The economic solutions proposed by experts were accused of being, without considering the material and mental realities of the population. The issue of the emergence of dramatic social consequences of these transformations was also very often raised, especially in the context of previous transformation experiences of Central and Eastern European countries (Bogomolov, 1993).

An important problem that hindered the initial progress of economic transformation was lack of young and modern human resources. A peculiarity of Russia was the fact that former functionaries of the communist party and the security apparatus, members of the industrial-military lobby and ‘fresh-faced’ nationalists worked in the same circle. Their coalitions formed rather peculiar ‘hosts’ of reformers.

Analysing the economic conditions of Russia's international position, two periods of economic transformation in this country can be examined. The first one still includes the time of ‘perestroika’ and the first half of the 1990s (Orzechowski, 2015). At the declarative and actual level, Russia's role in the economic dimension was limited to being a reformer and a stabiliser in the post-Soviet space, the latter role being more of a declarative and wishful nature. It should be remembered that the newly formed states emerging after the break-up of the USSR faced even greater political and economic problems than Russia itself.

Russia's not-so-good economic and financial situation was also aggravated by the socially very sensitive issue of payment of salary and pension arrears. Their total amount reached 52 trillion rubles (about $9.3 billion) at the end of 1996. In 1996, timely payments were received by only about 30% of workers in Russia. In some industries and regions, salaries were not paid for up to six months. This situation continued in subsequent years, despite assurances from the Russian political elite that the crisis had been overcome and the situation gradually improved. For example, in January 1998, during the World Economic Forum in Davos, the then prime minister of Russia, Viktor Chernomyrdin, gave a speech on the prospects for the development of the Russian economy.

Calling on western investors to move into the Russian market, Chernomyrdin declared that Russia would become one of the main economic growth zones in the world economy in the new century. This was a classic example of the declared role of a leader in economic growth, but the reality turned out to be quite different, and in a very short time. The crisis of 1998, aggravated by the poor situation in other financial markets, especially in Southeast Asia, the rise of inflation to 84.4 per cent while GDP fell by 5 per cent and industrial production by 5.5 per cent, as well as the fall in world prices for commodities such as natural gas, oil and non-ferrous metals, whose exports are the basis of Russian trade and provide half of its foreign exchange earnings (Orzechowski, 2015). Also, the causes of the crisis at that time should also be sought in the economic policy of the Russian government. The government did
not take necessary and radical steps. The second stage of economic reforms, covering the ‘post-crisis’ period at the turn of the century, was characterised, as can be seen from the above examples, by considerable problems and the use of sham actions, which in any case did not protect Russia from a deep crisis, thus undermining the confidence of foreign investors.

The emergence on the political scene of a new ruling team headed by Vladimir Putin and Mikhail Kasyanov has brought about a gradual improvement in the situation. The first signs of positive change were already visible in 1999 when GDP grew by 3.2% for the first time in almost 10 years. There was a real sense of optimism when the results of the first quarter of 2000 were published. The growth rate of the gross domestic product reached 8%, and industrial production in January and February even exceeded 10% (Byudzhetnaya sistema Rossiyskoy Federatsii, 2000).

In April of the same year, the government team presented further economic development plans. The last stage of this plan, covering the period from 2008 to 2015, was to be the period of restoration of full balance guaranteeing the renewal of technological and industrial structures and acceleration of improvement in the standard of living of all citizens and thus implementation of the role of ‘economic leader’ and ‘competitive partner’ in the Eurasian region. The projection of ambitious plans was halted, among other things, by the economic crisis of 2009. It was in that year that the economic conditions favourable to Russia's development collapsed. The Russian economy was affected, on the one hand, by a drastic fall in oil prices and, on the other, by the withdrawal of investors from the Russian market (in the fourth quarter of 2008, the net outflow of capital from Russia amounted to USD 130 billion) (Dubas, Rogoza, and Wiśniewska, 2010). Within a few months, the financial crisis turned into an economic crisis felt by the entire economy.

Russia is one of the countries most affected by the crisis in the world. In the first half of 2009, Russian GDP fell by 10.4% compared with the same period of the previous year, industrial production fell by almost 15% over the same period, and there was an 18% drop in investment in the economy. The economy's poor performance had a strong impact on the Russian budget, which in 2009 ran a deficit for the first time in ten years (Dubas, Rogoza, and Wisniewska, 2010).

The economic crisis of 2009 contributed to a review of the government's actions and accelerated the processes observed in the Russian economy during the last years of Vladimir Putin's presidency. The government's anti-crisis programme made it possible to continue the policy of strengthening the state in the economy, the further enfranchisement of the ruling elite and the expansion of Russian capital abroad. During the crisis, many Russian private companies with financial difficulties had to turn to the state for help. Moreover, state holding companies using state aid strengthened their positions in the market. As a result, the government's anti-crisis measures have deepened the Russian economy's process of moving away from the principles of free competition.
Sanctions imposed on the Russian Federation after the annexation of the Crimean Peninsula became another element that considerably reduced the possibility of economic stabilisation. They have greatly restricted the access of Russia's largest banks, energy and arms companies to foreign currency loans since its introduction in March 2014.

Moreover, while direct financial losses due to sanctions were estimated by the Ministry of Finance of the Russian Federation at USD 40 billion, they also indirectly affected the deterioration of the investment climate, resulting in a twofold decrease in investments - to USD 21 billion, an increase in the outflow of capital from Russia and reduced cooperation of leading Western corporations with Russian companies (Domanska, Kardaś, 2016). In July 2014, the European Union (EU) and the United States introduced so-called sectoral sanctions against Russia in response to the aggression against Ukraine. These sanctions were extended in June 2015 and again in December 2015.

Although formally directed against selected entities, Western financial sanctions have impact on the Russian economy. This manifests itself both in a decline in confidence in Russian capital and cooperation with Russia, which makes it more expensive for Russian banks and companies to raise foreign capital due to the perception of such transactions as high risk, and in purely technical problems, resulting from the implementation by Western contractors of meticulous procedures for controlling capital flows involving Russian entities. Also, sanctions have coincided with other negative phenomena in the Russian economy, such as structural problems accumulated over the years, resulting from a dysfunctional, raw material model of development; a bad investment climate, further weakened by tensions in Russia's relations with the West against the background of the Ukrainian crisis.

3. The 'Gas Whip' Strategy - The Energy Factor and the Primacy of Elective and Actual Roles

This study deliberately separates the economic and economic processes associated with structural reforms from the energy factor. This is fully justified, as it is precisely energy resources that for years have been a ‘bargaining chip’ not only in relations with the West, but also determine the qualitative nature of domination in the post-Soviet area, especially in the case of Ukraine. The complexity and turbulent nature of the bilateral relations between the Russian Federation and Ukraine are very well visible on the energy front.

Besides, the strategy of neo-imperial expansionism pursued, inter alia, through the annexation of Crimea and support for separatist para-states in the Donbass, has led to consequences negatively affecting the Russian economy as a result of the sanctions imposed, as mentioned in the previous part of this study. However, such a blackmail and use of Ukraine as a transit country enabled Russia to pursue a more aggressive policy and to play the role of the 'main supplier' of energy resources.
The energy factor has affected political relations, and the 'gas whip' strategy has become an inseparable element of Russian-Ukrainian mutual relations. In addition, in the opinion of many experts and analysts, the strategy of the 'gas whip' began to be implemented on an increasingly wider scale also in relation to the Member States of the EU, with the instrumental use of Eastern European transit countries for this purpose. Gazprom's expansion into Western European markets, aimed at gaining a dominant position among gas exporters in Central Europe, became an integral part of the policy pursued by Russia in the first decade of the 21st century, especially after the Orange Revolution and the victory in the 2005 presidential election in Ukraine of the pro-Western Viktor Yushchenko (Orzechowski, 2009).

The gas sector is a pillar of the Russian economy and the basis for the functioning of the entire state. The great importance of this industry for the Russian Federation is determined by three factors. First, the importance of revenue from the gas sector to the Russian economy. Second, the share of blue fuel in the country's energy balance, and third, the opportunities for international cooperation created by gas exports and the strengthening of the Russian Federation's position in the international arena.

Practically since 1999, Gazprom's main strategy, while coinciding with government intentions, has consisted primarily of so-called 'shares for debt'. The strategic objective, in this case, was to take as much control as possible over the gas pipeline system in Ukraine (Sarna, 2001). In addition, in the area of interest of 'Gazprom' there were also Ukrainian metallurgical plants engaged in the production of pipes for gas pipelines.

In relations with the EU, the Russian Federation has claimed and played the role of 'strategic energy partner'. It must be remembered that Russia has some of the world's largest natural gas deposits and is one of the world's leading natural gas producers and exporters. In turn, the EU was the most important and most profitable market, where Russian gas had a strong position.

Therefore, the main objective of Russia's gas policy in the 21st century was to seek a dominant position in this market ruthlessly. To achieve this goal, Gazprom has set itself the task of maintaining the stability and reliability of gas supplies, which would result, for example, in Nord Stream I and Nord Stream II. The Nord Stream II pipeline was intended to supply Russian gas to Germany and new markets in northern Europe. At the same time, it will reduce Russia's dependence on transit through the existing transit countries of Ukraine and Belarus, which in strategic terms has enabled the Russian Federation to maintain its dominant position in relations with these countries at every level.

On 1 January 2009, another gas crisis, even more serious, erupted. Gazprom completely stopped supplying gas to Ukraine after negotiations on the price of the raw material and transit fees broke down. The flow of Russian gas to European consumers was gradually reduced until 7 January, when the Russian company
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completely stopped exporting gas through Ukraine to European countries. On 10 January 2009, an agreement on monitoring the flow of Russian gas through Ukrainian territory was signed in Novo-Ogaryovo. On 18 January 2009, another agreement with a gas supply agreement for 10 years was signed the next day by representatives of Gazprom and Naftohaz to end the crisis. This agreement provided for the Ukrainian side to buy gas at prices 20% lower than the market price paid by Central and Western European countries (i.e., less than $250 per 1000 m³) (Orzechowski, 2015).

On 26 September 2014, gas supply talks resumed between Ukraine, Russia and representatives of the EU. This was the result of existing discrepancies between the parties, which consequently led to the collapse of gas negotiations back in June 2014, which in turn led to the interruption of gas supplies to Ukraine. For this purpose, the Russian Federation tried exerting political and economic pressure on the EU Member States, consistently reminding that the fulfilment of Russian export obligations towards European customers during the winter period requires maintaining an adequate level of filling of Ukrainian gas storage facilities, which will not be possible in the absence of at least partial repayment of debts by the Ukrainian side (Kardaś, Konończuk, Łoskot-Strachota, 2014). This argument has contributed significantly to the weakening of Ukraine's position in the gas dispute, and Russia's role as a 'leading player' in the energy sector has been strengthened.

As in the case of the economy and energy sector, the sanctions mentioned above have become an 'inhibiting' factor, making it difficult for Russian energy companies to access Western capital, which has adversely affected both their budgetary condition and the prospects of their infrastructure projects. Impeded access to capital has delayed important Russian infrastructure projects, mainly in the LNG sector (Agamalova, 2014). Although financial sanctions have not negatively affected the production level of energy resources in Russia in the short term, their consequences may be visible in the long term. As a direct result of Russian concerns, Moscow has therefore become increasingly open to foreign investment in the extractive sector in Russia (Antonova, 2014). In September 2014, President Vladimir Putin stated that Russia was ready to offer Chinese companies stakes in strategic oil and gas fields (Domanska, Kardaś, 2014).

Although Western financial sanctions are not the primary source of problems for the Russian economy, they still weaken Russia's ability to neutralise the effects of the crisis, primarily caused by the collapse in oil prices and the accumulation of structural problems in the economy. This limits, at least in part, the country's possibilities for expansion in the energy sector, all the more so since the EU’s energy strategy provides for diversification and at least partial independence from Russian oil.

Nevertheless, the direct impact of sanctions, including for the energy sector may be visible in the longer term, with prospects for recovery undermined primarily by the
poor investment climate, excessive nationalisation of the economy and inefficiencies in the current governance model.

4. Conclusions

The considerations discussed in this study aimed to show the effect of the economic factor on the position of the Russian Federation, which in turn conditions the concepts and actions of this state in domestic and foreign policy. As discussed in the introduction, the correlation between international role and international position leads to mutual interaction between these two categories. International position determines roles and vice versa.

Moreover, it should also be noted that the system of coupling between the role and the international position causes a visible interdependence of each type of role (declared, imposed, chosen and actual). The imposed role shapes the scope of the chosen role because the choice is made from among the imposed roles; the chosen role shapes the scope of political statements of the state, i.e., its publicly declared role; the chosen role strongly affected the processes of foreign policy implementation, i.e., the actual role; the declared and actual roles are coupled, but mostly they are not identical. On the example of the analysis of the economic factor shaping Russia's domestic and foreign policy, this coupling is clearly visible. The declared role of ‘economic stabiliser in the post-Soviet space’ and ‘leader of economic growth in the Eurasian region’ was conditioned by the degree of economic transformation and the implementation of free market mechanisms.

However, the internal constraints of the 1990s meant that these two roles did not become fully real. The sanctions of the Western countries were to cause Russia to give up its ‘hegemon’ and ‘destructor’ roles in the post-Soviet territory. In turn, its energy resources encouraged the Russian Federation to play the ‘major exporter’ and ‘strategic leader’ roles in the European energy market, which affected not only the energy field but also the asymmetrical character of relations with Ukraine.

Thus, we can conclude that even though an international role is a state's behaviour expected by the international environment as a result of a certain position, in practice, many countries subjectively decide to shape both the conceptual and implementation character of actions in internal and foreign policy based on their potential. In the case of the economic potential of the Russian Federation, its energy resources that are undoubtedly the main ‘trump card’ is the key argument strengthening the international position of this country.

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